COMMISSION REGULATION (EC) No 1910/2005

of 8 November 2005

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard 1 and 6, IASs 1, 16, 19, 24, 38, and 39, International Financial Reporting Interpretations Committee's Interpretations 4 and 5

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003 [2] certain international standards and interpretations that were extant at 14 September 2002 were adopted, including International Accounting Standard (IAS) 19 *Employee benefits*.

(2) On 9 December 2004, the International Accounting Standards Board (IASB) published *International Financial Reporting Standard (IFRS) 6 Exploration for and evaluation of mineral resources*, hereinafter 'IFRS 6', as an interim solution to enable entities within this sector to comply with IFRSs without the need for major changes to accounting practice. IFRS 6 permits entities that incur exploration and evaluation expenditure exemptions from some of the requirements of other IFRSs. In specified circumstances, such entities are allowed to continue with their existing accounting treatment for exploration and evaluation expenditure. IFRS 6 includes further guidance on the impairment indicators for exploration and evaluation assets and the impairment testing of such assets.

(3) On 16 December 2004 the IASB issued an amendment to IAS 19 *Employee benefits*. It introduces a further option regarding the recognition of actuarial gains and losses for defined benefit pension plans. It now allows actuarial gains and losses to be recognised, in full, in a statement of recognised income and expense outside the income statement, that is, actuarial gains and losses can be recognised directly in equity. The amendment also specifies how group entities should account for defined benefit group plans in their separate financial statements and requires additional disclosures.

(4) On 2 December 2004 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 4 *Determining whether an arrangement contains a lease*, hereinafter 'IFRIC 4'. IFRIC 4 sets out criteria for determining whether an arrangement is, or contains, a lease, for example some take-or-pay contracts. IFRIC 4 clarifies under which circumstances these arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 *Leases*.

(5) On 16 December 2004 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds*, hereinafter 'IFRIC 5'. IFRIC 5 sets out how a contributor should account for its interest in a fund and how a contributor should account for additional contributions.

(6) The consultation with technical experts in the field confirm that IFRS 6, IAS 19, and IFRIC 4 and 5 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(7) The adoption of IFRS 6, IAS 19, IFRIC 4 and 5 implies, by way of consequence, amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 1 *Presentation of Financial Statements*, IAS 16 *Property, Plant and Equipment*, IAS 24 *Related Party Disclosures*, IAS 38 *Intangible Assets* and IAS 39 *Financial Instruments: Recognition and Measurement* in order to ensure consistency between international accounting standards.

(8) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(9) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 261, 13.10.2003, p. 1. Regulation as last amended by Regulation (EC) No 1751/2005 (OJ L 282, 25.10.2005, p. 3).

HAS ADOPTED THIS REGULATION:

Article 1

Annex to Regulation (EC) No 1725/2003 is amended as follows:

1. International Financial Reporting Standard (IFRS) 6 *Exploration for and evaluation of mineral resources* is inserted as set out in the Annex to this Regulation;

2. IAS 19 *Employee benefits* is amended in accordance with Amendment to IAS as set out in the Annex to this Regulation;

3. International Financial Reporting Interpretations Committee's Interpretation (IFRIC Interpretation) 4 *Determining whether an arrangement contains a lease* is inserted as set out in the Annex to this Regulation;

4. IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds* is inserted as set out in the Annex to this Regulation;

5. International Financial Reporting Standard (IFRS) 1, IAS 16 and IAS 38 are amended in accordance with Appendix B of IFRS 6 as set out in the Annex to this Regulation;

6. IFRS 1, IAS 1 and IAS 24 are amended in accordance with Appendix F of Amendment to IAS 19 as set out in the Annex to this Regulation;

7. IFRS 1 is amended in accordance with the Appendix of IFRIC 4 as set out in the Annex to this Regulation;

8. IAS 39 is amended in accordance with the Appendix of IFRIC 5 as set out in the Annex to this Regulation.

Article 2

Each company shall apply the standards and interpretations set out in the Annex as from the commencement date of its 2006 financial year, at the latest.

Article 3

This Regulation shall enter into force on the third day following its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 8 November 2005.

For the Commission

Charlie McCREEVY

Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STATNDARDS

IFRS 6	International Financial Reporting Standard (IFRS) 6 *Exploration for and evaluation of mineral resources*
IAS 19	Amendment to IAS 19 *Employee benefits*
IFRIC 4	IFRIC Interpretation 4 *Determining whether an arrangement contains a lease*
IFRIC 5	IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds*

INTERNATIONAL FINANCIAL REPORTING STANDARD 6

Exploration for and evaluation of mineral resources

OBJECTIVE

1. The objective of this IFRS is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.

2. In particular, the IFRS requires:

   (a) limited improvements to existing accounting practices for *exploration and evaluation expenditures*.

   (b) entities that recognise *exploration and evaluation* assets to assess such assets for impairment in accordance with this IFRS and measure any impairment in accordance with IAS 36 *Impairment of Assets*.

   (c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

SCOPE

3. An entity shall apply the IFRS to exploration and evaluation expenditures that it incurs.

4. The IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5. An entity shall not apply the IFRS to expenditures incurred:

   (a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

   (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

RECOGNITION OF EXPLORATION AND EVALUATION ASSETS

Temporary exemption from IAS 8 paragraphs 11 and 12

6. When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

7. Paragraphs 11 and 12 of IAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item. Subject to paragraphs 9 and 10 below, this IFRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Measurement at recognition

8. Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

9. An entity shall determine a policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

   (a) acquisition of rights to explore;

   (b) topographical, geological, geochemical and geophysical studies;

   (c) exploratory drilling;

   (d) trenching;

   (e) sampling; and

   (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

10. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework* and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.

11. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Measurement after recognition

12. After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in IAS 16 *Property, Plant and Equipment* or the model in IAS 38) it shall be consistent with the classification of the assets (see paragraph 15).

Changes in accounting policies

13. **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in IAS 8.**

14. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in IAS 8, but the change need not achieve full compliance with those criteria.

PRESENTATION

Classification of exploration and evaluation assets

15. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

16. Some exploration and evaluation assets are treated as intangible (e.g. drilling rights), whereas others are tangible (e.g. vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of exploration and evaluation assets

17. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

IMPAIRMENT

Recognition and measurement

18. **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36, except as provided by paragraph 21 below.**

19. For the purposes of exploration and evaluation assets only, paragraph 20 of this IFRS shall be applied rather than paragraphs 8 to 17 of IAS 36 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

20. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

    (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

    (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

    (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

    (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

    In any such case, or similar cases, the entity shall perform an impairment test in accordance with IAS 36. Any impairment loss is recognised as an expense in accordance with IAS 36.

Specifying the level at which exploration and evaluation assets are assessed for impairment

21. **An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than a segment based on either the entity's primary or secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.**

22. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

DISCLOSURE

23. **An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**

24. To comply with paragraph 23, an entity shall disclose:

(a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets;

(b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

25. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

EFFECTIVE DATE

26. **An entity shall apply this IFRS for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies the IFRS for a period beginning before 1 January 2006, it shall disclose that fact.**

TRANSITIONAL PROVISIONS

27. If it is impracticable to apply a particular requirement of paragraph 18 to comparative information that relates to annual periods beginning before 1 January 2006, an entity shall disclose that fact. IAS 8 explains the term ‘impracticable’.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

exploration and evaluation assets	**Exploration and evaluation expenditures** recognised as assets in accordance with the entity's accounting policy.
exploration and evaluation expenditures	Expenditures incurred by an entity in connection with the **exploration for and evaluation of mineral resources** before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
exploration for and evaluation of mineral resources	The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Appendix B

Amendments to other IFRSs

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this IFRS for an earlier period, these amendments shall be applied for that earlier period.

B1. In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a heading and paragraph 36B are added as follows:

Exemption from the requirement to provide comparative disclosures for IFRS 6

36B An entity that adopts IFRSs before 1 January 2006 and chooses to adopt IFRS 6 *Exploration for and Evaluation of Mineral Resources* before 1 January 2006 need not present the disclosures required by IFRS 6 for comparative periods in its first IFRS financial statements.

B2. In IAS 16 *Property, Plant and Equipment* (as revised in 2003 and amended by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), paragraph 3 is amended to read as follows:

3. This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) biological assets related to agricultural activity (see IAS 41 *Agriculture*);

(c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); or

(d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) to (d).

B3. In IAS 38 *Intangible Assets* (as revised in 2004), paragraph 2 is amended to read as follows:

2. ***This Standard shall be applied in accounting for intangible assets, except:***

(a) intangible assets that are within the scope of another Standard;

(b) financial assets, as defined in IAS 39 Financial Instruments: Recognition and Measurement;

(c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 Exploration for and Evaluation of Mineral Resources); and

(d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.