

IFRS 6 and IAS 36: Impairment

Extract, IFRS Discussion Group Report on Meeting – October 18, 2012

IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires exploration and evaluation (E&E) assets be assessed for impairment when facts and circumstances suggest that their carrying amount may exceed their recoverable amount. For purposes of assessing E&E assets, paragraph 20 of IFRS 6 applies rather than paragraphs 8-17 of IAS 36 *Impairment of Assets*.

Paragraph 12(d) of IAS 36 requires impairment testing when the carrying amount of the net assets of the entity is more than its market capitalization. This “market cap” indicator is not included in IFRS 6.

The Group considered whether IFRS 6 requires impairment testing of E&E assets when the carrying amount of the net assets of an entity is more than its market capitalization.

The Group’s Discussion

Group members noted that this question arises, in part, because paragraph 20 of IFRS 6 specifies that the list it provides is not exhaustive. Group members cautioned that this sentence should not be read to mean that the IAS 36 indicators must also be considered, noting that paragraph 19 in IFRS 6 states that “... paragraph 20 of this IFRS shall be applied rather than paragraphs 8–17 of IAS 36 ...”. Group members suggested that the list in paragraph 20 of IFRS 6 was “instead of” not “in addition to” the IAS 36 indicators.

Group members observed that the facts and circumstances listed in paragraph 20 of IFRS 6 differ significantly from the impairment indicators in IAS 36. Group members noted that the IFRS 6 list focuses on the activity on the exploration property and is more relevant to E&E assets.

Group members expressed fairly consistent views concerning the role of market cap, noting that although it should not be completely ignored in an IFRS 6 context, it alone would not indicate that an impairment exists. Instead, when market cap is less than the carrying amount of an entity’s net assets, that fact could be viewed as an indicator that E&E assets might be impaired. An entity should then carefully consider the other, more relevant facts and circumstances (i.e., those listed in paragraph 20 of IFRS 6).

Group members highlighted that paragraph 122 of IAS 1 *Presentation of Financial Statements* requires disclosure about significant judgements. An entity that goes through a thoughtful process in considering facts and circumstances that indicate a possible impairment of E&E assets should also consider what disclosures IAS 1 would require about its judgements.