EFRAG

European Financial Reporting Advisory Group

3 December 2010
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

Re Draft IFRIC Interpretation *Stripping Cost in the Production Phase of a Surface Mine*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Draft IFRIC Interpretation *Stripping Cost in the Production Phase of a Surface Mine* (the Draft Interpretation). This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive interpretation in the European Union and European Economic Area.

EFRAG is aware of diversity in practice relating to the treatment of production stripping cost. We realise that this diversity does not only relate to the assessment of whether stripping costs meet the definition of an asset and its classification as either inventory, property, plant and equipment or an intangible asset, but it extends to the measurement of these items and the existence of items such as stripping cost liabilities.

EFRAG therefore supports the IFRS Interpretations Committee (IFRS IC) in their efforts to resolve this diversity in practice. However, we do not believe that the Draft Interpretation appropriately achieves this.

We believe the proposals complicate the accounting for stripping costs by requiring three divergent treatments – pre-production stripping costs, routine stripping costs and other production stripping costs. This results in an approach that is cumbersome and internally inconsistent. It results in differences between in the recognition, measurement and disclosure requirements that apply to each category of stripping costs. This in turn strains the need to classify stripping costs properly.

EFRAG believes that IFRS IC should rather consider the application of the accounting model in IAS 16 to all forms of stripping costs. We believe that this would avoid introducing unnecessary complexity in IFRS and reduce the risk of unintended consequences (e.g. the Draft Interpretation leaves accounting for changes in restoration provisions related to stripping costs unaddressed). Our detailed comments on the Draft Interpretation are set out in Appendix 1 to this letter.

If you wish to discuss our comments further, please do not hesitate to contact Marius van Reenen or me.

Yours sincerely

Françoise Flores
EFRAG, Chairman

APPENDIX 1

EFRAG's responses to the questions asked in the Draft Interpretation

General comments

1 We note that the Draft Interpretation specifies the treatment in surface mining of three categories of stripping cost to which three different standards are applied:

(a) Pre-production stripping costs are treated as a 'cost of building, developing and constructing the mine'. This category is assumed to be treated as property, plant and equipment under IAS 16 *Property, Plant and Equipment,* although we understand that some entities apply IAS 38 *Intangible Assets*;

(b) Routine stripping costs are treated as a cost of production under IAS 2 *Inventory*; while

(c) Other production stripping costs (i.e. those incurred during the production phase that are not routine) are treated as an asset under the newly proposed accounting model in the Draft Interpretation.

2 In EFRAG's view, this will not resolve the diversity in practice. While entities might recognise and measure assets similarly (and we are not convinced that this Draft Interpretation would achieve such comparability), the presentation and disclosure of those assets would not be comparable because of the different requirements of IAS 16 and IAS 38.

3 We urge IFRS IC to resolve this issue within this interpretation. In our view capitalised stripping cost should be treated (like pre-production stripping cost) as a cost of developing the mine. We see waste stripping as similar to leasehold improvements, which, although they add value to a lease, are treated in accordance with IAS 16. This would also be in line with paragraph 25(b) of the Exposure Draft *Leases,* which states that a 'lessee shall present … right-of-use assets as if they were tangible assets within property, plant and equipment…'

4 We agree that the provisions of IAS 36 *Impairment of Assets* are applicable. However, the second sentence in paragraph 19 of the Draft Interpretation appears to propose an additional impairment indicator to IAS 36, and assumes that the stripping campaign asset will be tested individually for impairment rather than as part of a cash-generating unit in accordance with IAS 36. We assume that this is unintentional and suggest that it be deleted.

5 We also suggest that the Illustrative Examples be deleted from the final interpretation. We believe that defining the terms 'stripping campaign' and 'routine stripping' by example, without considering the full range of surface mining techniques used in the mining industry, is likely to lead to diversity in practice.

Question 1— Definition of a stripping campaign

Do you agree that the proposed definition satisfactorily distinguishes between a stripping campaign and a routine waste clearing activities, if not why not?

EFRAG does not believe that the proposed definition is appropriate.

6 EFRAG does not believe that the proposed definition is appropriate. Our primary concern is the reference to a ‘more aggressive process than routine waste clearing activities’. We do not find this wording clear because:

(a) It defines the stripping campaign by reference to another undefined term being ‘routine waste clearing activities’; and

(b) We do not understand when one would consider certain stripping activities to be more aggressive than routine stripping activities.

7 In addition, we do not believe that the reference to a ‘specific section of the ore’ is helpful. In fact, it would appear that in the case of dispersed deposits – where it may be increasingly difficult to allocate stripping activities to a specific ore section – the stripping costs might never be considered part of a stripping campaign. We believe that application of this definition could be highly subjective in practice.

8 If the proposals in the Draft Interpretation were to be taken further, EFRAG believes that the final interpretation should distinguish between routine stripping and a stripping campaign based on whether the costs incurred relate to the ore currently being extracted or to ore that will be extracted in the future, respectively. The latter forms part of the further construction of the mine and should be treated as a tangible asset in accordance with IAS 16.

Question 2 – Allocation to the specific section of the ore body

(a) Do you agree with the proposal to require the stripping campaign component to be depreciated or amortised over the specific section of the ore body that becomes accessible as a result of the stripping campaign? If not, why?

(b) Do you agree with the proposal to require the units of production method for depreciation or amortisation unless another method is more appropriate? If not, why not?

EFRAG disagrees with the proposals to allocate stripping cost to only a specific section of the ore body. Rather, we believe that stripping costs are best accounted for under IAS 16.

9 As mentioned above, EFRAG disagrees with the proposals. In our view, the stripping asset should be amortised or depreciated as part of the tangible mining asset to which it relates and that the provisions of IAS 16 should apply. Therefore, we do not believe that the restriction proposed is appropriate. Rather, EFRAG believes that judgement is required to determine the extent of the benefit created by the stripping activity while applying the guidance in IAS 16.

10 We agree that the unit-of-production method should apply unless another method is more appropriate in accordance with paragraphs 60 to 62 of IAS 16.

Question 3 – Disclosures

Is the requirement to provide disclosures required for the existing asset sufficient? If not, why not, and what additional specific disclosures do you propose and why?

EFRAG believes that the disclosure requirements of IAS 16 should apply and that the need for an interpretation relating to the treatment of stripping cost is an indication that such assets are material enough to warrant separate presentation in the notes to the financial statements.

11 In order to reduce diversity in practice, we believe that the Draft Interpretation should require the application of the disclosure requirements of IAS 16.

12 Furthermore, EFRAG believes that this interpretation should require entities to present separately the aggregate of capitalised stripping cost as a sub-component of the mining asset to which it relates.

Question 4 – Transition

(a) Do you agree that this requirement is appropriate? If not, what do you propose and why?

(b) Do you agree with the proposed treatment of existing stripping costs balances? If not, what do you propose and why?

EFRAG believes the requirements of IAS 8 should apply.

EFRAG disagrees with the treatment of existing production stripping assets and liabilities should the proposals in the Draft Interpretation be taken further.

13 EFRAG believes the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply rather than the transition provisions contained within the Draft Interpretation. EFRAG supports retrospective application where possible as it provides the basis for comparative information. If, however, it is impracticable to apply full retrospective application then prospective application would, under IAS 8, apply from the earliest date practicable. This would be consistent with the transition provisions of IAS 16, which also requires full retrospective application.

14 If the proposals in the Draft Interpretation were to be taken further, we disagree with the treatment of existing production stripping assets and liabilities that cannot be specifically attached to a specific section of the ore body. The proposals to adjust the comparative profit and loss account significantly reduce the comparability of financial statements. In addition, the basis for conclusions does not provide any arguments for this treatment of day-one adoption type gains and losses, or what they represent.