Accounting Standards Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN
Telephone: 020 7492 2300 Fax: 020 7492 2399
www.frc.org.uk/asb

Françoise Flores
Chair
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium

Email: commentletter@efrag.org

25 October 2010

Dear Françoise

EFRAG's Draft Comment Letter on the International Financial Reporting Standards Interpretations Committee (IFRS-IC) draft Interpretation (DI) 'Stripping Costs in the Production Phase of a Surface Mine'

I attach the Urgent Issues Task Force's (UITF's) response to the International Financial Reporting Standards Interpretations Committee (IFRS-IC) draft Interpretation (DI). As you will see, the UITF shares EFRAG's concerns with the DI. However, the UITF's suggestions for solutions to the issues raised in the DI vary slightly to EFRAG's recommendations.

Should you wish us to expand on any aspect of this response, please contact me or Jennifer Guest j.guest@frc-asb.org.uk

Yours sincerely

David Lowethe

David Loweth
Technical Director
DDI: 020 7492 2420
Email: .d.loweth@frc-asb.org.uk

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Luci Wright
Senior Technical Manager
International Financial Reporting Standards Interpretations Committee
30 Cannon Street
London EC4M 6XH

25 October 2010

Dear Luci

IFRS IC draft Interpretation 'Stripping Costs in the Production Phase of a Surface Mine'

This letter sets out the Urgent Issues Task Force's (UITF's) comments on the draft Interpretation (DI) '*Stripping Costs in the Production Phase of a Surface Mine*'.

The UITF does not believe that an Interpretation is necessary because, whilst diversity in practice exists on stripping costs, we consider that this is partly due to the diversity in the geological formations of surface mining and partly due to diversity in how the production phase of the mine is accounted for. Additionally, since the IASB does not have an active project on 'Extractive Activities' on its agenda, there is currently no specific accounting literature to interpret.

Should the International Financial Reporting Standards Interpretations Committee (IFRS-IC) proceed, then the UITF suggests the principle that all stripping costs should be capitalised as assets and amortised over the specific parts of production, where possible, or over the whole life of the mine be applied. This principle should form the basis of the Interpretation rather than the approach currently proposed because it is the view of the UITF that all stripping costs benefit future production and guidance should be issued on how to account for stripping costs in general and not identify a 'stripping campaign' as a separate unit of account.

Finally, the UITF suggests the illustrative example in the DI only provides guidance for single source surface mines. We believe that further illustrative examples would be useful on multi-source surface mines.

Please find attached, as an appendix to this document, our detailed responses to the invitation to comment questions.

Should you wish us to expand on any aspect of this response, please contact me or Jennifer Guest j.guest@frc-asb.org.uk

Yours sincerely

David Loweth
Technical Director
DDI: 020 7492 2420
Email: d.loweth@frc-asb.org.uk

RESPONSE TO SPECIFIC QUESTIONS IN THE INTERPRETATION
'Stripping Costs in the Production Phase of a Surface Mine'

1.1 *This Appendix sets out the UITF's responses to the questions set out in the exposure draft's Invitation to Comment.*

Question 1 – Definition of a stripping campaign

The proposed Interpretation defines a stripping campaign as a systematic process undertaken to gain access to a specific section of the ore body, which is a more aggressive process than routine waste clearing activities. The stripping campaign is planned in advance and forms part of the mine plan. It will have a defined start date and it will end when the entity has completed the waste removal activity necessary to access the ore to which the campaign is associated.

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

No. The UITF does not agree that the proposed definition satisfactorily distinguishes between a stripping campaign and routine waste clearing activities. All stripping costs will be part of a mine plan with an expected start and finish date. To suggest that only a stripping campaign will aid in accessing the ore is wrong because all stripping will contribute to improving the access to the ore body.

The draft Interpretation does not define 'routine waste clearing activities' but does state that a stripping campaign is not routine. This is not helpful and the UITF considers that the draft Interpretation does not adequately justify why it is necessary to make a distinction and considers that there is no need to differentiate between the two.

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

The proposed Interpretation specifies that the accumulated costs recognised as a stripping campaign component shall be depreciated or amortised in a rational and systematic manner, over the specific section of the ore body that becomes directly accessible because of the stripping campaign. The units of production method is applied unless another method is more appropriate.

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?

(a) No. We do not consider there is a clear rationale why the Interpretation should make a distinction between 'routine stripping' and a 'stripping campaign' (please see our response to Question 1). However, if the Committee agrees with our suggestion, that all stripping costs should be capitalised as assets. Then the stripping costs should be amortised over the specific parts of production, where possible, or over the whole life of the mine, whichever management considers the most appropriate.

(b) If the draft Interpretation does progress to a final Interpretation, we agree that unit of production is the most appropriate method of depreciation. However, there may be a dilemma as to how the unit of production method is applied. From a commercial perspective, the decision whether to proceed with a development is decided by reference to the 'mine as a whole' and therefore the unit of account will refer to the whole mine and all the reserves available. In the draft Interpretation the reference to unit of account is more granular in that it refers to a specific section of ore, which is a component of the total reserves. In other areas of the extractive industry the unit of account over the life of mine is used, therefore the proposal in the draft Interpretation would be a departure from current practice.

Question 3 – Disclosures

The proposed Interpretation will require the stripping campaign component to be accounted for as an addition to, or an enhancement of, an existing asset. The stripping campaign component will therefore be required to comply with the disclosure requirements of that existing asset.

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?

The draft Interpretation does not specify any disclosure requirements, therefore this response assumes that the requirement "to comply with the disclosure requirements of that existing asset" refers to the requirements in IAS 16. We agree that this would be appropriate. However, because a specific ore body would not constitute a CGU, any disclosures made would be on the CGU and not the separate ore body.

Question 4 – Transition

Entities would be required to apply the proposed Interpretation to production stripping costs incurred on or after the beginning of the earliest comparative period.

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

The proposed Interpretation requires any existing stripping campaign component to be recognised in profit or loss, unless the component can be directly associated with an identifiable section of the ore body. The proposed Interpretation also requires any stripping cost liability balances to be recognised in profit or loss on transition.

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

(a) No. To require entities to apply the Interpretation for stripping that has already commenced may not be practical for some entities. The proposal will require entities to identify how deferred costs relate to specific ore bodies being accessed and if this determination cannot be made; those deferred costs would have to be expensed. Entities may not have this information, for example, an entity (following currently accepted GAAP) may have been deferring and depreciating production stripping costs over the life of the mine (e.g. 100 years) and the majority of the ore is to be extracted in the later part of the mine life. Consequently, there may be a large balance of stripping costs not allocated to an identifiable section of the ore body. The draft Interpretation proposes to recognise these costs in the opening balance of the earliest year presented. This will require the entity to restate their accounts for three years and the effect of recognising the deferred stripping balance immediately may, in retrospect, have altered the entity’s ability to pay dividends, which may have already been paid.

(b) No. The UITF does not agree with the retrospective application of any deferred stripping cost balances. To require entities to have to recognise existing stripping cost balances in profit or loss may have a significant impact on the financial statements. The proposal to recognise this expense in the opening balances of the first year presented may have major flow on effect on other aspects in the profit or loss.

Therefore, the UITF recommends if the Interpretation proceeds, the proposal be applied to deferred stripping balances retrospectively where costs can be allocated to a specific ore body. Where the costs cannot be allocated then they are permitted to be carried forward on their current basis pending impairment. Any new costs should be accounted for in accordance with the Interpretation.