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Accounting Standards Committee of Germany
® Der Standardisierungsrat

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EFRAG
Françoise Flores
35 Square Meeûs
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Berlin, 8. Dezember 2011

EFRAG´s Assessment of IFRIC 20 *Stripping costs in the production phase of a mine*

Dear Françoise,

The German Accounting Standards Board (GASB) appreciates the opportunity to comment on EFRAG's Assessment of IFRIC 20 *Stripping costs in the production phase of a mine*.

We agree with EFRAG's technical assessment of the interpretation regarding the technical criteria for endorsement; that is we support the positive endorsement advice to the European Commission regarding the adoption of IFRIC 20 *Stripping costs in the production phase of a mine*.

However, please note that we did not receive any answers as a feedback to a survey that the GASB carried out with selected companies in Germany. For this purpose we had sent your questionnaire to a few DAX 30 companies with at least some activities in mining.

Further, the GASB, as a standard setter, has not itself evaluated the costs and benefits that are likely to arise for preparers and users through the implementation of the amended standard..

If you have any further questions, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

EFRAG
European Financial Reporting Advisory Group

DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON IFRIC INTERPRETATION 20 *STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE*

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org or uploaded via our website by 9 December 2011

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC Interpretation 20 *Stripping Costs In The Production Phase Of A Surface Mine* ('IFRIC 20'). In order to do that, EFRAG has been carrying out an assessment of the IFRIC against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of IFRIC 20 is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

German Accounting Standards Board (**GASB**)

(b) Are you a:

☐ Preparer ☐ User ☒ Other (please specify)

National Standard Setter

(c) Please provide a short description of your activity:

See above.

(d) Country where you are located:

Germany.

(e) Contact details including e-mail address:

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2 EFRAG's initial assessment of IFRIC 20 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

N.A.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRIC 20? If there are, what are those issues and why do you believe they are relevant to the evaluation?

None.

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of IFRIC 20 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 8 and 9 of Appendix 3. To summarise, EFRAG's initial assessment is that IFRIC 20 will result in some one-off costs and some incremental ongoing costs for some preparers, but that these costs are unlikely to be significant.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

We as a national standard setter are not in position to

comment on the costs that will arise for preparers and

for users on implementation of the amendment in the EU.

In addition, EFRAG is assessing the benefits that are likely to be derived from IFRIC 20. The results of the initial assessment of benefits are set out in paragraphs 11 of Appendix 3. To summarise, EFRAG's initial assessment is that preparers are likely to benefit from IFRIC 20, as it is likely to reduce the diversity of accounting in practice thus enhancing comparability and consistency of the information provided to all stakeholders.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

We as a national standard setter are not in position to

comment on this issue.

4 EFRAG's initial assessment is that the benefits to be derived from implementing IFRIC 20 in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

N.A. – see above.

5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on IFRIC 20.

Do you agree that there are no other factors?

☒ Yes ☐ No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

APPENDIX 1
A SUMMARY OF IFRIC 20

Background

1 The IFRIC Interpretation Committee ('IFRS IC') had been requested to clarify the accounting treatment for stripping costs in the production phase of a surface mine because the lack of specific guidance in existing IFRSs had given rise to diversity in practice.

The issue

2 Entities engaged in surface mining often during the production phase of the mine need to remove mine waste material ('overburden') to gain access to mineral ore deposits. The removal of such waste material could result in a combination of ore and waste, which may contain some usable material, or it could instead allow the access to material that has a higher ratio of ore to waste.

What has changed?

3 IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* ('IFRIC 20') provides guidance on recognition of production stripping costs as an asset and the initial and subsequent measurement of the stripping activity asset.

Recognition

4 To the extent that the benefit from the stripping activities is realised in the form of inventory produced, the entity shall account for the costs of that stripping activities in accordance whit the principles of IAS 2 *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as non-current assets, if further criteria in paragraph 9 of IFRIC 20 are met (i.e. 'stripping activity asset'). In addition, IFRIC 20 requires that the stripping activity asset be accounted as an enhancement of an existing asset and be classified according to the nature of the existing asset of which it is part.

Initial measurement

5 A stripping activity asset shall be initially measured at cost. Cost can be determined by considering both direct costs incurred to perform the activities and directly attributable overhead costs.

6 Costs related to incidental operations performed at the same time of the production stripping activities are recognised in profit and loss.

7 When the costs of the stripping activity asset and the inventory produced are not separately identifiable, entities are required to allocate such costs based on a relevant production measure.

Subsequent measurement

8 The stripping activity asset shall be measured, after initial recognition, at its cost or revalued amount less depreciation or amortisation and less any impairment losses in the same way as the asset that it is part of.

9 The depreciation or amortisation amount shall be allocated on a systematic basis over the useful life of the identified component of the ore body. In order to

determine the depreciation or amortisation expense, the units of production method shall be applied unless another method is more appropriate.

When does IFRIC 20 become effective?

10 IFRIC 20 becomes effective for annual periods beginning on or after 1 January 2013 and the entities shall apply it to production stripping costs incurred on or after the beginning of the earliest period presented. Early application is allowed and the entities have to disclose this fact.

11 As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase shall be reclassified as a part of an existing asset to which the stripping activity related, and depreciated or amortised in the same way as the asset that it is part of. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the beginning of the earliest period presented.

APPENDIX 2

EFRAG'S TECHNICAL ASSESSMENT OF IFRIC 20 AGAINST THE ENDORSEMENT CRITERIA

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine *('IFRIC 20').*

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

1 In evaluating IFRIC 20, EFRAG asked itself four questions:

- (a) Is there an issue that needs to be addressed?
- (b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?
- (c) Is IFRIC 20 a correct interpretation of existing IFRS?
- (d) Does the accounting that results from the application of IFRIC 20 meet the technical criteria for EU endorsement?

Is there an issue that needs to be addressed?

2 EFRAG understands that at the present there is diversity in practice as to how entities account for stripping costs incurred in the production phase of a surface mine. Currently, some entities capitalise these costs, while others recognise them as an expense. EFRAG agrees that this diversity is undesirable and is an issue that needs to be addressed.

Is an interpretation an appropriate way of addressing it?

3 An Interpretation is an appropriate way of addressing diversity in accounting practice if that diversity arises because of factors other than inconsistencies between IFRS. Furthermore, in EFRAG's view, Interpretations should not be used to address major issues.

4 EFRAG's assessment is that the diversity in practice that is the subject of IFRIC 20 falls into neither of these categories. As such, EFRAG has concluded that an Interpretation is an appropriate way of addressing the uncertainties relating to how an entity should account for stripping costs in the production phase of a surface mine.

Is IFRIC 20 a correct interpretation of existing IFRS?

5 EFRAG has considered whether IFRIC 20 is a correct interpretation of existing IFRS literature. IFRIC 20 addresses three main issues relating to how an entity should account for stripping costs in the production phase of a surface mine:

(a) recognition of production stripping costs as an asset;

(b) initial measurement of the stripping activity asset; and

(c) subsequent measurement of the stripping activity asset

6 For the reasons discussed below, EFRAG agrees that this is an appropriate interpretation of existing IFRS.

Recognition of production stripping costs as an asset

7 To the extent the benefit from the stripping activities is improved access to ore, IFRIC 20 requires that an entity shall recognise as a non-current asset the stripping costs incurred in the production phase of a surface mine (i.e. stripping activity asset) when they meet all of the following recognition criteria:

(a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved; and

(c) The costs relating to the improved access to the component can be measured reliably.

8 EFRAG agrees that this is an appropriate interpretation of existing IFRS as it is consistent with the requirements of IAS 16 *Property, Plants and Equipments* ('IAS 16') and IAS 38 *Intangible Assets* ('IAS 38').

Initial measurement of the stripping activity asset

9 A stripping activity asset shall be initially measured at cost, which includes both direct costs incurred to perform the activities and directly attributable overhead costs. However, costs related to incidental operations performed at the same time of the production stripping activities are recognised in profit and loss. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, entities are required to allocate such costs based on a relevant production measure.

10 EFRAG agrees that this is an appropriate interpretation of existing IFRS.

Subsequent measurement of the stripping activity asset

11 The stripping activity asset shall be measured, after initial recognition, at its cost or revalued amount less depreciation or amortisation and less any impairment losses in the same way as the asset that it is part of. The depreciation or amortisation amount shall be allocated on a systematic basis over the useful life of the identified component of the ore body. In order to determine the depreciation or amortisation expense, the units of production method shall be applied unless another method is more appropriate.

12 EFRAG agrees that this is an appropriate interpretation of existing IFRS as it is consistent with the requirements of IAS 16 and IAS 38.

Does the accounting that results from the application of IFRIC 20 meet the technical criteria for EU endorsement?

13 EFRAG has considered whether IFRIC 20 meets the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that IFRIC 20:

(a) is not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

(b) meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it had any evidence that it would not be conducive to the European public good to adopt IFRIC 20.

Relevance

14 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.

15 EFRAG considered whether IFRIC 20 would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

16 IFRIC 20 treats a stripping activity asset as an addition to, or as an enhancement of, an existing asset. It requires that a stripping activity asset is classified as a tangible or intangible asset is the same as the existing asset. After initial recognition, the stripping activity asset is measured in the same way as the existing asset of which it is a part.

17 IFRIC 20 helps users in assessing the financial performance of an entity by requiring that stripping activity assets are accounted for in the same way as other improvement to existing tangible or intangible assets. Therefore, EFRAG concluded that the application of IFRIC 20 would result in provision of relevant information.

18 EFRAG's overall initial assessment is that IFRIC 20 would result in the provision of relevant information; and therefore it satisfies the relevance criterion.

Reliability

19 EFRAG also considered the reliability of the information that will be provided by applying IFRIC 20. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

20 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

21 IFRIC 20 requires recognition of a stripping activity asset only if the costs relating to that asset can be measured reliably. Furthermore, the requirements and guidance in IFRIC 20 are closely aligned with the requirements of IAS 16 and IAS 38. Therefore, in EFRAG's view, IFRIC 20 does not raise any significant new concerns.

22 EFRAG's overall initial assessment is that IFRIC 20 would raise no concerns about risk of error or bias; and therefore it satisfies the reliability criterion.

Comparability

23 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

24 EFRAG has considered whether IFRIC 20 results in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

25 IFRIC 20 prescribes a single accounting treatment for stripping costs incurred in the production phase of a surface mine that removes the existing diversity in practice. In addition, it provides guidance that ensures consistent accounting for stripping costs and ensures comparability between entities. For these reasons, EFRAG's overall initial assessment is that IFRIC 20 satisfies the comparability criterion.

Understandability

26 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

27 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

28 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of IFRIC 20 is understandable, is whether that information will be unduly complex.

29 EFRAG concluded that the information that results from the application of IFRIC 20 is understandable because, as noted above in the assessment of the reliability criterion, IFRIC 20 is closely aligned with the requirements of IAS 16 and IAS 38.

30 In EFRAG's view, IFRIC 20 does not introduce any new complexities that may impair understandability. Therefore, EFRAG's overall initial assessment is that IFRIC 20 satisfies the understandability criterion in all material respect.

True and Fair

31 EFRAG has initially decided that the information resulting from the application of IFRIC 20 would not be contrary to the principle of true and fair view.

European public good

32 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt IFRIC 20.

Conclusion

33 For the reasons set out above, EFRAG's initial assessment is that IFRIC 20 satisfies the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

APPENDIX 3

EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENT

1 EFRAG has also considered whether, and if so to what extent, implementing IFRIC Interpretation 20 *Stripping Costs In The Production Phase Of A Surface Mine* ('IFRIC 20') in the EU might result in incremental costs for preparers and/or users, and whether those costs are likely to be exceeded by the benefits to be derived from its adoption.

Cost for preparers

2 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from IFRIC 20.

3 EFRAG notes that changes introduced by IFRIC 20 require capturing or tracking new information, thus it is expected that some preparers will have to incur one-off costs to understand the new requirements and to train their employees; however these costs are not expected to be significant given that entities collect similar information already for management purposes.

4 Some incremental costs are expected in relation to documentation of the expenses which will be included into the stripping activity asset. EFRAG understands that those entities that did not capitalise stripping costs during production phase of a surface mine, did capitalise stripping costs in the pre-production phase of a surface mine. Therefore, they will not need to implement significant new systems to allow them to accounting for capitalised stripping costs as such. However, they will incur insignificant one-off costs in applying IFRIC 20 related to the change in accounting policy that they need to make prospectively. Those costs will depend on the extent to which their current accounting practices differ from requirements under IFRIC 20.

5 EFRAG also understands that for those entities that currently capitalise stripping costs in the production phase of a surface mine, there will be not be any significant incremental costs as they will only need to make relatively minor changes to their accounting practices.

6 Finally, EFRAG foresees some effort to prepare, review and audit the stripping activity asset, with no significant incremental ongoing costs.

7 IFRIC 20 is to be applied prospectively from 1 January 2013, although earlier application is permitted. Thus, there are no costs that entities will incur regarding the restatement of comparative information.

8 In summary, EFRAG's initial assessment is that IFRIC 20 will result in some year one costs and some incremental ongoing costs for some preparers, but that these costs are unlikely to be significant.

Costs for users

9 EFRAG has carried out an initial assessment of the cost implications for users resulting from IFRIC 20 and it is not aware of any aspect of IFRIC 20 that will increase the costs users will incur in analysing the financial statements as a result of its adoption.

Benefits for preparers and users

10 EFRAG has carried out an initial assessment of the benefits for users and preparers resulting from IFRIC 20 and it has concluded that preparers and users are likely to benefit from its application.

11 EFRAG believes, for the reason explained in Appendix 2, that IFRIC 20 is likely to reduce the diversity of accounting in practice thus enhancing comparability and consistency of the information provided.

Conclusion

12 Overall, EFRAG's initial assessment is that the benefits of reducing the diversity of accounting in practice are likely to outweigh the one-off costs of implementation and the ongoing costs of complying with IFRIC 20.