International Accounting Standards
Board
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United Kingdom

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Draft IFRIC Interpretation DI/2010/1: Stripping Costs in the Production Phase of a Surface Mine

Far, the Institute for the Accountancy Profession in Sweden hereby responds to your invitation to comment on *Draft IFRIC Interpretation DI/2010/1 Stripping Costs in the Production Phase of a Surface Mine.*

Far welcomes the IASB's efforts in this subject area and the opportunity to comment on the proposals. However, Far believes that there needs to be more guidance in distinguishing between stripping campaigns and routine waste clearing activities. In the Draft Interpretation (DI) there is no definition of routine waste clearing activities, which makes it difficult to distinguish between the two activities.

Furthermore, Far believes that in many situations it would be difficult to distinguish between stripping campaigns for different ore bodies. This could lead to arbitrary assignments of the stripping campaigns which would increase the risk of subjectivity in the financial statements.

Far refers to appendix 1 of this comment letter for detailed comments to the questions raised in the DI.

Far

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Appendix 1

Detailed comments from Far

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?

The proposed Interpretation will establish a definition of stripping campaigns.

However, Far considers that it would be most valuable to also include a definition of routine waste clearing activities to avoid problems in assessing what constitutes a stripping campaign. It is difficult to distinguish between the two activities when routine waste clearing activities are undefined.

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 as a result of the stripping campaign. The unit 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?

The purpose of the suggested treatment of stripping costs is most likely to
- make the assignment of costs more specific, and
- decrease the use of general standardized models, such as the widely used stripping ratios.

However, Far believes that the suggested method will increase the subjectivity in the financial reporting for companies within the industry.

The assignment of stripping costs to a specific section of the ore body might be something that is possible from a mine perspective and might differ from different sites, due to the close link between the geological mine plans. However, the subjectivity in the process might bring increased uncertainties in the assignment of expenses as the basis for the allocation in many situations could be arbitrary and therefore also difficult to interpret from a user perspective. To draw the line between the different sections of the ore body might prove subjective.

The use of the stripping ratios, which are widely used at present, is likely to be highly affected by management estimates. However, these estimates can be analysed over time, followed up by other third parties and hence be subject to discussions on the particular status of the mine at present. The analysis over time may more easily be subject to different benchmarks etc. to improve comparability both over time, between similar projects and companies. Defining the boundaries between both the specific sections of the ore and the expenses attributable to these sections might be arbitrary and made in an improper way which will increase the risk and subjectivity in the financial statements. Also, as mining projects are started as large projects, operated over a number of years and planned as a whole, using the model of assigning the stripping costs to specific sections of the ore body will most likely have the effect of larger fluctuations over time for depreciation/amortization expenses. These fluctuations might make it more difficult to analyze the performance of the company/project over time as these expenses will most likely be larger or smaller at various stages of the lifetime of the project. Depreciation/amortization expense is usually rather predictable but the model will bring increased volatility into the financial reporting which could lead to increased difficulties in assessing the performance and comparability of companies/projects.

Another effect of the proposed treatment of stripping costs is that the assessment of projects from a company perspective might influence which projects to bring into production and on stream. It could be questioned if this is the intention of the IASB and the project group behind the draft interpretation.

Based on the above reasoning, Far does not support the assignment of stripping costs to a specific section of the ore body.

Far believes that the use of units of production is a suitable depreciation method as it is closely linked with how mining companies and projects are run, having a close linkage to the reserves and resources identified. Unless another method is found to be more suitable, the units of production method is deemed the most suitable.

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?

Far believes that disclosure requirements should be provided in accordance with IAS 16. In that way, Far believes all companies present the same information regarding their stripping costs, which will facilitate a high degree of comparability between companies.

The need for an IFRIC interpretation regarding stripping costs is an indication of that the fact that, in many companies in the extractive industry, stripping costs are material items. Therefore, Far believes that capitalized stripping costs should be presented separately as a sub-component of tangible fixed assets, except if the stripping costs are an insignificant item.

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?

Far agrees with the proposal to apply the production cost prospectively incurred on or after the beginning of the earliest period present. Full retrospective application in accordance with the requirements of IAS 8 would require an analysis of past costs, before the earliest period presented, and the quantity of ore body to which they relate. The mining procedures in an open pit could go on for several years and could be of complex nature. Far therefore believes that it could be difficult to apply full retrospective application in a reliable manner. Another aspect to consider is that the amount of work to restate financial statements would most likely be significant