



26 November 2010

Our ref: ICAEW Rep 131/10

Your ref: DI/2010/1

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir David

DI/2010/1 STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

1. The ICAEW is pleased to respond to your request for comments on the Draft Interpretation *Stripping Costs in the Production Phase of a Surface Mine*.
2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We strongly support the IASB's efforts to establish a consistent accounting regime for the extractive industries

3. Although the current DI is limited in scope to those entities undertaking surface mining we believe it should be viewed in the context of the IASB's efforts more widely to bring greater consistency in accounting treatment to the extractive industries. We support the inclusion of a project on the Board's post 1H 2011 agenda to address this area. We acknowledge that current accounting for stripping costs in the production phase of a surface mine is both diverse and not the best that could be achieved and therefore we welcome the release of this draft IFRSIC Interpretation.

Accounting principles of mainstream IFRS should equally apply to the extractive industries

4. In our response to the Board's discussion paper *Extractive Activities* (ICAEW Rep 71/10) we set-out our opposition to a separate accounting regime for the extractive industries. We suggested that the Board look again at existing accounting standards with a view to facilitating their operability for this industry. We further suggested that where additional application

guidance was desirable that this be contained within either an IFRSIC Interpretation or as 'training material'. The current DI takes as its foundation the definition of an asset in the *Framework*, and sets out how it should be applied in this context. We welcome the reference back to Framework principles in making the assessment of whether or not an asset should be recognised in this situation. However, we would reiterate that we believe the purpose of additional guidance is to clarify the principles already existing in IFRS for a specific situation, not to expand those principles or to introduce others. We are concerned that as currently presented the draft Interpretation is inadequately linked to the principles of IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible Assets* to which it relates.

The interaction of this draft Interpretation with existing IFRS should be clarified

5. We note that no reference is made in the DI to IAS 16 or to IAS 38, despite paragraph 10 requiring the stripping campaign asset to be capitalised as an addition to the existing tangible or intangible asset to which it relates. IAS 38 sets out a number of criteria that must be met before an intangible asset can be recognised and it is anomalous therefore that these are not extended to the stripping campaign asset, particularly as it may be significantly more valuable than the underlying intangible that was itself judged against the IAS 38 criteria. Any additional application guidance for the extractive industries needs to operate firmly within the framework of existing IFRS, not independently of it as a series of exceptions.

Concern over the practicality of the proposals

6. Although we support the publication of the DI on the basis that it will drive improved comparability, we are concerned that as currently drafted application may prove problematic in practice. Distinguishing 'routine stripping' from a 'stripping campaign' is likely to be extremely difficult and will probably require extensive involvement from suitably qualified professionals. The illustrative example provided is a rather simplified overview of what may be a very complex situation in practice and therefore we feel that it is unlikely to aid application.
7. However, notwithstanding these concerns with the drafting, we are mindful that the quantification and evaluation of stripping activities is an inherently technical area and that a degree of expertise will always be required. We believe therefore that the purpose of the DI should be to clarify how the principles apply to this particular situation and to encourage appropriate judgement based upon those principles.

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?

8. We do not agree. Although conceptually we agree that in identifying an asset, activities that give access to future economic benefits should be distinguished from those that do not, we feel that the concept articulated by the DI will be problematic to apply in practice. Determining 'routine stripping costs' from 'costs of stripping activity that are part of a stripping campaign' is likely to prove difficult and will certainly be more complex in reality than as suggested in the illustrative example. The accounting guidance in this area should simply set the principles and then leave these to be applied in practice, rather than attempting a pinpoint definition of a highly subjective and technical area.

9. We also question the conclusion in the illustrative example with regards sections A, C and C1. In the diagram the removal of these is necessary to access D and F and therefore they presumably would meet the definition of a stripping campaign asset in paragraph 7.
10. The lack of definitions for 'routine stripping' and 'stripping campaign' adds to the ambiguity, particularly as BC15 notes that 'judgement' will be necessary in distinguishing these two undefined concepts. Rather than the interpretation attempting a rather artificial distinction of terms that may already be interpreted in widely differing ways in practice, it should instead simply lay out the criteria for recognition of any stripping costs to determine whether those costs constitute an asset to be capitalised.

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 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?

11. Conceptually we agree that where the economic benefits to be gained from the stripping activity are limited to the extraction of a specific body of ore, the resulting asset should be amortised on a pattern reflecting the extraction of that body.

(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?

12. However, we do not believe that the units of production method should be mandated. Although this method may be appropriate in some cases, it would be better for the choice of an alternative model to be permitted were this to more closely reflect underlying economic substance. We note that by mandating one particular method regardless of underlying economic substance the DI may be in conflict with paragraph 60 of IAS 16 which requires depreciation to 'reflect the pattern in which the asset's future economic benefits are expected to be consumed'.
13. In our response (ICAEW Rep 72/10) to the Board's discussion paper *Extractive Activities* we set out our objections to a separate accounting regime for the extractive industries. We felt that it would be preferable for the existing requirements of IFRS to be followed, with specific application guidance being provided if necessary. The DI does not make reference to the existing standards in this area; IAS 16 and IAS 38, and as illustrated above may be at variance with them. We do not support this approach, the guidance provided by the DI should be couched in the terms of and refer back to these existing standards, rather than risk standing alone as an independent facet of IFRS.

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?

14. The existing disclosure requirements within IAS 16 and IAS 38 may not provide adequate information to the user. It should be noted that the stripping campaign asset could be highly material both alone and as a proportion of the underlying asset to which it has been added. If

the DI is adopted unamended it could also be subject to a different accounting treatment from that underlying asset. Therefore separate disclosure of additions, disposals, amortisation and impairments for the stripping campaign asset is essential (although of course only where this information is material).

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?

15. We agree with prospective application on the basis that transitional costs will be lower under this option. We do not believe that the benefits of retrospective application outweigh the significant costs involved. It should be noted that this approach will be less beneficial to comparability than retrospective application; however, given the increase in comparability going forwards that the DI will drive we feel that this is an acceptable compromise.

Please contact me should you wish to discuss any of the points raised in this letter.

Yours sincerely



John Boulton ACA
Technical Manager, Financial Reporting Faculty

T +44 (0)20 7920 8642
E john.boulton@icaew.com