



| | | | |
|-----------------|---|---------------------|-----------------|
| To: | AASB members | Date: | 13 October 2010 |
| From: | Mischa Ginns and Emma O'Brien | Agenda Item: | 5.1 |
| Subject: | <i>DI/2010/1 Stripping Costs in the Production Stage of a Surface Mine</i> | File: | |

Action

Review the attached issues paper with a view to providing direction to staff in finalising its submission to the IFRS Interpretations Committee on Draft Interpretation DI/2010/1 *Stripping Costs in the Production Stage of a Surface Mine*.

Background

On 26 August 2010, the IASB published DI/2010/1 for public comment in response to a request, received by the IFRS Interpretations Committee, for guidance on the accounting for waste removal (stripping) costs incurred in the production phase of a mine. The primary objective of DI/2010/1 is to reduce diversity in practice in how entities account for 'production stripping costs'.

DI/2010/1 proposes:

- (a) capitalising production stripping costs that are part of a 'stripping campaign', as a component of the larger asset (i.e. the specific section of an ore body that becomes directly accessible as a result of the stripping campaign);
- (b) depreciating/amortising the stripping campaign component over the expected useful life of the section of ore that becomes directly accessible as a result of the 'stripping campaign' (i.e. specific identification approach), based on the units of production method unless another method is more appropriate;
- (c) accounting for routine stripping costs that are not incurred as part of a stripping campaign as a production cost in accordance with IAS 2 *Inventories*; and

- (d) on transition, any existing stripping campaign component asset that cannot be directly associated with an identifiable section of the ore body and any existing stripping cost liability balances would be recognised in profit or loss at the beginning of the earliest period presented.

Consultation Undertaken

AASB staff held meetings and conference calls with a number of constituents from accounting and mining entities to obtain input on issues arising from, and likely consequences of, implementing the proposals in DI/2010/1. Whilst the perspectives of discussants from different environments differed somewhat, all of the main points in the attached issues paper were raised by each of the discussants.

Staff recommendations

AASB staff think that, in concept, the proposed 'specific identification approach' for the accounting of 'production stripping costs' is appropriate and consistent with the accounting principles in IFRSs. However, we are concerned that DI/2010/1 does not address the request for guidance on how to account for waste removal costs in the production phase of a mine. We think DI/2010/1 proposes a new interpretation of how to account for 'production stripping costs', which is different from the way these costs are currently accounted for in practice. We think the IFRS Interpretations Committee should reconsider the proposals, and instead respond directly to the request it received and only provide guidance that supports the principles in IFRSs and that results in all stripping costs, irrespective of whether incurred in the development or production phase, being accounted for in a similar manner.

Due process for finalising and approving AASB submission

Comments are due to the IFRS Interpretations Committee by 30 November 2010, therefore the October 2010 AASB meeting is the last meeting at which the issues identified in DI/2010/1 can be discussed. AASB staff suggest that a sub-committee is formed to finalise and approve the AASB submission out of session.

Attachments

Agenda Paper 5.2 Issues Paper: Draft IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*

Agenda Paper 5.3 DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*