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Mr Robert Garnett
Chairman
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Bob

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

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Draft IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Stage of a Surface Mine*. In formulating these comments, the AASB sought and considered the views of Australian constituents.

Overall view

The AASB disagrees with the proposed unit of account in DI/2010/1 on the basis that the attribution of stripping costs to separately identifiable sections of ore is not a relevant or reliable depiction of how most mines operate. The AASB is concerned that the application of the proposed unit of account would be difficult for many mining entities to apply in practice, especially in complex scenarios, such as multi-pit mining operations, where the entire asset is not fully identifiable and the full extent of the asset cannot be reliably determined. Furthermore, there may be difficulties in applying the proposals where the configuration of the known ore body is subject to ongoing change in response to changing economic conditions, changes in the miner's knowledge of the ore body or where stripping effectively occurs continuously. The AASB therefore considers the componentising of one large body of ore that is not fully identifiable to be an impracticable interpretation of the accounting principles.

The AASB also considers it unclear why the accounting for production stripping costs should be different from the accounting for pre-production stripping costs. 'Development phase' and 'production phase' are not defined in IFRSs, and proposing an interpretation that is only applicable to the production phase may create further diversity, because some entities might account for certain waste removal costs in the development phase whilst others might account for the same costs as part of the production phase, resulting in two different accounting treatments. Therefore the AASB questions whether the scope of DI/2010/1 is too narrow.

If the IASB is to address the issue, the AASB recommends a more principle-based interpretation of the requirements in IAS 16 *Property, Plant and Equipment* and IAS 38

Intangible Assets that results in stripping costs being accounted for in a consistent manner, irrespective of whether incurred in the development phase or in the production phase.

The AASB's proposed alternative interpretation of current principles for the accounting of waste removal costs could be worded along the following lines:

Waste removal (stripping) costs incurred shall be recognised as an asset only when it is probable they will result in an inflow of future economic benefits to the entity that can be measured reliably. The capitalised costs shall be depreciated or amortised in a rational and systematic manner, over the expected useful life of the asset to which the costs relate. The depreciation or amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Other comments

Definition of a stripping campaign

The AASB considers the definition of a 'stripping campaign' unclear, which may result in diverse application. The AASB is concerned that terms such as 'systematic process', 'more aggressive process' and 'incidental operations' in DI/2010/1 do not clearly define 'stripping campaign' and are likely to give rise to different interpretations of what constitutes routine costs (that are expensed) and stripping campaign costs (that are capitalised). The AASB's concerns regarding the definition of a stripping campaign are further explained in Appendix A.

Usefulness of illustrative examples

The AASB is concerned that the illustrative example provided in DI/2010/1 does not consider the complexities that many mining operations deal with and therefore it is not likely to be useful to mining entities that apply DI/2010/1. If the IFRS Interpretations Committee proceeds with DI/2010/1, the AASB recommends that the Interpretation include more comprehensive examples that may assist mining entities in applying the principles in more complex environments than a one dimensional single pit mine.

The AASB's specific comments on the questions in DI/2010/1 are set out in Appendix A.

If you have any queries regarding any matters in this submission, please contact me or Mischa Ginns (mginns@aab.gov.au).

Yours sincerely

regards


Kevin M. Stevenson
Chairman and CEO

APPENDIX A

AASB's Specific Comments on the Questions in DI/2010/1

Question 1 – Definition of a stripping campaign

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

No, the AASB does not consider the proposed definition of a 'stripping campaign' satisfactorily distinguishes between a stripping campaign and routine waste clearing activities. The AASB considers the definition of a 'stripping campaign' unclear. The AASB is concerned that the reference to terms such as 'systematic process' and 'more aggressive process' in paragraph 4 of DI/2010/1 and, 'incidental operations' in paragraph 15 in DI/2010/1 do not clearly define 'stripping campaign' and are likely to give rise to different interpretations of what constitutes routine costs (that are expensed) and stripping campaign costs (that are capitalised). Paragraph BC13 says that routine stripping costs should not be recognised as part of an asset even if the routine stripping creates a benefit that will be realised in a future period. The AASB considers this inconsistent with the asset recognition criteria in IFRSs that require an asset to be recognised if future economic benefits associated with the item will flow to or from the entity and the cost can be measured reliably.

The definition of a stripping campaign refers to 'a specific section of ore body'. This would require the application of a specific identification approach rather than the life-of-mine ratio approach that is currently applied by many IFRS preparers and is well understood in practice. The AASB questions whether the application of a specific identification approach would cause practical difficulties.

The definition suggests that only costs incurred as part of the stripping campaign are planned in advance and form part of a mine plan. Even though routine costs and other expenses may not be significant to a mining operation, these costs are still likely to be considered as part of the broader mine plan. Therefore, by suggesting that routine costs are not part of the mine plan, the definition of a stripping campaign would not be accurate in many cases.

Question 2(a) – Allocation to the specific section of the ore body

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?

The AASB does not agree that a stripping campaign component should be depreciated or amortised over the specific section of the ore body that becomes accessible as a result of the stripping campaign. This proposal would result in the benefit derived from a particular cutback being limited to the next immediately accessible section of ore body, even though the particular cutback may provide access to other sections of ore body and therefore provide benefits beyond the specific section of ore body that becomes immediately accessible. This pre-supposes a cost/benefit relationship based on physical regions of the ore body, which is not a realistic or faithful representation of how mines operate.

In many cases the section of the ore body that is planned to be extracted may change because more knowledge is acquired about the ore body as a result of mining activities. For example, additional ore bodies may be identified that were not originally part of the mine plan or it may be later determined that a section of ore may not be of a sufficient quality and therefore not feasible to extract.

Question 2(b) – Allocation to the specific section of the ore body

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 AASB considers the unit of production method an appropriate method for depreciating or amortising capitalised stripping costs. However, the wording in paragraph 17 of DI/2010/1 that specifically requires the unit of production method to be applied unless another method is more appropriate is not consistent with the principles of IAS16 or IAS 38. Those standards provide a high level principle that requires a depreciation or amortisation method to be selected that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. This requires entities to choose an appropriate depreciation or amortisation method without placing emphasis on any particular method. Without placing undue emphasis on the straight line method, IAS 38 requires the straight-line method to be applied if another method does not reliably reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The AASB considers the wording of paragraph 60 of IAS 16 as providing a suitable principle for depreciating or amortising stripping costs by requiring a choice of depreciation or amortisation method that best suits an entity's circumstances.

Question 3 - Disclosures

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?

Yes, the AASB considers the disclosures required for the existing asset to be sufficient.

However, some Australian constituents raised concerns that the proposals suggest the disclosure requirements would be applied to each stripping campaign component (i.e. at a component level) rather than at a class level, which is currently required in IAS 16 and IAS 38. The AASB recommends that the wording be amended to clarify whether the disclosures are required at a component level or a class level, and favours the class basis, consistent with IAS 16.

Question 4(a) - Transition

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

If the IFRS Interpretations Committee proceeds with DI/2010/1, the AASB considers the requirement to apply the proposals to production stripping costs incurred on or after the beginning of the earliest comparative period appropriate.

Question 4(b) - Transition

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

The proposed transitional provisions imply that entities would be required to record a profit or loss adjustment rather than a retained earnings adjustment. The AASB considers this approach inappropriate on the basis that it is inconsistent with the general manner in which most transitional provisions are required to be applied. Furthermore, amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* issued by the IASB on 23 July 2009 allows entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost on transition that shall be applied at the beginning of the earliest period presented.

The AASB therefore recommends that entities should recognise stripping campaign components that cannot be directly associated with an identifiable section of ore body and any stripping cost liability balances in profit or loss at the beginning of the earliest period presented (i.e. a retained earnings adjustment).