Rechnungslegungs Interpretations
Accounting Interpretations Committee

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Mr Robert Garnett
Chairman of the
IFRS Interpretations Committee (IFRS IC)
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Bob,

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

On behalf of the Accounting Interpretations Committee (AIC) of Germany I am writing to comment on the IFRS Interpretations Committee's Draft IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (herein referred to as 'DI'). We welcome the opportunity to comment on the DI.

The AIC appreciates the efforts of the Committee to develop an interpretation that addresses the accounting for waste removal costs that are incurred in surface mining activity, during the production phase of the mine.

Our main concern, however, relates to the proposed distinction between 'stripping campaign' as described in the DI on the one hand and 'routine waste clearing activities' on the other. While we understand that this distinction has been introduced by the Committee in order to simplify the application of the different accounting rules for both of these types of stripping activities, we are of the opinion that the intended goal might not be achieved since the proposed distinction will be too complex for practical application (since there would be three different approaches to account for stripping costs). Further, the proposed distinction is highly subjective, hence users may not be able to compare the financial statements of different entities, since such transactions are not accounted for consistently. Therefore we consider it to be questionable whether the observed diversity in practice might successfully be reduced. This is why we recommend not taking forward the proposed distinction to the final interpretation. Instead, we suggest requiring that costs incurred during the production phase of the mine for removing waste materials to gain access to the natural resources to be mined be capitalised as an addition to, or an enhancement of, an existing asset if these costs meet the requirements of an asset as set out in the Framework.

Please find appended our answers to the four detailed questions provided in the DI as well as some additional comments.

If you would like further clarification of the issues set out in this letter, please do not hesitate to contact me.

With best regards,

Guido Fladt
AIC, Chairman

Appendix

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?

We understand that the Committee has proposed the definition of a 'stripping campaign' with the intent to simplify the accounting for waste removal costs that are incurred in surface mining activity during the production phase of the mine. We are nevertheless concerned that the intended goal will not be achieved by introducing and defining 'stripping campaign' on the one hand and 'routine waste clearing activities' on the other. The main reason for our belief that the distinction will not be helpful is feedback from a few preparers who have shared their concerns with us that the proposed distinction will be too complex for practical application, since there would be three different approaches to account for stripping costs, as follows:

(1) pre-production stripping costs, which will be capitalised as part of the depreciable cost of building, developing and constructing the mine,
(2) routine stripping costs, which according to DI.9 will need to be accounted for as current costs of production in accordance with IAS 2, and
(3) costs of stripping activity that will be part of a stripping campaign and shall according to DI.8 be accounted for as an addition to, or an enhancement of, an existing asset.

Further we disagree with the introduction of the term 'stripping campaign" since we consider the distinction between stripping costs relating to 'routine waste clearing activities' and a 'stripping campaign" as detailed in DI.4 to be largely subject to management's discretion and, therefore, highly subjective.

In this context we also doubt whether the observed diversity in practice might successfully be reduced. It appears more likely that one area of diversity in practice (capitalisation versus expenditure) will be replaced by another ('stripping campaign' versus 'routine waste clearing activities'), which in the end does not result in the intended improvement in accounting practice.

We propose not taking forward the proposed distinction between the two types of stripping activities to the final interpretation but, as an alternative we propose the following:

> Costs incurred during the production phase of the mine for removing mine waste materials (overburden) to gain access to the natural resources to be mined shall be accounted for as an addition to, or an enhancement of, an existing asset if these costs meet the requirements of an asset as set out in the Framework.

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?

(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?

We agree with the proposals as outlined in the DI – however, these proposals shall be applied to capitalized costs for waste clearing activities following the approach as suggested by us in the answer to Question 1.

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?

We agree with the proposals as outlined in the DI.

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?

We agree with the proposals as outlined in the DI.

Other Comments

According to DI.19 an entity should consider the component capitalised for removing mine waste materials during the production phase of the mine for impairment in accordance with IAS 36. While we agree that the provisions of IAS 36 *Impairment of Assets* are applicable to the subsequent measurement guidance as detailed in the DI, we have concerns as follows. The second sentence of DI.19 appears to propose an additional impairment indicator as compared to the guidance of IAS 36. The guidance in DI.19 may be read incorrectly in such way that it assumes individually testing for impairment the component capitalised for removing mine waste materials during the production phase of the mine, rather than testing it as part of a cash-generating unit in accordance with IAS 36 (only in very rare circumstances the component capitalised may constitute a cash-generating unit on its own). We assume that the Committee did not intend DI.19 to be read as described above and suggest that this reading be clarified.

While we understand the guidance in the DI needs to be applied to all surface mining activities, the reference to one specific natural resource such as ‘ore’ (e.g. in DI.7 and in the Illustrative Examples) may give the impression that the application of the DI is limited to such natural resources. We assume that this is unintentional and suggest that it be clarified. In this context, and with reference to the scope of the DI, the Committee may clarify that the DI does not apply to blended / compound natural resources such as oil sand.