Project **Extractive Activities**

Topic **Accounting for stripping costs in the production phase – cover note**

Introduction

1. At the Committee meeting in May 2010, the Committee considered the draft Interpretation the staff had prepared in respect of accounting for production stripping costs. The Committee asked the staff to prepare a final draft of the Interpretation for discussion at the July 2010 Committee meeting. This draft is presented as Agenda paper 2B.
2. This paper discusses the following issues for the Committee's consideration, so that the draft Interpretation can be finalised for comment:
   (a) Description of a stripping campaign (paragraph 4 of the draft Interpretation)
   (b) The scope (paragraph 5 of the draft Interpretation) – should this be limited to stripping campaigns only, or should it include routine stripping?
   (c) Possible disclosure considerations.

Description of a stripping campaign

4. According to the draft Interpretation, production stripping costs are accounted for differently depending on whether they are incurred as part of a stripping campaign, or whether they are part of the routine mining activities. The staff think it is necessary to clearly articulate in the Interpretation the circumstances under which a stripping campaign will exist, and those under which stripping is

routine. This is important in order to distinguish between routine stripping and a stripping campaign.

5. Paragraph 4 for the draft Interpretation describes a stripping campaign as that which:

   '...will typically be planned in advance and form 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.'

6. Alternative wording here could be:

   (a) 'a systematic process undertaken to gain access to ore in a specific section of the mine';

   (b) 'a significant waste removal effort undertaken to gain access to ore';

   (c) 'a concentrated period of waste removal (or stripping) activity, undertaken to gain access to ore';

   (d) 'defined process of liberating the ore reserve..';

   (e) 'a systematic process undertaken to gain access to ore, which is more aggressive than routine waste clearing activities..';

   (f) '..with a defined boundary of when it begins and ends'.

Question 1 for the Committee
1.1 Does the Committee think the wording in paragraph 4 is sufficient?
1.2 Does the Committee have any preference for or suggestions of other wording to be used to describe a stripping campaign?

The scope of the Interpretation

7. Paragraph 5 of the draft Interpretation states the following:

   'This [draft] Interpretation applies to waste removal costs that are incurred in surface mining activity, during the production phase of the mine.'

8. The staff considered whether the scope should be limited to production stripping costs incurred during a stripping campaign only, and exclude any reference to routine stripping. This point was raised at the May 2010 Committee meeting. The Interpretation currently states that production stripping costs incurred as part of a stripping campaign, and which create a future benefit for the entity, are capitalised. Production stripping costs that do not create a future benefit for the entity (either incurred as part of a stripping campaign, or routinely) should be accounted for as current costs of production in terms of IAS 2 *Inventories.*

9. The staff think that there is very little guidance in IFRS for production stripping costs in general. If the Interpretation does not deal with routine stripping activity, which occurs commonly in the industry, then significant diversity in practice will still exist.

10. The staff recommend that the scope remains stated as in paragraph 5 of the draft Interpretation.

Question 2 for the Committee
Does the committee agree with the staff recommendation on the scope in paragraph 10?

Additional disclosure requirements

11. There is diversity in practice for entities using IFRS in how production stripping costs are classified, presented and disclosed. According to KPMG's publication, *The Application of IFRS: Mining (September 2009)*[1], 55% of the companies surveyed classified waste removal costs ('deferred stripping costs') as property, plant and equipment, 25% classified the costs as separate non-current assets, and 5% classified them as separate current assets. Of the remaining companies surveyed, 10% expensed the deferred stripping costs as incurred and 5% did not disclose the category used.

[1] An executive summary of this publication can be found online at www.kpmg.com/Global/Issuesandinsights/articlespublications

12. The staff think that the Interpretation provides some guidance as to how to classify the stripping cost component – either as intangible or tangible, depending on which asst the component attaches to.

13. The Interpretation also states that production stripping costs that do not meet the definition of an asset, and production stripping costs that are considered routine, should be accounted for as a current cost of production, and would consequently fall under the disclosure requirements of IAS 2.

14. The staff recommend that a question is asked of our constituents, when the draft Interpretation is published for comment, if there is additional disclosure they would consider useful.

Question 3 for the Committee
Does the committee agree with the staff recommendation in paragraph 14?