



Project	Extractive Activities
Topic	Accounting for stripping costs in the production phase – cover note to draft interpretation

Objective of this paper

1. In March 2010, the Committee requested that the staff develop a draft Interpretation on Accounting for stripping costs in the production phase. The staff has prepared the draft Interpretation, which is presented as Agenda paper 2B at the May Committee meeting.
2. This paper summarises the key points in the draft Interpretation. The staff included some points in the draft Interpretation and in the Basis for Conclusions (such points are in square brackets in the Basis) that have not yet been decided upon by the Committee – this paper will discuss those and the staff will present its recommendations thereon, consistent with what has been included in the draft Interpretation.
3. Apart from these points, the staff will ask the Committee if it agrees that the draft Interpretation reflects its discussions to date.

Discussion of the Consensus

Guidance on whether the definition of an asset is met

4. Paragraphs 5 – 8 and BC6 – BC13 of the draft Interpretation discuss when the benefit of improved access created by stripping activity meets the definition of an asset, and the classification of that asset. The staff particularly draws the Committee's attention to the following:
 - (a) Where this benefit meets the definition of an asset, the entity shall account for the benefit as *an addition to or enhancement of an existing asset that has*

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Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

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benefited from the stripping activity – in other words, *a component* of an existing asset.

- (b) For the purposes of the draft Interpretation, this component of an existing asset has been named the '*stripping campaign component*'. The staff have used this phrase for the purposes of this working draft but request suggestions for alternatives.
- (c) The draft Interpretation also states that the stripping campaign component *should be classified as tangible or intangible depending on the nature of the asset it 'attaches' to*. A decision was not made by the Committee on this point in the March 2010 meeting, although the staff understood the preference at this meeting to be that the Interpretation not define whether the asset is tangible or intangible.

Question 1 for the Committee

- 1.1 Does the Committee agree that an entity should account for the benefit as an addition to or enhancement of an existing asset, and not an asset in its own right?
- 1.2 Does the Committee have any suggestions for an alternative phrase to 'stripping campaign component'?
- 1.3 Does the Committee agree that the Interpretation should not specify whether the asset is tangible or intangible?
- 1.4 Does the Committee have any other suggestions in respect of the asset recognition guidance?

Initial recognition of the asset

5. The discussion of the initial recognition of the asset is in paragraphs 9 – 10 and BC14 – BC15 of the draft Interpretation. The staff particularly draws the Committee's attention to the following:

- (a) Paragraph 10 of the draft Interpretation states that 'the stripping campaign component shall be *specifically associated* with the section of ore benefiting from the stripping activity'. In the March 2010 papers, the staff referred to

'tagging' the costs of a stripping campaign to the section of mineral ore that becomes accessible as a result of the campaign¹. The phrase 'tagging' has not been used in the draft Interpretation as the staff thought the wording should be more formal.

Initial measurement of the asset

6. The discussion of the initial measurement of the asset is in paragraphs 11 – 14 and BC16 – BC17 of the draft Interpretation. The staff particularly draws the Committee's attention to the following:

- (a) Referring to the guidance on initial measurement in IAS 16 *Property, Plant and Equipment*, the staff considered it necessary to include a boundary as to when capitalisation would cease. Paragraph 13 of the draft Interpretation states that costs of the stripping campaign component will cease to be recognised when the stripping campaign ends. The campaign is said to end when the entity has completed the stripping activity necessary to access the ore to which the campaign is associated.

Question 2 for the Committee

- 2.1 Does the Committee think that the phrase 'specifically associated' is preferable to the phrase 'tagging'?
- 2.2 Does the Committee agree with the guidance being proposed on when capitalisation should cease?
- 2.3 Does the Committee have any other suggestions in respect of the initial measurement of the asset?

Subsequent measurement of the asset

7. The discussion of the subsequent measurement of the asset is in paragraphs 15 - 20 and BC18 of the draft Interpretation. The staff particularly draws the Committee's attention to the following:

¹ Paragraphs 29 – 30 of paper 2A (*Accounting for stripping costs in the production phase – costs of waste removal and the associated benefit*) of the March 2010 IFRS Interpretations Committee Meeting

IFRIC Staff paper

- (a) The staff considered the question of what would happen if the extraction of the ore ceased before the full related asset balance was amortised? This may happen if, for example, the ore body was not as extensive as originally thought, or if the extraction of the ore became uneconomic at a point (due to an unfavourable movement in mineral prices, say). The draft Interpretation deals with this in paragraph 18, and states that any remaining balance on the component should be fully amortised, if this were to occur.
- (b) The question of impairment of the asset was not discussed by the Committee at the March 2010 meeting. Again, by reference to IAS 16, the staff suggest that the asset should be assessed at the end of each reporting period for any impairment indicators, according to the guidance in IAS 36 *Impairment of Assets*. This is stated in the draft Interpretation in paragraph 20.

Question 3 for the Committee

- 3.1 Does the Committee agree with the proposed guidance in paragraph 18 of the draft Interpretation?
- 3.2 Does the Committee agree that the stripping campaign component, or cash generating unit to which it belongs, should be assessed for impairment per IAS 36?
- 3.3 Does the Committee think any application guidance (by way of examples) is required to be given for the method of amortisation?

Additional disclosures

8. There is currently some diversity in practice in the way information relating to capitalised stripping costs is disclosed in the financial statements. For some entities, the draft Interpretation may result in less information being disclosed, especially for entities that currently recognise capitalised stripping costs as separate assets.
9. Additionally, if the stripping campaign component is amortised over *a portion* of the total reserves only, and not over the total reserves (as is the case for other life-of-mine assets), this information may need to be disclosed to avoid confusion for the user.

Question 4 for the Committee

Does the Committee think additional disclosures should be required?

Transitional provisions

10. The transitional provisions are stated in paragraph 22 and BC19 of the draft Interpretation. The staff particularly draws the Committee's attention to the following:

- (a) Due to the complex and lengthy nature of many mining operations, and the diversity of practice in respect of this issue, the staff recommend that the draft Interpretation is applied prospectively to stripping campaigns beginning on or after the date this Interpretation becomes effective.

Question 5 for the Committee

Does the Committee agree with the proposed transitional provisions in the draft Interpretation?