Project **Extractive Activities**

Topic **Accounting for stripping costs in the production phase of a surface mine – sweep issues**

Introduction

1. The purpose of this paper is to discuss three other issues which have come to our attention while drafting the near final Interpretation. These issues are as follows:
   (a) Subsequent measurement of the stripping activity asset – cost or revaluation?
   (b) Paragraphs 12 and 13 of the near final Interpretation.
   (c) The effective date of the Interpretation.
2. These issues are discussed below.

Subsequent measurement of the stripping activity asset - cost or revaluation?

3. Paragraph 17 of the near final Interpretation states that:

> After initial recognition the stripping activity asset shall be carried at cost less depreciation or amortisation and less impairment losses, in accordance with the existing asset of which it is part.

4. We have received a query from a constituent as to how this guidance would apply to mine assets that were carried at revalued amount, as described in paragraph 31 of IAS 16 *Property, Plant and Equipment.*

5. While developing the Interpretation, the Committee has focussed on a cost accumulation approach for measurement (paragraph 15 of the near final Interpretation), consistently with that in IAS 16[1]. We were not aware of any mining entities that account for their mine assets on a revalued basis, therefore the Committee agreed to require subsequent measurement at cost, as described in paragraph 17 of the near final Interpretation.

6. In light of this query however, we thought that the Committee may wish to reconsider the subsequent measurement of the stripping activity asset[2]. If so, we think there are two possible options for the Committee to consider.

Option 1

7. Option 1: limit the scope of the Interpretation to those entities that apply the cost model in IAS 16 and IAS 38 *Intangible Assets* to the subsequent measurement of their mine assets. If this option were elected, we think that the scope paragraph (paragraph 6) in the Interpretation may be worded as follows:

> This Interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine. <u>This Interpretation provides guidance for those entities that measure their assets after recognition according to the cost model in IAS 16 or IAS 38.</u>

Option 2

8. Option 2: amend paragraph 17 of the near final Interpretation to acknowledge the cost or revaluation alternatives for subsequent measurement, according to the valuation model used for the entity's mine assets.

9. Paragraph 17 of the near final Interpretation may then be worded as follows:

> After initial recognition the stripping activity asset shall be carried at its cost <u>or revalued amount</u> less depreciation or

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[1] Paragraphs 15 - 28

[2] We are following up with the constituent concerned to understand the extent to which they have encountered the use of the revaluation model for mine assets. We will update the Committee at the July meeting with the results of this follow up.

> amortisation and less impairment losses, in accordance with the existing asset of which it is part.

10. We understand that use of the revaluation model for mine assets is rare, and that most entities apply the cost model (we are not aware of any entities that apply the revaluation model to mine assets). Limiting the scope as option 1 suggests would mean that any entities that do apply the revaluation model to their mine assets would be scoped out of the Interpretation, potentially retaining diversity in practice for this group of entities. However, allowing the choice between the cost and revalued amount as option 2 suggests would introduce some complexity to the Interpretation by building in guidance for a rare situation.

11. Considering the pros and cons of both options 1 and 2 as described above, we would like to ask the Committee which option they prefer.

Question 1 for the Committee
Does the Committee prefer option 1 or option 2, above?

Paragraphs 12 and 13 of the near final Interpretation

12. These paragraphs[3] are as follows:

> 12 An entity shall recognise the stripping activity asset when the production stripping activity takes place and the costs are incurred.
>
> 13 Recognition of the stripping activity asset shall cease when the entity has completed the waste removal activity necessary to fully access the identified component of the ore body.

13. At the May 2011 Committee meeting, there was some debate among the members as to whether these paragraphs were required. Paragraph 12 appears to state the obvious, and paragraph 13 could be read to imply that the stripping activity asset should be derecognised once the stripping activity is completed – which is not what was intended. Paragraphs 12 and 13 were included when the Draft Interpretation was developed. The guidance in the near final Interpretation

[3] Paragraph BC12 of the near final Interpretation also refers

is more principles-based, and we think that these principles are sufficient to guide an entity as to when recognition should begin and end.

14. We recommend that paragraphs 12 and 13 are removed from the final Interpretation, for the reasons given above.

Question 2 for the Committee
Does the Committee agree with the staff recommendation that paragraphs 12 and 13 are removed from the final Interpretation?

The effective date of the Interpretation

15. We suggest that the effective date for the Interpretation is 1 January 2013 (earlier application is permitted, per paragraph A1 of the near final Interpretation). If the Interpretation is issued before 1 January 2012, this should provide entities with sufficient time to prepare comparative figures as required by paragraph A2 of the near-final Interpretation.

Question 3 for the Committee
Does the Committee agree that the Interpretation should have an effective date of 1 January 2013?