acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France MEDEF

A F E P

Association Française des Entreprises Privées

IFRS Interpretations Committee
IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, 29 November, 2010

Re: Draft IFRIC Interpretation: *Stripping Costs in the Production Phase of a Surface Mine*

Dear Mr. Garnett,

We welcome the opportunity to comment on the draft IFRIC Interpretation *Stripping Costs in the Production Phase of a Surface Mine* (the DI).

While we agree with the principles underlying this Interpretation, we do not agree with the rules that the DI lays out to achieve those principles.

Our major concern with this DI is that it attempts to impose a "bright-line" approach both to the definition of the stripping campaign (in its requirement for defined start and finish dates) and in its allowing only two contrasting accounting methods (expense of the period or capitalisation of a non-current asset). We believe that neither of these restrictions is appropriate as they do not fully reflect the operational or economic realities in which the entity functions.

We are also somewhat surprised that the IFRIC has not encompassed within its scope deep mining operations, which have similar issues to deal with, to which the principles of the DI could equally apply.

We therefore do not agree with the Interpretation being finalised in its current form.

We explain these and other concerns more fully in the appendix to this letter.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU	Alexandre TESSIER	Agnès LEPINAY
Chairman	Director General	Director of economic and financial affairs

APPENDIX to ACTEO's letter on Draft IFRIC Interpretation: Stripping Costs in the Production Phase of a Surface Mine (the DI)

General comments on the DI

ACTEO, AFEP & MEDEF response

It appears to us that the real issue behind the DI is one of the matching of the costs of production with the mineral that is produced. We recognise, of course, that matching is no longer an accepted explicit concept for accounting under IFRS, but it is implicit in the notion of the recognition of an asset and the amortisation of its cost, and also in the determination of a realistic and informative cost of production. Costs of production should reflect the economics of the activity, and one would expect ore which is near the surface and can be recovered with little waste-removal would have a lower cost of production than ore which lies much deeper and requires the removal of large quantities of waste before it can be produced. Indeed, this is one of the key factors which cause an entity to cease production. Consistently with this view:

- We agree with the IFRIC that the automatic expensing of all stripping costs as current costs of production is not appropriate, and
- We agree with the IFRIC that the costs of stripping once production has begun should not be allocated equally to all the reserves of ore that are expected to be produced.

We therefore agree with the principles which we see in the DI, that stripping costs can represent an asset and that the cost of this asset should be amortised over the quantities of ore that are expected to be recovered as a result of this activity.

However, we do not agree with the approach that the DI takes to this issue, as we believe that this is a far too simplistic an approach compared with the actual nature of mine plans.

We also believe that the above principles that the DI proposes in respect of surface mines could and should be applied to deep mines. We recommend that the scope be enlarged to cover these.

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?

ACTEO, AFEP & MEDEF response

The definition in paragraph 4 of the DI appears to us to be too simplistic, or to put it another way, too "black or white", to be used in all situations. While it is almost always the case that the stripping campaign forms part of the "mine plan", and indeed the routine production stripping will usually also be part of the mine plan, we do not think that there will always be a bright line which marks the starting-date and finishing-date of the part of the stripping campaign that will result in costs being treated as an asset. In our experience, the extent of the stripping effort is dictated by the availability of the necessary plant and considerations of what is the most efficient and economical approach to the stripping. The stripping campaign will therefore include elements of routine waste removal and preparatory stripping for future production. In some circumstances determination of which is the former and which is the latter may be made only after the event rather than in advance as required by the DI.

At the same time, the definition in paragraph 4 is also unhelpful because it uses terms which we find vague in the context. We think that both routine waste clearing and preparatory stripping for future production will be "a systematic process" as they will usually have been planned and carried out in an orderly manner. The phrase "more aggressive process than routine waste clearing activities" does not, in our view, capture the essential fact that the work is being performed to facilitate production of future periods."

We therefore do not agree that the definition of a "stripping campaign" provides a sufficiently robust basis for the accounting differentiation between expensing, deferral of cost and capitalisation.

In addition, paragraphs 8 and 9 of the DI allow for only two contrasting treatments: expensing as "current costs of production" or capitalisation as a "component of an existing asset", presumably as a non-current asset either under IAS 16 Property, Plant and Equipment, or IAS 38 Intangible Assets. We think that it is too simplistic to rule out the possibility of stripping costs being treated as a current asset and therefore do not agree with the requirements in the DI.

In addition, the wording of paragraphs 8 and 9 could appear to preclude capitalisation where there is no existing asset with a carrying value because the exploration and evaluation costs were expensed in accordance with the entity's accounting policy under IFRS 6 and the stripping occurred as the mine entered the production phase without having previously had a development phase. This does not seem appropriate to us and may not have been what the IFRIC intended. We think that it should be made clear that the existing asset is the mineral reserves and not merely the cost previously capitalised on those reserves.

For reasons of economies of scale, "stripping campaigns" often involve waste-clearing activities which cover a whole series of time periods during which ore will be produced. These include waste clearing to enable ore to be produced within the current period (which can be as short as one month or one quarter) or the following period, and waste clearing in respect of the production of the following financial year or a number of annual periods in the future. The costs incurred will therefore cover a range of production periods, which would traditionally be treated as an expense of the period or as assets of different types: from costs which are of the nature of prepaid expenses for the inventory to be produced in reporting periods in the very near future to those which represent preparation for the production of reporting periods in the medium or long term. We do not think it is appropriate to exclude the possibility of treating the costs of stripping as a current asset to be amortised in the following period.

We think therefore that the DI should establish the principle that the costs of stripping or waste removal should be allocated to the quantities of reserves that are expected to be produced as a result of the stripping activity. They should be expensed if the costs relate to the current period's production, treated as a current asset if they relate to the production of the following twelve months or treated as a non-current asset if they relate to the production of later periods. The entity should establish its own policy for determining which treatment should be applied to individual cases and should apply it on a consistent basis.

Furthermore, we note that no mention is made in the DI of the costs of environmental remediation that could be triggered by the stripping activity. We think that the DI should refer to these as a directly attributable cost of waste removal and require that these be treated in the same way as the costs incurred during the campaign.

Finally, we would make a point on the drafting of the DI. The wording referred to as the definition of a stripping campaign is contained in paragraph 4 of the section of the DI entitled "Background". If it is intended to provide a definition of stripping cost then it would be helpful, in our view, if it were given a heading to make it clear that this the definition and not just a description.

Question 2 – Allocation to the specific section of the ore body

(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?

We agree with this principle.

However, we are not sure that the use of the word "directly" in the phrase "directly accessible" in paragraph 17 is helpful. Consider Reporting period 1 in the illustrative examples. Paragraph IE5 states that the areas C need to be removed in order to gain access to the ore in area D. In fact, removal of the waste in areas C does not give direct access to the ore in D; direct access is possible only when areas C1 have been cleared.

To remove doubt, it may be better to amend this part of paragraph 17 to read "the specific section of the ore body that will become accessible as a result of the stripping campaign".

(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 that the unit-of-production method is the most appropriate method of depreciation or amortisation.

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?

We think that it may be appropriate to require the entity to state its accounting policy for stripping costs, including how it makes the distinction between costs expensed in the period, those treated as current assets and those treated as non-current assets.

We agree that, if material, the disclosures required in respect of the existing non-current asset are also sufficient for the stripping-cost component.

Question 4 – Transition

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

We agree that the DI should be required to be applied only to stripping costs incurred after the beginning of the earliest period presented, as it will often be difficult to obtain the information necessary to make a full retrospective application.

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

We agree with this proposal for reasons of pragmatism and simplicity. We do, however, wonder what existing stripping cost liability balances actually represent.