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Dear Kevin

IFRIC DRAFT INTERPRETATION DI/2010/1 STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on IFRS Interpretations Committee's Draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (DI/2010/1). We have considered the DI/2010/1 as well as the accompanying draft Basis for Conclusions. Our responses are set out in the Appendix.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton global submission will be finalised by the IASB's due date of 30 November 2010.

We have no objection to the IFRIC's decision to develop an Interpretation on this subject. Equally, however, we are not convinced that additional, authoritative guidance is called for in this area. We question why the IFRIC has decided to address this narrow issue prior the IASB's agenda decision on whether to pursue a broader project on extractive activities. We also note that underlying issues addressed - such as distinguishing asset enhancements and routine maintenance, asset componentisation and depreciation policies - are pervasive matters that require judgement in many industry sectors.

As regards the proposals, we note that DI/2010/1 does not attempt to resolve the issue of whether an asset arising from costs incurred in developing a mine is tangible or intangible in nature. We acknowledge that this is a broader issue that is probably beyond the scope of this project. However, we also note that IAS 38's recognition criteria for internally developed intangible assets are more detailed than IAS 16's criteria for property, plant and equipment. These Standards' requirements on asset components and subsequent expenditure are not identical. For these reasons we think that the recognition and measurement of mining assets could (conceptually at least) differ depending on their classification as tangible or intangible. This leads us to question whether it is appropriate to prescribe requirements on the recognition and measurement of stripping costs while the classification question is unresolved.

Notwithstanding those comments, we agree with the main thrust of DI/2010/1 that stripping costs that are part of a stripping campaign will normally meet the definition of an asset.

We have some more detailed comments, particularly on the unit of account and transition proposals, in our responses to the questions in the Invitation to Comment set out below.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

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 note that recognition of an asset (or component) in accordance with IAS 16 or IAS 38 broadly requires the existence of an identifiable resource with definable boundaries, reliable cost measurement and probable future benefits. We think the proposed definition is essentially consistent with those notions.

However, we are not convinced that there is a clear dividing line between waste removal and a stripping campaign in reality. Also, the reference to a specific section of ore body implies geological conformity among mines and may not reflect the different ways in which ore bodies are dispersed within different mines. For these reasons, we suggest that the IFRIC might usefully undertake additional research into whether the proposed distinction is operational and will be applied consistently in practice.

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 are 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 believe that these proposals will in most circumstances result in accounting that is consistent with the requirements of related IFRSs (IAS 16 and IAS 38). We nonetheless question whether the Interpretation is unduly specific and inflexible in this area.

The overall effect of the proposals is that the stripping cost asset is treated as part of a wider asset (tangible or intangible) for presentation purposes but as a separately identifiable component for measurement purposes. We have the following comments on this:

- it is not clear that a requirement to present stripping costs as part of a wider asset serves a substantive purpose in view of the requirement to measure these items as separate components
- we note that IAS 16 does not prescribe the unit of measure for recognition of an item of property, plant and equipment and acknowledges that judgement is required in applying the recognition criteria to specific circumstances (paragraph 9 of IAS 16)
- if the stripping cost asset is regarded as intangible, IAS 38 will apply. IAS 38 does not contain requirements on componentisation equivalent to those in IAS 16. Similar to IAS 16, IAS 38 does not prescribe the unit of account for assets within its scope.

For these reasons we believe that the final Interpretation should be more flexible as to whether the stripping cost asset is a separate asset, a separately depreciable part of a wider asset or a non-separate part of a wider asset.

Finally, we do not agree with the proposed requirement in paragraph 19 that an entity should consider the stripping campaign component for impairment in accordance with IAS 36. This is because IAS 36 requires an impairment assessment at the level of individual assets, cash-generating units or groups of cash-generating units depending on the circumstances. It does not envisage impairment assessment at the level of asset components. We do not think that a stripping cost asset or component typically generates cash inflows that are largely independent of the mine's overall cash inflows (with reference to paragraph 22 of IAS 36).

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 that the general disclosure requirements of IAS 16 and IAS 38 are sufficient. We do not believe it is necessary to specify incremental disclosures on stripping cost assets.

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 proposal to apply the Interpretation prospectively to production stripping costs incurred on or after the beginning of the earliest comparative period.

We welcome the fact that the proposed Interpretation also includes transition guidance for amounts recognised as assets under prior accounting policies. However, we have a number of comments on this proposed guidance.

For asset balances that can be directly associated with an identifiable section of the ore body, paragraph 22 seems to require reclassification (as a component) but not re-measurement. If so, we suggest that the final Interpretation should state explicitly that re-measurement is not required.

We note that the [draft] Basis for Conclusions does not explain the reasoning for requiring recognition in profit or loss of stripping cost asset balances not directly associated with an identifiable section of the ore body. We think the proposal is appropriate but would also welcome an explanation as to why these transition adjustments are to be recognised in profit or loss (and not in retained earnings at the beginning of the earliest comparative period).

We are not clear why DI/2010/1 also addresses stripping cost liability balances on transition. We question why some entities might have recognised liability balances and what those amounts represent. Presumably such balances should be de-recognised only if they do not meet the definition of a liability in the Framework and other applicable IFRSs.

Accordingly we suggest that the requirement derecognise these balances into profit and loss on transition should be explained and limited to appropriate circumstances.

Finally, we have the following minor drafting suggestions:

- insert a comma after "during the production phase" in the third line of paragraph 22
- insert "remaining" before "expected useful life" in the fifth line of paragraph 22.