Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically to the IFRS Foundation website (www.ifrs.org)

30 November 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IFRS Interpretations Committee Exposure Draft of *Stripping Costs in the Production Phase of a Surface Mine*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are pleased to provide you with our comments on the captioned draft Interpretation. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We do not support the draft Interpretation. We acknowledge that accounting for stripping costs is an area where diversification exists in practice among the mining companies. We also recognise the IFRS Interpretations Committee's objectives and efforts to provide additional guidance on this matter. In our view, however, the approach proposed in the draft Interpretation is rules-based and based on a simplistic view of mines and their associated processes.

We consider that differences in accounting treatment for stripping costs is an inherent issue due to the complexity of mining activities, different geological formations and/or varied mining environments. This diversity in practice should not be considered as necessarily undermining reliable and relevant financial information provided by mining entities. We are also concerned that the rules-based requirement in the draft Interpretation to differentiate a "stripping campaign" from "routine waste clearing activities" presents practical challenges in many aspects (refer Appendix Q1 for further explanation). Moreover, this Interpretation appears to be based on an over simplistic view of ore distribution and a single-source surface mine, which rarely exist in reality. We are concerned that entities would be required to make significant judgements in applying the draft Interpretation.

We believe that broad principles are available in the Framework and relevant IFRS (IAS 16 and IAS 38) to guide recognition, measurement, and disclosure of accounting for production stripping costs. Mining entities should be allowed to use their judgment and consider their particular circumstances to determine the most appropriate accounting policies and manner of depreciation or amortisation.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

Should the IFRS Interpretations Committee choose to proceed with this project, we suggest a principle-based approach which takes into consideration the diverse nature of this industry and which can be applied to similar transactions in producing decision-useful financial information.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours sincerely,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/jn

Hong Kong Institute of CPAs

Comments on the IFRS Interpretations Committee Exposure Draft of *Stripping Costs in the Production Phase of a Surface Mine*

<u>Question 1 – Definition of a stripping campaign</u>

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?

No. We do not believe the proposed definition satisfactorily distinguishes between a stripping campaign and routine waste clearing activities. We are concerned with the practical application of this requirement. The proposed definition seems only to consider one situation where the mine is a single-pit with a rounded ore body as illustrated in the draft Interpretation. In reality, mining operations are complex and usually multi-pit in which each campaign is pre-production for a particular pit but not for the mine as a whole. In addition, we also understand that some stripping campaigns may not have a defined start date and that the mine plan can be updated frequently from subsequent evaluations and developments.

We believe that the Interpretation should instead focus on the question of whether stripping costs, regardless of their precise nature (costs associated with a stripping campaign or routine stripping costs), meet the criteria in paragraphs 7 (a) to (c) of the Exposure Draft and, if so, whether the related benefits from those stripping costs are obtained in the current or future periods.

<u>Question 2 – Allocation to the specific section of the ore body</u>

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 is 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?

In relation to the depreciation method proposed in the Interpretation, we see practical challenges on how it could be applied. A key question for the depreciation/amortisation is the unit of account. The draft Interpretation refers to unit of account as a "specific section" of ore. However in reality, sometimes the stripping costs relating to a particular ore body cover the entire ore body, which in other cases, a much smaller area or specific sections of ore body can be identified.

We agree with the principle that costs should be amortised by matching to the ore body to which they relate. Therefore, we support the development of principle-based guidelines in which entities are allowed to use their judgment in determining the most appropriate rational and systematic manner of depreciation for their situations, without specifying a preferred depreciation or amortisation method as currently proposed in this draft Interpretation.

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 believe that the disclosure requirements under the current accounting standards (IAS 16 and IAS 38) are sufficient.

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?

We support prospective application should the Interpretation proceed.

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 recognized 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 disagree with the proposed recognition in profit or loss of any existing stripping cost asset balance for which there is no identified section of ore body, and any existing stripping cost liability balance. The proposed adjustment would significantly reduce the comparability of results over time. Should you choose to proceed with this approach, we recommend that any amount derecognised should be an adjustment in retained earnings.

~ End ~