Federation of European Accountants
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Ref.: ACC/HvD/TS/ID

Dear Ms. Flores,

Re: FEE Comments on EFRAG's Draft Comment Letter on Draft IFRIC Interpretation Stripping Cost in the Production Phase of a Surface Mine

(1) FEE (the Federation of European Accountants) is pleased to comment on the EFRAG Draft Comment Letter on Draft IFRIC Interpretation Stripping Cost in the Production Phase of a Surface Mine (the "DI").

(2) Generally we agree with the views expressed by EFRAG in its draft comment letter.

(3) Indeed, like EFRAG, we do not believe that the DI would achieve its objective of reducing diversity and it would not represent an improvement in IFRSs. The DI relies on definitions that would be difficult to apply in practice.

(4) In particular, distinguishing routine stripping costs from those costs that are part of the stripping campaign is likely to prove difficult in practice and rather more complex than it is suggested by the illustrative example.

(5) Consistent with the view we expressed in our letter of 27 July 2010 on the IASB Discussion Paper *Extractive Activities*, we do not support the development of a specific accounting model for the extractive industry unless it is clearly established that the current standards cannot be applied to the issues facing this industry.

(6) We acknowledge that current accounting for stripping costs in the production phase of a surface mine is both diverse and not the most reliable that could be achieved. However, the DI should clarify the principles already existing in IFRS for a specific situation and not to introduce new ones.

(7) Like EFRAG, we believe that IAS 16 provides an appropriate model in accounting for stripping costs incurred in surface mining activities.

Our Comments on Appendix 1 of the EFRAG draft comment letter including responses to the questions in the Invitation to Comment section of the DI are contained in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, Project Manager, at the FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

Hans van Damme

President

Appendix 1

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 a routine waste clearing activities, if not why not?

(8) Like EFRAG, we do not believe that the proposed definitions clearly distinguish stripping campaign from routine waste clearing activities. In our opinion, the proposed definitions are likely to be difficult to apply in practice because stripping campaigns and routine waste clearing activities generally are not as distinct in practice as the definitions imply. Further, the distinction based on the criterion that the stripping campaign is "a more aggressive process than routine waste clearing activities" is not used in practice and therefore would be subject to wide interpretation. This will not resolve the current diversity in practice.

(9) We also disagree with limiting stripping campaign to costs to gain access to "a specific section of the ore body". We believe that this requirement fails to consider that ore bodies are rarely as regular in shape as contemplated in the DI. In fact, some ore bodies take the form of dispersed deposits. Like EFRAG, we are concerned that where this is the case, stripping costs would never be considered to constitute a stripping campaign and therefore would need to be recognised as an expense when incurred.

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 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?

(10) We do not agree that accumulated costs should be depreciated specifically over the specific section of the ore body that becomes directly available as a result of the stripping campaign. Stripping campaigns do not serve to access only the section of ore body immediately exploited, but rather serve as a platform to access other identified sections of the ore bodies for future exploitation.

(11) Accordingly, like EFRAG, and consistent with our view that IAS 16 provides an appropriate accounting model for the costs addressed in the DI, we believe that the depreciation of the accumulated costs should reflect the future economic benefits expected to be consumed and hence the costs should be allocated to all the ore bodies that are expected benefit from the stripping campaign (through immediate or future exploitation).

(12) We acknowledge that current accounting for stripping costs in the production phase of a surface mine is both diverse and not the most reliable that could be achieved. However, the DI should clarify the principles already existing in IFRS for a specific situation and not to introduce new ones.

(13) We agree that the units of production method should be applied unless another method is more appropriate.

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?

(14) We agree with EFRAG that existing disclosure requirements within IAS 16 should apply. We further agree that, to the extent that the stripping costs are material, enhanced disclosure of the aggregate capitalised stripping costs as a subcomponent of the mining asset to which it relates is recommended.

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 costs balances? If not, what do you propose and why?

(15) In our opinion, retrospective application is the preferred method where possible.

(16) We agree with EFRAG that if full retrospective application is impracticable then prospective application would apply from the earliest date practicable. This is consistent with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*