

Mr. Robert Garnett  
Chairman  
International Financial Reporting Interpretations Committee  
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30 November 2010

Dear Mr. Garnett,

**Draft IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine***

Deloitte Touche Tohmatsu Limited is pleased to comment on the IFRS Interpretations Committee's (the Committee's) Draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of Surface Mine* (referred to as the 'draft Interpretation').

We do not support the finalisation of this draft Interpretation. Much of the current apparent diversity in practice tends to be due to the underlying physical differences in mines and we are not convinced that the current practice produces results that are sufficiently inappropriate to warrant the publication of a final interpretation. We are also concerned about the Committee attempting to address specific issues on extractive activities on a piecemeal basis rather than through the IASB project.

However, should the Committee decide to proceed with finalising the draft Interpretation, we have provided comments on the proposals included in the draft Interpretation.

We do not agree with the proposed framework for distinction between a stripping campaign and routine waste clearing activities. The proposals are based on a very simplistic characterisation of a mine which fails to highlight the practical difficulties of applying the proposals. We are concerned that entities would be required to make significant judgements in applying the proposed distinction and create artificial categorisation of their activities in order to align their operations to the proposals in the draft Interpretation. This could lead to divergence in interpretation and further lack of comparability between entities with similar mining operations.

We therefore recommend that any framework for distinction between a stripping campaign and routine waste clearing activities should acknowledge that the physical characteristics of each mine will be different and that it can be difficult in practice to determine whether a stripping campaign clearly relates to current period production or whether it provides access to ore bodies for future

processing. The draft Interpretation should require entities to adopt a rational and systematic methodology which reflects as far as possible the specific characteristics of the particular mine to determine the extent to which costs incurred provide access to future economic benefits.

We do not agree that the accumulated costs recognised as a stripping campaign should only be allocated to, and depreciated over, the specific section of the ore body that becomes directly available as a result of the stripping campaign. The current proposals do not take into account that all stripping activities undertaken in connection with a mine relate to overall pit design and removal of the planned economically recoverable reserves. We believe these costs should be allocated to those ore bodies for which access has been improved, representing increased probable future economic benefits the entity will derive from the stripping activities and the related costs incurred on a systematic and rational basis.

With regards to the proposed transition requirements, we question the recognition in profit or loss of the stripping campaign component that does not qualify for recognition as a component of an existing asset as at the date of transition. We believe that any stripping campaign component that does not qualify for recognition on the date of transition should be recognised as an adjustment to the opening balance of retained earnings for the earliest prior period presented.

Our detailed responses to the invitation to comment questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884.

Sincerely,



**Veronica Poole**  
Global Managing Director  
IFRS Technical

## **Appendix: Invitation to Comment**

### ***Question 1***

***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?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. However, should the Committee decide to proceed with its finalisation, we do not agree that the proposed Interpretation sufficiently distinguishes between a stripping campaign and other routine waste clearing activities.

The proposed definition assumes that a stripping campaign and routine waste clearing activities are discrete activities, whereas in practice it may be difficult to distinguish between these activities. The proposed distinction for a stripping campaign being “...a more aggressive process than routine waste clearing activities...” is an artificial distinction that does not exist in practice and may be open to interpretation. The proposed definition also does not consider the changes to the pit design that can occur over time as a result of new information. Further, the term “stripping campaign” is not commonly used in practice and some types of surface mining operations, such as coal mining which uses drag lines instead of open pits, may find it difficult to align their activities to the proposed terminology and definition.

Stripping campaigns are designed not only to access the ore body for current processing but also to provide the platform for access to known and identified sections of the ore body for future processing. Removal of one area of overburden generally gives access to a wider ore body than the entity previously had access to and therefore probable future economic benefits. In practice a mine may have a number of irregularly shaped ore bodies which might overlap each other in some way.

We are concerned that if entities are required to apply the proposed definition it may create artificial categorisation of their activities to align their operations to the simplistic proposals in the draft Interpretation. This could lead to divergence in interpretation and further lack of comparability between entities with similar mining operations.

We therefore recommend that any framework for distinction between stripping campaigns and routine waste clearing activities should acknowledge that the physical characteristics of each mine will be different and that it can be difficult in practice to determine whether a stripping campaign clearly relates to current period production or whether it provides access to ore bodies for future processing. The draft Interpretation should require entities to adopt a rational and systematic methodology which reflects as far as possible the specific characteristics of the particular mine to determine the extent to which the costs incurred provide access to identified sections of ore body for future processing.

### ***Question 2***

***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?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. However, should the Committee decide to proceed with its finalisation, we do not agree that the accumulated costs recognised as a stripping campaign should only be depreciated over the specific section of the ore body that becomes directly available as a result of the stripping campaign.

As noted above, stripping campaigns are designed not only to access the ore body for current processing but also to provide the platform for access to known and identified sections of the ore body for future processing. Removal of one area of overburden generally gives access to a wider ore body than the entity previously had access to and therefore probable future economic benefits. The allocation of stripping costs only to the directly accessible reserves would not reflect the economic benefits expected to be derived from the overall stripping campaign and may result in losses being recognised on the extraction of shallow ore bodies and profits being recognised on the extraction of deeper ore bodies as the costs of the stripping campaign have already been allocated to the shallower ore bodies. We believe that the costs associated with a stripping campaign should be allocated to those ore bodies representing the probable future economic benefits expected to be derived from the campaign.

The current proposals do not take into account the ‘strip ratio’ or ‘life of mine’ concept, which is currently used for the amortisation of mining properties and economic decision making with respect to mine investment decisions. This concept also forms the basis for determining the mining reserves. The strip ratio is regarded as representative of a cost allocation model similar to the depreciation models in IAS 16 *Property, Plant and Equipment*, such as the unit of production method, and where ore bodies are proven it can result in an appropriate allocation of costs. The Basis for Conclusions to the draft Interpretation does not provide any background to the Interpretations Committee’s decision to reject the strip ratio as an acceptable method for the allocation of stripping costs.

Further, the illustrated example is overly simplistic in its representation of mineral reserves and does not provide a realistic illustration of the allocation of stripping campaign costs. We recommend that the illustrative example either be removed from the Interpretation or be amended to reflect a more realistic scenario and illustrate the application of a rational and systematic methodology to determine the extent to which the costs incurred provide access to identified sections of ore body for future processing as recommended above.

***(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 no, why not?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. Should the Committee decide to proceed with finalising the draft Interpretation, we support the depreciation or amortisation of stripping costs using the units of production method.

### ***Question 3***

***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?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. However, should the Committee decide to proceed with its finalisation, we agree that the disclosure requirements for the existing asset are sufficient and that no additional disclosures are needed.

***Question 4***

***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?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. However, should the Committee decide to proceed with its finalisation, we agree with the proposal to apply the draft Interpretation prospectively from the beginning of the earliest comparative period presented.

***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?***

As explained in our cover letter, we do not support the finalisation of the draft Interpretation. However, should the Committee decide to proceed with its finalisation, we agree that only those components of existing stripping campaigns that provide access to ore bodies for future processing should be recognised as a component of an existing asset.

However, we question the recognition in profit or loss of the stripping campaign component that does not qualify for recognition as a component of an existing asset as at the date of transition. We believe that any stripping campaign component that does not qualify for recognition at the date of transition should be recognised as an adjustment to the opening balance of retained earnings for the earliest prior period presented.