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Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçào Internacional das Comissões de Valore

December 9, 2010

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

**RE: Draft IFRS Interpretations Committee Interpretation DI/2010/1**

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board's (IASB or the Board) IFRS Interpretations Committee (the Committee) Draft Interpretation DI/2010/1 (the draft Interpretation).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1. They are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

**General Observations**

We support the direction of the Committee to require stripping costs incurred in the production stage to be capitalized in circumstances in which those costs provide a distinct future economic benefit. As provided in the responses below we believe that additional improvements are needed to the proposed approach included in the draft Interpretation in order to achieve this objective.

We raise the matter of the draft Interpretation's apparent proposal to view the costs of a stripping campaign as an expenditure unto itself, and thus in need of its own accounting model, as opposed to costs that are associated with an asset which is accounted for under existing standards. We believe the Committee should clarify whether the draft Interpretation should be viewed as its own model for accounting for stripping costs incurred in the production stage, independent of other literature.

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We do note the reference in the draft Interpretation to IAS 16, *Property, Plant and Equipment*, which suggests that the Interpretation is perhaps intended to be an interpretation of that literature. If this is the case, we believe that the Committee should clarify whether the draft Interpretation would apply only if the associated asset (land) is accounted for as property, plant and equipment, or a component thereof, or also in circumstances where the land associated with the mineral deposit is leased. Further to the references to IAS 16, if it is an interpretation we recommend that the Committee address whether the stripping costs are best characterized as an element of initial cost that pursuant to paragraph 20 is capitalized because it is incurred before the land is “capable of operating in the manner management intended” or whether it is best characterized as a subsequent cost that is capitalized pursuant to the lines of thinking contained in paragraph 14. One particular point to consider is that under an initial cost model, IAS 16 requires capitalization to cease once the asset is in the location and condition necessary for it to be capable of operating in the manner management intended, which would likely be at the point that production of the first portion of ore begins. This may be inconsistent with the aim of the draft Interpretation if subsequent stripping costs continue to improve access necessary for future production associated with the ore body.

We believe any final Interpretation should address circumstances in which multiple sections of an ore body directly benefit from a single stripping campaign. If the draft Interpretation is providing interpretive guidance to IAS 16, we believe the Interpretation should require the amortization of capitalized stripping costs associated with multiple ore sections consistent with the depreciation model in IAS 16 which specifies that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

### **Responses to Questions**

In responding to the questions below, we have assumed that the accounting model for stripping campaigns is an interpretation of IAS 16, thus this is the Standard that the Committee is interpreting.

#### **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 further described as being planned in advance and is part of the mine plan, having a defined start date and 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 believe that the definition of a stripping campaign needs to be further clarified in order to achieve a more consistent application of accounting for stripping costs in the production phase. Specifically, we note the following:

- The basic principle of asset recognition for a stripping campaign within the draft Interpretation is whether the cost improves access to the ore to be mined in a future period (paragraph 7). It is not clear whether capitalization would cease when the first portion of ore in an ore section is accessed or when all the stripping for that section is completed. The wording could suggest that capitalization is discontinued when the first portion of ore is accessed. Such cessation of capitalization would seem to be inconsistent with the principles of the draft Interpretation if costs continue to improve access necessary for future production associated with the ore body.

- The concept of a “more aggressive process” is not sufficiently distinguished from a routine stripping process in the draft Interpretation to provide for consistent application. A routine stripping cost conceptually may benefit future periods through improved access that extends beyond the current period as acknowledged in paragraph BC13. To further clarify the definition of a stripping campaign activity we believe the Committee could consider providing a non-exhaustive list of indicators that compare and contrast 1) when a stripping activity is deemed to improve the access to sections of ore and constitute a future economic benefit and 2) when a stripping activity is routine. We believe that this would be more beneficial than a description of a stripping campaign as a “more aggressive process.” Indicators of a stripping campaign could include evidence of a “significant push-back or removal of waste that widens or deepens the existing pit or creates a new satellite pit” as stated in paragraph BC 14. Indicators of routine stripping activity could include the activity occurring continuously just ahead of, or around the time of the ore currently being mined to ensure production continues without delay as described in paragraph BC 12. Indicators could also incorporate stripping ratio thresholds, ore cut-off grade thresholds, or descriptions of stripping and production characteristics that exist when a stripping activity is routine as opposed to providing a future economic benefit that should be capitalized.
- We recommend that the Committee consider addressing changes in the mine plan. More specifically, we believe the Committee should address how a defined stripping campaign interacts with changes in a mine plan given the mine plan is used in defining the stripping campaign. For example, a mine wall collapse may trigger a more aggressive process to remove waste material that could result in a fundamental change in a mine plan. The draft Interpretation is not clear as to which costs are intended to be capitalized under those conditions.

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

The proposed Interpretation specifies that the accumulated costs recognized as a stripping campaign component shall be depreciated or amortized 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 amortized 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 amortization unless another method is more appropriate? If not, why?

The draft Interpretation presents some potential difficulties in determining depreciation and amortization. They are noted below.

- Several “specific sections” of ore can benefit from a pushback in one particular stripping campaign, sometimes encompassing various grades of ore. So it is not clear to us whether the proposal is calling for multiple amortization calculations—one for each “specific section” within a particular stripping campaign—or whether there should be one calculation per campaign. The simplified illustrative example beginning in IE 1 does not capture these more complex formations.
- It is unclear how one “specific section” of ore is determined. For example, economic factors, such as commodity prices, frequently change over the life of the mine, and the extent of stripped material considered ore-grade rather than waste rock may change.

The language in paragraph 19 of the draft Interpretation suggests that a stripping campaign would be evaluated as an individual asset for impairment. However, it is unclear how that asset would meet the requirement to be evaluated individually under paragraph 67 of IAS 36 given that it does not generate cash inflows that are largely independent of those from the mine operation. Regardless of whether the Committee decided that the costs of a stripping campaign are part of the initial cost of the related asset or are subsequent costs associated with operating the related asset, it would seem to follow that those costs are evaluated for impairment as part of the cash generating unit in accordance with 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?

Disclosures requiring both the amount of routine stripping and campaign stripping costs, to the extent campaign stripping costs are significant, may provide further transparency into how the company is allocating costs between the two phases.

#### **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 recognized in profit or loss, unless the component can't 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?

The members of Standing Committee No. 1 are not convinced that existing stripping cost balances that cannot be specifically identified with a section of the ore body should be written off to profit and loss in the period of adoption. Rather, these costs are indicative of prior expenses had the standard been retroactively applied and would be more appropriately reflected as an adjustment to retained earnings because significant balances charged to the statement of profit and loss could result in trends in net income that, while explainable, do not reflect the year on year operations of the mine.

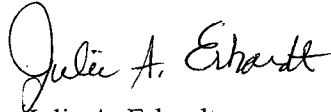
#### **Other Comments**

Because oil sands extraction employs surface mining methods to extract bitumen, some members of Standing Committee No. 1 believe the Committee should consider including these activities within the scope of this guidance. We understand that many oil sand operations have developed accounting policies for incurred stripping costs in the production stage. Other SC 1 members believe that extraction of oil sands is an oil and gas activity that should be accounted for consistently with other oil and gas producing activities.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

A handwritten signature in cursive script that reads "Julie A. Erhardt". The signature is written in dark ink and is positioned above the printed name.

Julie A. Erhardt

Chairman

IOSCO Standing Committee No. 1