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Mr Robert Garnett
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Re: Draft IFRIC Interpretation *Stripping Costs in the Production Phase of a Surface Mine*

Dear Sirs,

We are pleased to have the opportunity to comment on your Draft IFRIC Interpretation *Stripping Costs in the Production Phase of a Surface Mine.*

In general, we believe that the Draft Interpretation does not resolve the accounting issue. If the issue is not to determine whether stripping costs meet the definition of an asset under IFRS, we do not understand the need for an Interpretation. Nevertheless, BC 3 of the Draft Interpretation explain that "*there is diversity in practice in accounting for production stripping costs – some entities recognise production stripping costs as an expense (a cost of production), and some entities capitalise some or all production stripping costs, on the basis of a life-of-mine ratio calculation, or some similar basis, and some capitalise the costs associated with specific betterments*". In our opinion, to this extent the Draft Interpretation seems to meet the objective.

However, if it is clear that, in such circumstances, either IAS 16 or IAS 38 apply, we are not sure that an interpretation was needed, perhaps it was more of a matter of industry guidance. Dealing with specific application issues of different industries may imply IFRIC to develop tens of interpretations per year, undermining the fundamentals of principle-based standards.

You will find here below our opinion on your specific questions.

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?

We believe that the distinction of three categories of stripping costs to which three different standards apply could be complicated to understand and could not resolve the diversity in practice. Such categories are mentioned and defined in the DI: stripping costs in the pre-production phase,

stripping costs associated with a stripping campaign and stripping costs related to routine waste clearing activities.
Taken into account that pre-production stripping costs are out of the scope of the DI, we think that the proposed definition does not satisfactorily distinguish between a stripping campaign and routine waste clearing activities. Rather, the Interpretation should distinguish between routine stripping and a stripping campaign by considering whether the costs incurred relate to the ore currently being extracted or to ore that will be extracted in the future, respectively.

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 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 amortization unless another method is more appropriate? If not, why?

We believe that the restriction proposed by the draft Interpretation in relation to the depreciation method applicable to the specific section of the ore body is not appropriate and, rather, that judgement is required to determine the extent of the benefit created by the stripping activity.
However, we agree that the unit-of-production method should apply 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 the 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 requirement to provide disclosures required for the existing asset is 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?

The proposed Interpretation requires any existing stripping campaign component to be recognized in profit and 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 believe that the adoption of the proposed Interpretation should be retrospective. We do not see reasons to depart from the general principles of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Indeed, retrospective application provides the basis for comparative information. If, however, it is impracticable to apply full retrospective application then prospective application would, under IAS 8, apply from the earliest date practicable.

Further, we do not agree with the treatment of existing production stripping assets and liabilities that cannot be specifically attached to a specific section of the ore body. In our opinion, the proposed adjustments to the comparative profit and loss account on transition could jeopardize the comparability of financial statements. Moreover, this accounting treatment of day-one adoption type gains and losses is not clearly explained in the basis for conclusions, nor it is what they should represent.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)