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23 November 2010

**Re: EFRAG Draft comment letter on Draft IFRIC Interpretation *Stripping Cost in the Production Phase of a Surface Mine***

Dear Françoise,

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

In general, we agree with the initial position of EFRAG that the Draft Interpretation does not resolve the accounting issue. If the issue is not to determine whether the stripping costs meet the definition of an asset under IFRS, we do not understand the need for 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.

As well as EFRAG, 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. However, we are not sure that this should imply stripping costs to be recognised as a property, plant and equipment in all circumstances. In relation to this comment we are more convinced by the argument raised by the Interpretations Committee that "*it is not necessary for the Interpretation to define whether the benefit created by stripping activity is tangible or intangible in nature—this will follow from the nature of the underlying asset to which the benefit relates.*"

We share the other concerns raised by EFRAG in its comment letter, and we think that they should be considered by the IFRS interpretation committee in its re-deliberation process. In particular, three of them seem to be critical:

- Proposed definition of a stripping campaign. The OIC shares the EFRAG's opinion that "*the final interpretation should distinguish between routine stripping and a stripping campaign based on whether the costs incurred relate to the ore currently being extracted or to ore that will be extracted in the future, respectively*";
- Allocation to the specific section of the ore body. We agree with EFRAG 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";* we also agree that *"the unit-of-production method should apply unless another method is more appropriate";*
- Transition. We agree with EFRAG that the adoption of the proposed Interpretation should be retrospective. We do not see reasons to depart from the general principles of IAS 8.

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

Yours sincerely,

Angelo Casò
(Chairman)