Exposure Draft 87
January 2024
*Comments due: May 31, 2024*

IPSAS®

*Proposed International Public Sector Accounting Standard®*

# *Stripping Costs in the Production Phase of a Surface Mine*
# (Amendments to IPSAS 12)

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

# REQUEST FOR COMMENTS

This Exposure Draft (ED) 87, *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 31, 2024.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

**Objective of this Exposure Draft**

The objective of the ED is to propose amendments to IPSAS 12, *Inventories* to include guidance aligned with IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

**Guide for respondents**

The IPSASB welcomes comments on all matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the ED is provided below.

**Specific Matter for Comment 1:**

The IPSASB decided to propose IFRIC 20-aligned guidance in ED 87 (see paragraph BC9). Do you agree that amendments to IFRIC 20, for the public sector, are limited to terminology and other IPSASB-specific formatting and consistency amendments (see paragraph BC10)?

If not, please explain your reasons, stating clearly what further amendments are necessary and why.

**Specific Matter for Comment 2:**

The IPSASB decided to propose the IFRIC 20-aligned guidance in ED 87 as an amendment to IPSAS 12, *Inventories*, by including the guidance as an Appendix (see paragraph BC11). Do you agree with the IPSASB's decision?

If not, please explain your reasons, stating clearly where the guidance should be included and why.

## Amendments to IPSAS 12, *Inventories*

Paragraphs 51G, 52A–52C, and Appendix A are added. New text is underlined.

## Effective Date <u>and Transition</u>

### Effective Date

…

<u>51G.</u> **<u>Appendix A was added by [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM, DD, YYYY]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.</u>**

**…**

### <u>Transition</u>

<u>52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.</u>

<u>52B. As at the beginning of the earliest period presented, any previously recognized asset balance that resulted from stripping activity undertaken during the production phase (‘predecessor stripping asset’) shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortized over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.</u>

<u>52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognized in opening retained earnings at the beginning of the earliest period presented.</u>

**Appendix A**

## Appendix A: Stripping Costs in the Production Phase of a Surface Mine

*This Appendix is an integral part of IPSAS 12.*

### Introduction

A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

A2. During the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins.

A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

### Scope

A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

A7. This Appendix addresses the following issues:

(a) Recognition of production stripping costs as an asset;

(b) Initial measurement of the stripping activity asset; and

(c) Subsequent measurement of the stripping activity asset.

### Application of IPSAS to Stripping Cost in the Production Phase of a Surface Mine

*Recognition of production stripping costs as an asset*

A8. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IPSAS 12, *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.

A9. An entity shall recognize a stripping activity asset if, and only if, all of the following are met:

(a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved; and

(c) The costs relating to the stripping activity associated with that component can be measured reliably.

A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

*Initial measurement of the stripping activity asset*

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) Cost of inventory produced compared with expected cost;

(b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

*Subsequent measurement of the stripping activity asset*

A14. After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

A15. The stripping activity asset shall be depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortize the stripping activity asset will differ from the expected useful life that is used to depreciate or amortize the mine itself and the related life-of-mine assets. The exception to this is those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

**Appendix B**

## Amendments to Other IPSAS

## Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 62H, 62I, and 154Q are added. New text is underlined.

…

## Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

…

**[draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine (*Amendments to IPSAS 12)**

62H. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to stripping activity assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62I. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

…

**Effective Date**

…

154Q. **Paragraphs 62H and 62I were added by [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), issued in [MM DD, YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [MM DD, YYYY], it shall disclose that fact.**

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 12.*

…

**Revision of IPSAS 12 as a result of [draft] IPSAS [X] (ED 87)*, Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)**

BC9. This Appendix A clarifies existing guidance on accounting for stripping costs in the production phase of a surface mine and applies to all types of natural resources that are extracted using this process. The IPSASB agreed this guidance is required in accounting for such costs in the public sector.

BC10. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRIC 20 in the development of this revision, except for terminology and other IPSASB-specific formatting and consistency amendments.

BC11. The IPSASB concluded that stripping costs ultimately end in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits. Therefore, due to this relationship between stripping activities and the cost of inventory produced, the IPSASB decided that the guidance aligned with IFRIC 20 be included as Appendix A to IPSAS 12.

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AT A GLANCE
January 2024

# Exposure Draft (ED) 86 and ED 87 – *Exploration, Evaluation and Extraction of Mineral Resources*

This summary provides an overview of ED 86, *Exploration for and Evaluation of Mineral Resources,* and ED 87, *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*

**Project Objective:**

The objective of this package of EDs is to propose guidance:

- For the exploration for and evaluation of mineral resources. This includes the measurement, presentation and disclosure requirements for exploration and evaluation assets recognized; and
- To account for the benefits that may arise from the waste removal activity of a surface mine. This waste removal activity is known as 'stripping'.

**Project Stage:**

The International Public Sector Accounting Standards Board® (IPSASB®) issued ED 86 and ED 87 in January 2024.

The IPSASB seeks feedback on ED 86 and ED 87 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) on the accounting for exploration and evaluation expenditure.

**Comment Deadline**

ED 86 and ED 87 is open for public comment through May 31, 2024.

**How To Respond:**

Respondents are asked to submit their comments electronically through the IPSASB website, using the following links:

- Submit a Comment on ED 86; and
- Submit a Comment on ED 87.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.



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# Project Overview

ED 86 and ED 87 fill a gap that exists in the suite of IPSAS as it relates to the exploration, evaluation and extraction of mineral resources.

## Why the IPSASB Undertook this Project

In response to its May 2022 Natural Resources Consultation Paper, stakeholders identified a gap in the IPSASB's literature where no accounting guidance exists when accounting for the exploration, evaluation and extraction of mineral resources.

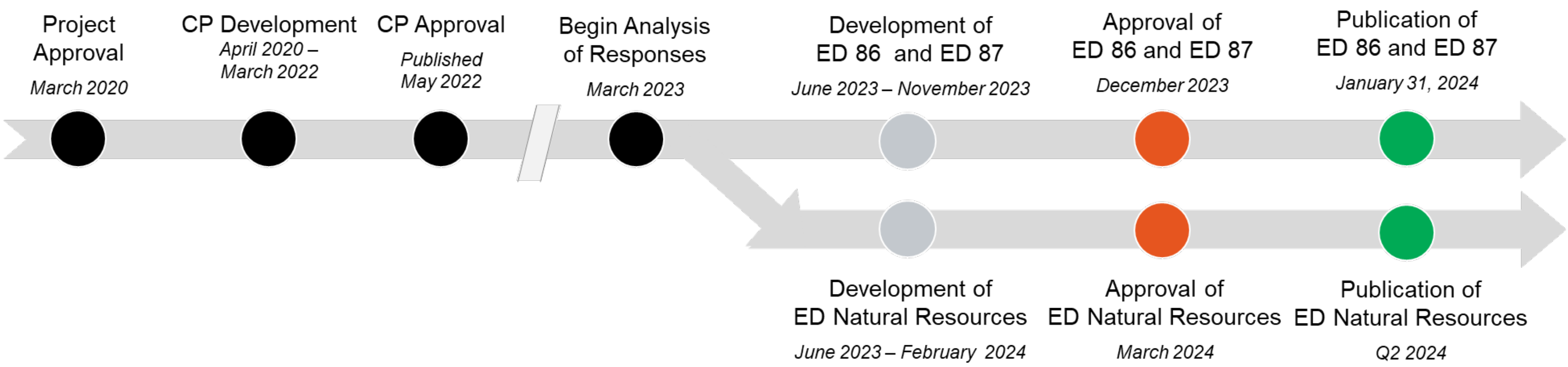
This lack of guidance was especially problematic in situations where a public sector entity operated a mining asset with a private sector entity, because this could result in diverse accounting practice between the entities.

## Natural Resources Project

ED 86 and ED 87 are part of the broader Natural Resources project. To support stakeholders in responding, ED 86 and ED 87 are released as a package to focus responses on the issues related to the exploration, evaluation and extraction of mineral resources.

The development of a Natural Resources ED continues throughout 2024, which will focus on the recognition, measurement and disclosure of Natural Resources.

The project timeline is shown in the diagram below.



# ED 86, *Exploration for and Evaluation of Mineral Resources*

ED 86 proposes guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets.

## Key Proposals

ED 86 proposes guidance related to the costs incurred for exploration for, and evaluation of, mineral resources (for example, minerals, oil, natural gas and similar non-regenerative resources), as well as the costs of determination of the technical feasibility and commercial viability of extracting the mineral resources.

The proposals:

- Permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors;*
- Requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount; and
- Varies the recognition of impairment from that in IPSAS 26, *Impairment of Cash-Generating Assets,* but measures the impairment in accordance with that Standard once the impairment is identified.

## Alignment

To enable consistent accounting for similar transactions between the public and private sector, ED 86 proposes aligning requirements with IFRS 6, *Exploration for and Evaluation of Mineral Resources*.

The IPSASB decided to retain the terminology of ‘economic benefits’ used in IFRS 6 as it considered that this would be a relevant concept to public sector entities who use the Standard.

The IPSASB did not identify any public sector specific reasons to depart from the requirements of IFRS 6. As such, departures from IFRS 6 are limited to terminology, and other IPSASB-specific formatting and consistency amendments.

IPSAS B®

# ED 87, *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*

ED 87 proposes guidance on accounting for waste removal costs that are incurred in surface mining activity during the production phase of the mine.

## Key Proposals

ED 87 proposes accounting guidance for the costs associated with waste removal activity ('stripping') to gain access to mineral ore deposits. Some stripping activity produces saleable inventory while also improving access to further quantities of mineral ore.

ED 87 proposes the costs of stripping activity should be accounted for by applying the principles of IPSAS 12, *Inventories*, to the extent that the stripping activity results in inventory.

If specified criteria are met, when the cost of stripping activity improves access to ore, ED 87 proposes the costs should be recognized as a non-current 'stripping activity asset'; otherwise, the costs are recognized as an expense.

## Alignment

To enable consistent accounting for similar transactions between the public and private sector, ED 87 proposes aligning requirements with IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

The IPSASB did not identify and public sector specific reasons to depart from the requirements of IFRS 6. As such, departures from the IFRS 6 are limited to terminology, and other IPSASB-specific formatting and consistency amendments.

The IPSASB proposes to include the guidance as an Appendix to IPSAS 12.

# Next Steps

The deadline for comments is May 31, 2024.

The IPSASB members are available to discuss the proposals during the comment period.


## How Can I Comment on the Proposals?

The ED requests comments on Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

The IPSASB welcomes comments on any other matters withing the scope of the project that respondents think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the following links:

- Submit a Comment on ED 86; and
- Submit a Comment on ED 87.

Please submit comments in both a PDF and a Word file.

All Comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

## Stay Informed

The IPSASB's website will indicate the meetings at which feedback on the ED will be discussed. The dates and the locations of the 2024 meetings are available at:

https://www.ipsasb.org/meetings

To stay up to date about the project, please visit:

https://www.ipsasb.org/consultations-projects/natural-resources-ifrs-6-and-ifric-20-alignment