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

Re: IASB Exposure Draft 2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*

To the International Accounting Standards Board:

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the International Accounting Standards Board's (IASB) Exposure Draft *Property, Plant and Equipment–Proceeds before Intended Use (Proposed amendments to IAS 16)* (Exposure Draft).

CPA Canada is one of the largest national accounting bodies in the world representing more than 210,000 members at home and abroad. CPA Canada conducts research into current and emerging business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada also issues guidance and thought leadership on a variety of technical matters, publishes professional literature and develops education and professional certification programs. The responsibility to set accounting, auditing and assurance standards rests with the Accounting Standards Board, the Auditing and Assurance Standards Board and the Public Sector Accounting Board.

This response reflects the views of members of CPA Canada's Mining Industry Task Force on International Financial Reporting Standards (IFRS) (the Task Force), a committee established to share non-authoritative views on IFRS application issues relevant to mining companies.[1] The proposed amendments will have a significant impact on the mining industry where the development phase of a

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[1] For additional information regarding the Task Force, please see https://www.cpacanada.ca/en/the-cpa-profession/about-cpa-canada/volunteer-with-cpa-canada/volunteer-month/accounting-standards/mining-industry-task-force

mining project can be lengthy, with many costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management and incidental proceeds received from minerals extracted and sold during this period.

Members of the Task Force share many of the concerns expressed in the Alternative View on the Exposure Draft. In our letter to the IFRS Interpretations Committee on September 29, 2014 on this topic, we expressed concern that the approach now being proposed would not provide better disclosure for users of financial statements of mining companies. Specifically, because of the risk of possible inconsistency, there was significant uncertainty about how such a change would be applied. Members of the Task Force re-iterate these concerns and continue to believe there is no need to change the current IAS 16 standard and associated guidance. In addition, there is a belief that the costs of applying these proposals would significantly exceed the benefits to users.

We note that the proposed amendments in the Exposure Draft are focused on how to account for proceeds associated with selling items produced before an asset is available for use but does not address how to account for the associated costs. The proceeds from mineral sales have always been easy to determine and, regardless of whether these proceeds are included in the statement of financial position or the statement of profit or loss, they can be accounted for and disclosed by various means including in the notes to the financial statements. The issue that is not resolved in the Exposure Draft or in existing standards, is how to determine and disclose the associated cost of these sales. Absent clarifying guidance, we are concerned with the potential for diversity arising in practice. We have identified the following areas requiring further examination:

1) Determination of "costs"

We encourage the IASB to provide further clarification on the determination of the cost of inventory sold before an asset is available for use in order to reduce the degree of judgment necessary to comply with the standard and avoid diversity in practice. For example, should costs include overhead allocations as if the asset were available for use and operating in the manner intended by management at normal production levels? Should costs include overhead in the current period of ramping-up operations (which would likely result in significant operating losses for those sales), or should no costs be allocated to those sales as they relate to getting the asset ready for its intended use? Conversely, if no overhead and no depreciation are allocated, a significant gain could be recorded that does not faithfully represent events.

In addition, application guidance would be helpful as members of the Task Force do not think that it is practicable to determine a cost figure that is meaningful or helpful to investors.

Paragraph BC11 in the Basis for Conclusions states that depreciation should be excluded from the cost of selling items produced before the asset is available for use on the assumption that these costs are "negligible". We do not believe this is an appropriate assumption in all instances as the testing period may be quite long and such costs could be significant.

2) Disclosure of costs

Paragraph BC25 of the Exposure Draft states that, where material, an entity might consider disclosing revenue from the sale of inventories produced before an item of property, plant and equipment is available for use as a separate category of revenue when disclosing information required by IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 requires the disclosure of revenue from contracts disaggregated into categories, the objective of which is to better understand the nature, timing and uncertainty of revenues and cash flows (IFRS 15.110). It is not clear whether disaggregated information for the associated costs with this type of revenue should also be disclosed when they are deemed material. We note that there is no similar disclosure requirement for disaggregated information under IAS 2 *Inventories*.

3) Proceeds generated during the exploration and evaluation phase

We note that the proposed amendments to IAS 16 and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* focus on prohibiting entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced during the testing phase when an asset is being accounted for under IAS 16. However, the proposed amendments are silent on how to account for any proceeds generated during the exploration for and evaluation (E&E) of mineral resources stage as noted in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. For instance, bulk samples are often taken before the entity has constructed an ore processing plant and are for the purpose of determining whether the minerals can be economically extracted and whether the mine or processing plant should even be developed for production.

We understand entities that capitalize costs associated with E&E activities under IFRS 6 currently deduct from the cost of an item any proceeds generated during the E&E phase of a mining project. In addition, the assets in the E&E stage are not yet capable of operating in a manner intended by management. Accordingly, costs associated with testing and production of inventory cannot be accurately determined. We believe it would also be anomalous for a mining entity to report proceeds and perhaps profits from a bulk sample in the statement of profit or loss and no further revenue for a considerable period of time thereafter or possibly ever again. We question whether the proposed amendments also apply to proceeds generated during the E&E phase of a mining project. We suggest that the IASB provide this clarification to reduce the potential for further diversity in practice.

4) Transition requirements

Given the large-scale projects to which the proposed amendments would apply, members of the Task Force believe significant implementation effort will be required by preparers and support a longer transition period to ensure the revised standard is implemented across jurisdictions as intended. Members of the Task Force suggest a mandatory effective date of January 1, 2020 in order to give entities sufficient time to apply the proposals.

While retrospective adoption generally provides more useful information, members of the Task Force believe such an approach will be complex and costly in the context of the proposed amendments and encourage the IASB to explore practical approaches to adoption to reduce the implementation burden including the option of prospective adoption of the amended standard.

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If you have any questions or require additional information, please feel free to contact Mike Massoud, Principal, CPA Canada at 1-416-204-3286 or mmassoud@cpacanada.ca.

Yours truly,

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