

September 29, 2014

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom
(Delivered via e-mail to ifric@ifrs.org)

Re: IAS 16 *Property, Plant and Equipment*—accounting for proceeds and costs of testing on PPE

To the IFRS Interpretations Committee:

The Research, Guidance and Support group of Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the IFRS Interpretations Committee (“Interpretations Committee”) July 2014 agenda decision regarding IAS 16 *Property, Plant and Equipment*—accounting for proceeds and costs of testing on PPE. This response was developed based on comments received from members of the *Mining Industry Task Force on IFRSs*.

CPA Canada

CPA Canada is the national organization established to support unification of the Canadian accounting profession under the Chartered Professional Accountant (CPA) designation. It was created by the Canadian Institute of Chartered Accountants (CICA) and The Society of Management Accountants of Canada (CMA Canada) to provide services to all CPA, CA, CGA and CMA accounting bodies that have unified or are committed to unification. As part of the unification effort, CPA Canada and the Certified General Accountants Association of Canada (CGA-Canada) are working toward integrating their operations this year. Unification will enhance the influence, relevance and contribution of the Canadian accounting profession both at home and internationally. 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.

Mining Industry Task Force on IFRSs

Canada is home to one of the largest mining sectors in the world. The Toronto Stock Exchange is the dominant financial market for the global mining industry, listing 57 percent of the world’s public mining companies, and is a leader in global mining equity financings in comparison to other stock exchanges around the world.¹ Due to the large number of mining entities reporting under IFRS in Canada, CPA Canada and the Prospectors & Developers Association of Canada created the *Mining Industry Task Force on IFRSs* (“Task Force”) to share non-authoritative views on IFRS application issues of relevance to mining companies. Task Force members include prominent Canadian auditors and preparers. To learn more about the Task Force please visit www.cpacanada.ca/ifrsmining.



General Comments

We appreciate the Interpretations Committee's consideration of the request to clarify accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. However, in light of the current feedback provided to us, we request that the Interpretations Committee reconsider the issue at the November 2014 meeting.

Specific Comments

The decision of the Interpretations Committee that "the amount by which net proceeds received exceed the costs of testing would be recognised in profit and loss and not against the cost of the asset" appears inconsistent with paragraph 17 and 21 of IAS 16 and generally accepted practice in the mining industry, based on those paragraphs.

When accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management, the unit of account is generally viewed to be the entire asset. Accordingly, we believe you should consider that any net proceeds be deducted from the cost of the asset and not included in profit and loss.

Some issues that relate to mining companies and some areas of further consideration that need to be addressed include:

- Clarifying the definition of "costs of testing whether an asset is functioning properly." In some industries these costs can be defined very narrowly. In mining, these costs are a much greater issue resulting from the extended business processes surrounding the development of a mine.²
- Clarifying the definition of "costs" in relation to the "items produced." For example, while a mine is not capable of operating in the manner intended by management, should these costs be determined on a fully loaded cost basis, an incremental cost basis, or set at nil? Should depreciation be included in "costs" before the asset is capable of operating in the manner intended by management?
- Clarifying where in the income statement the "net proceeds" would be recorded and whether this would be on a gross basis (revenue and cost of sales for example) or net basis (perhaps as other income).
- Understanding the life cycle of a mine.³ The mining industry, by its nature, takes a long time to get an asset into its intended use by management and therefore a long testing period is common.
- Understanding the impact on the mining industry, as the majority of entities in this industry record the net proceeds during the pre-commercial production period against the asset under development.

Several members of the Task Force are affiliated with large accounting firms and have informed us that these firms are intending to respond to the Interpretations Committee on this issue. We understand that many of the points noted in this letter may be considered and further addressed in their responses.

If you have any questions or require additional information, please feel free to contact Alex Fisher, Principal at 1-416-204-3497 or afisher@cpacanada.ca.



Regards,

A handwritten signature in black ink, appearing to read "Gordon Beal". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gordon Beal, CPA, CA, M. Ed
Vice-President, Research, Guidance and Support
Chartered Professional Accountants of Canada

cc: Linda Mezon, FCPA, FCA, CPA (MI)
Chair, Canadian Accounting Standards Board

¹ [KPMG Global Mining Institute, Canada Country Mining Guide](#), Page 3

² Refer to two documents prepared by the *Mining Industry Task Force on IFRSs* - "[Background on Different Phases of Activities of a Mining Entity](#)" and "[Commencement of Commercial Production](#)" for further details. Available at www.cpacanada.ca/ifrsmining

³ Refer to two documents prepared by the *Mining Industry Task Force on IFRSs* - "[Background on Different Phases of Activities of a Mining Entity](#)" and "[Commencement of Commercial Production](#)" for further details. Available at www.cpacanada.ca/ifrsmining