



# Memorandum

## Action

Decide whether AASB 123 *Borrowing Costs* should continue to be modified for application by not-for-profit public sector entities.

## Attachments

- Agenda Paper 10.2 Staff Paper: Application of the *Process for Modifying IFRSs for PBE/NFP* to Borrowing Costs
  - Agenda Paper 10.3 Issues Paper: Transitional Provisions and Proposed Application Date – Proposed Amendments to AASB 123
  - Agenda Paper 10.4 Issues Paper: Due Process – Proposed Amendments to AASB 123
  - Agenda Paper 10.5 AASB *Process for Modifying IFRSs for PBE/NFP* (for information only)

## Background

In July 2004, as part of its IFRS adoption mandate, the AASB issued AASB 123 *Borrowing Costs*, which permitted entities an option between capitalising borrowing costs that were directly attributable to the acquisition, construction or production of qualifying assets, and immediately expensing all borrowing costs. In its Preface to the Standard, the AASB noted that expensing was strongly supported in public sector submissions as important in promoting GAAP/GFS convergence.

In June 2007, the AASB issued a revised AASB 123 *Borrowing Costs*, applicable to annual reporting periods beginning on or after 1 January 2009. AASB 123 incorporated the revised IAS 23 *Borrowing Costs*, issued by the International Accounting Standards Board (IASB) in March 2007. AASB 123, when issued in 2007, removed the option of recognising all borrowing costs as an expense as incurred.

The AASB conducted a short-term review of the requirement in AASB 123 to capitalise certain borrowing costs in late 2008 to early 2009. In April 2009, the AASB decided, as an interim

# Memorandum

---

measure, to reintroduce an option for not-for-profit public sector entities to immediately expense all borrowing costs, pending the outcome of:

- (a) the work of the New Zealand Financial Reporting Standards Board (FRSB) on the relationship between depreciated replacement cost and borrowing costs, in which the AASB agreed to participate;
- (b) the AASB and FRSB work on developing a *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP*; and
- (c) the International Public Sector Accounting Standard Board's (IPSASB's) Borrowing Costs project.<sup>1</sup>

In March 2011, the AASB decided to reactivate its project on the application of AASB 123 by not-for-profit public sector entities, and to review the expense option currently available to not-for-profit public sector entities (paragraphs Aus8.1 and Aus8.2) against its *Process for Modifying IFRSs for PBE/NFP*.

## Overview of Agenda Papers

**Agenda Paper 10.2** analyses whether there is a public sector specific reason for modifying IAS 23 *Borrowing Costs* for application by not-for-profit public sector entities. The Board is asked whether they consider that modification is justifiable.

**Agenda Paper 10.3** addresses the transitional provisions and proposed application date of the resulting amendments. If the Board determines that an option for not-for-profit public sector entities to immediately expense all borrowing costs is no longer necessary, the Board is asked to agree the transitional provisions and application date of the resulting amendments that would be required to AASB 123.

**Agenda Paper 10.4** addresses due process previously undertaken on the proposed amendment. If the Board determines that an option for not-for-profit public sector entities to immediately expense all borrowing costs is no longer necessary, the Board is asked to agree the necessary further due process of the resulting amendments that would be required to AASB 123.

## Next Steps

Next steps on this project are dependent on the Board's decisions at this meeting. However, if the Board agrees with staff's recommendations, staff will prepare and circulate a ballot draft of an Exposure Draft for Board member approval.

---

1 Refer Preface of AASB 2009-1 *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*.