

ISSUES PAPER

Transitional Provisions and Proposed Application Date – Proposed Amendments to AASB 123

PURPOSE

- 1 Decide on the transitional provisions and application date of proposed amendments to AASB 123 *Borrowing Costs* (June 2007, as amended) to remove the 'immediate expense' option for not-for-profit public sector entities.

OVERVIEW

- 2 In **Agenda Paper 10.2**, staff recommended that the Board make amendments to AASB 123 to align the accounting for borrowing costs of not-for-profit public sector entities with that required of for-profit entities. This paper has been drafted on the assumption that the Board agrees with the staff recommendation in Agenda Paper 10.2, and sets out staff's proposals as to the transitional provisions and application date for the proposed amendments to AASB 123.

PROPOSED TRANSITIONAL PROVISIONS

- 3 When AASB 123 (and IAS 23) was reissued in 2007, the following transitional provisions were specified in AASB 123 paragraphs 27 and 28:
 - 27 When application of this Standard constitutes a change in accounting policy, an entity shall apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date.
 - 28 However, an entity may designate any date before the application date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.
- 4 Staff recommend that similar to the transitional provisions specified when AASB 123 was reissued in June 2007, the proposed amendments also be applied on a prospective basis. That is, the Exposure Draft should propose that:
 - (a) the amendments shall apply to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date of the amendments; and
 - (b) an entity may designate any date before the application date of the amendments and apply the amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.
- 5 The IASB explained its rationale for requiring prospective application in IAS 23.BC15-BC17, as follows:

BC15 Development of a qualifying asset may take a long time. Additionally, some assets currently in use may have undergone and completed their production or construction process many years ago. If the entity has been following the

accounting policy of immediately recognising borrowing costs as an expense, the costs of gathering the information required to capitalise them retrospectively and to adjust the carrying amount of the asset may exceed the potential benefits. Hence, the Board [IASB] decided to require prospective application, which was supported by respondents to the exposure draft.

BC16 The Board noted that the revisions would result in information that is more comparable between entities. On that basis, if an entity wished to apply the revised Standard from any date before the effective date, users of the entity's financial statements would receive more useful and comparable information than previously.

BC17 Therefore, an entity is permitted to apply the revised Standard from any designated date before the effective date. However, if an entity applies the Standard from such an earlier date, it should apply the Standard to all qualifying assets for which the commencement date for capitalisation is on or after that designated date.

- 6 Staff think that this rationale is similarly applicable when amending AASB 123 to remove the 'immediate expense' option for not-for-profit public sector entities. Staff consider that to adopt a different transitional provision may result in disadvantaging not-for-profit public sector entities compared to other entities on transition to transaction-neutral requirements in respect of the accounting for borrowing costs.
- 7 Staff note that the AASB received general support for the transitional provisions described above when they were exposed in Australia as part of AASB Exposure Draft ED 149 *Proposed Amendments to AASB 123 Borrowing Costs*. The AASB did not make a specific comment on the proposed transitional provisions in its submission to the IASB on the related IASB Exposure Draft.

Question to Board Members

- Q1 Do Board members agree with the staff recommendation that, similar to the transitional provisions specified when AASB 123 was reissued in June 2007, the proposed amendments also be applied on a prospective basis?

PROPOSED APPLICATION DATE

- 8 In its submission to the IASB dated 22 September 2006 on the proposals leading to a revised IAS 23, the AASB noted:

“... the AASB considers that a generous amount of time should be provided to allow entities that currently expense all borrowing costs to put relevant information systems in place. Accordingly, the application date should be at least periods beginning 1 January 2009.

From an Australian perspective, the AASB will also need to consider the not-for-profit/public sector implications of any change that emerges from the project. This includes the convergence differences between Australian GAAP and Government Finance Statistics that will arise should the expense option be removed.”

- 9 The revised IAS 23 was issued in March 2007 and was mandatorily applicable to annual periods beginning on or after 1 January 2009; accordingly, entities had at least 21 months preparation time.
- 10 Notwithstanding the above, staff recommend that the proposed amendments apply to annual reporting periods beginning on or after 1 July 2016, with earlier adoption permitted. Staff think that this is sufficient lead time for entities to apply the amendments given the recommendation that the amendments apply prospectively. This timing will also not unduly further extend the period of divergence from IFRSs in this regard, consistent with the AASB's key strategic area of working towards achieving a comparable coverage and quality, from a user viewpoint, in current domestic public sector financial reporting.

Question to Board Members

- Q2 Do Board members agree with the staff recommendation that the proposed amendments to AASB 123 should apply to annual reporting periods beginning on or after 1 July 2016, with earlier application permitted?