ED 149 sub 3

21 August 2006

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

E Mail: standard@aasb.com.au

Dear David,

ED 149: Proposed Amendments to AASB 123 Borrowing Costs

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on ED 149 and supports the proposals. The Institute's detailed comments are attached.

The Institute would also appreciate receiving a copy of the AASB's own Submission to the IASB, so that this can be considered in the Institute's Submission to the IASB.

If you require any further information, please contact me.

Yours sincerely

Keith Reilly FCA
Technical Standards Adviser

IASB/AASB Questions on IAS 23 Amendments/ED 149

QUESTION 1

This Exposure Draft proposes to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Do you agree with the proposal? If not, why? What alternative would you propose and why?

The Institute of Chartered Accountants in Australia (ICAA) supports the proposals to amend IAS 23 Borrowing Costs by eliminating the current Benchmark treatment of expensing borrowing costs attributable to the acquisition, construction or production of a qualifying asset.

This would mean that the current 'allowed alternative treatment' contained in IAS 23 will become mandatory and therefore such borrowing costs will be capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured in the period in which they are incurred. Other borrowing costs will continue to be recognised as an expense in the period in which they are incurred.

The Institute supports removal of Options in Accounting Standards and in this case notes that the Option selected does bring the International Standard closer into line with the US Standard. The Institute would encourage the IASB and the FASB to work towards issuing a common Accounting Standard that deals with Borrowing Costs in the short term.

QUESTION 2

This Exposure Draft proposes that entities should apply the amendments to borrowing costs for which the commencement date for capitalisation is on or after the effective date. However, an entity would be permitted to designate any date before the effective date and to apply the proposed amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. Do you agree with the proposal? If not, why? What alternative would you propose and why?

The Institute supports permitting early adoption of the capitalisation of borrowing costs.

AUSTRALIAN ISSUES

QUESTION 1(a) Any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(i) not-for-profit entities; and
(ii) public sector entities;

The Institute acknowledges that the GFS environment would not support capitalisation of borrowing costs, but in the interests of International Convergence, the Institute supports the proposals in ED 149. This would mean that any GFS reconciliation would need to include differences in the accounting for borrowing costs.

QUESTION 1(b) Whether the proposals are in the best interests of the Australian economy.

The Institute believes that the proposals in ED 149 are in the best interests of the Australian economy.

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