AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

PO Box 275, Civic Square, ACT 2608 Australia
Phone & fax 1800 644102
Overseas: Phone & fax +61 2 9262 5876
E-mail: john.rosier@audit.nsw.gov.au
ABN 13 922 704 402

Dr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007
21 August 2006

Dear Dr Boymal

ED 149 – PROPOSED AMENDMENTS TO AASB 123 'BORROWING COSTS'

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attached comments in response to the Exposure Draft referred to above.

This represents the views of all Australian members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts, where he deems it appropriate, rather than as a member of ACAG.

Subject to our reservations provided in the attachment, we generally support the proposed amendments to eliminate the option in IAS 23 of recognising borrowing costs immediately as an expense. Similarly, to the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, we support the proposal to capitalise those costs as part of the cost of that asset. We also support the proposal that all other borrowing costs shall be expensed in the period incurred.

The opportunity to comment is appreciated.

Yours sincerely

Frank McGuiness
Chairperson
ACAG Financial Reporting and Auditing Committee

ATTACHMENT

Specific Matters for Comment - IASB

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?

ACAG generally support the IASB proposals to eliminate the option of recognising borrowing costs that are directly attributable to qualifying assets, immediately as an expense. This is supported by IAS 16 Property, Plant and Equipment which requires the cost of an asset on initial recognition to comprise all costs directly attributable to bringing the asset to the location and condition necessary for it to be ready for its intended use, including the cost incurred in financing the expenditures as a part of the asset's acquisition cost. The proposed changes would bring IAS 23 back in line with previous Australian generally accepted accounting principles.

We note the addition of paragraph 3A to the Scope of the proposed standard, which stipulates that the requirements of this standard shall not be applied to assets which are measured at fair value. We propose the removal of the following "…for example, a biological asset" from paragraph 3A. We suggest this be replaced with guidance to clarify that exclusions from the scope include any qualifying asset that is measured on initial recognition at fair value.

We further believe that the application of only one method will enhance comparability, both from a local and international perspective. We are of the view that the additional benefits in terms of higher comparability and improvements to financial reporting will exceed any additional costs associated with the proposed amendments.

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?

ACAG are supportive of the amendments to the effective date and the transitional arrangements for this proposed standard as we believe that users of the entity's financial statements would receive more useful and comparable information than in the past.

Specific Matters for Comment – AASB

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*

No issues in relation to not-for-profit entities.

(ii) *public sector entities;*

We generally support the IASB proposals. However, we believe that the proposal to remove the expensing option would create another convergence difference from General Finance Statistics (GFS), thus resulting in additional reconciliation items to the notes of the financial statements.

While the proposed changes to the standard would represent a convergence difference in the harmonisation of GAAP and GFS financial information, it would at least ensure a consistent accounting treatment for borrowing costs is adopted in the individual general purpose financial statements of public sector entities. In its present form, GFS requires all borrowing costs to be expensed, rather than capitalised.

In all Australian jurisdictions, State legislations require compliance with the applicable Accounting Standards and Interpretations issued by the AASB. However, where there is a choice in treatment in the Accounting Standard, most State legislations will mandate a specific option. In regards to AASB 123, currently most public sector entities are mandated to expense borrowing costs in the period incurred, to provide consistency across government and to harmonise with GFS. Any changes to AASB 123 as a result of ED 149, is likely to require amendments to current State legislations.

For example, from a Victorian Public Sector perspective, most agencies, public bodies and departments are required to abide with the *Financial Management Act* 1994, including the Financial Reporting Directions. Financial Reporting Direction 105 Borrowing Costs limits the choice provided by AASB 123 to either expense or capitalise borrowing costs, by requiring borrowing costs to be expensed in the period incurred.

b) *whether the proposals are in the best interests of the Australian economy.*

ACAG are of the view that the proposals contained in ED 149 are in the best interests of the Australian economy.