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IAS 23 Amendments
International Accounting Standards Board
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E-mail: CommentLetters@iasb.org

Dear Sir or Madam

Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*

Thank you for the opportunity to comment on Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*.

Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, Oceania and our Financial Reporting and Governance Centre of Excellence.

CPA Australia disagrees with the proposal to require capitalisation of borrowing costs. Our reasons are:

- The selection of which option to remove should be made on the basis of evaluating the options against the qualitative characteristic of relevance. We understand the principle of fair value that requires the immediate write-off of transaction costs as best able to satisfy that characteristic.

- The fungible nature of cash makes it difficult to distinguish what funds are borrowed for what purpose – the capitalisation of interest would seem a sub-optimal outcome.

Our detailed comments to your questions are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: D Boymal
M Shying

Exposure Draft Amendments to IAS 23

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?

CPA Australia supports the removal of options to improve the comparability of financial reporting between entities. CPA Australia acknowledges that many preparers prefer capitalisation. However, for two reasons, we do not support the International Accounting Standards Board's (IASB) proposal that IAS 23 *Borrowing Costs* require the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Our reasons are:

- The selection of which option to remove should be made on the basis of evaluating the options against the qualitative characteristic of relevance. We understand the principle of fair value that requires the immediate write-off of transaction costs as best able to satisfy that characteristic.
- The fungible nature of cash makes it difficult to distinguish what funds are borrowed for what purpose – the capitalisation of interest would seem a sub-optimal outcome.

We believe that the development of high quality accounting standards should not be compromised by having a focus on the removal of differences. Accordingly, it is our conclusion that it is the option of capitalisation that should be eliminated.

Should the IASB still conclude that capitalisation will be required, we propose that further changes be made to IAS 23 in order that it is at least consistent with the capitalisation model required by SFAS 34 *Capitalization of Interest Costs*.

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?

CPA Australia supports permitting the early adoption of the amendments to borrowing costs, be they that proposed or that proposed by us.

Other (should the IASB proceed with its proposal)

Paragraphs 23 and 24. The old paragraph 23 used the words "interrupted" and "suspends" interchangeably. The proposed paragraph 23 no longer uses "interrupted". We think it would be helpful if paragraph 24 was similarly changed.

Paragraph 27. The old paragraph 27 uses the phrase "its intended use", presumably in the same context as the phrase was used in earlier version of IAS 16 *Property, Plant and Equipment*. In the process of improving IAS 16, the IASB used the phrase "in the manner intended by management" in place of "its intended use". For consistency and to avoid ambiguity, we suggest that old paragraph 27 be rewritten so that the phrase "its intended use" is replaced with "it to be capable of operating in the manner intended by management or for sale".

Attachment: ED 149:

In addition, the AASB would value comments on:

(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;

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

CPA Australia considers that the proposals in ED 149 are in the best interests of the Australian economy. We have no other comments.