AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

1 April 2009

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

Dear Chairman

EXPOSURE DRAFT 176: PROPOSED AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – BORROWING COSTS OF NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The members of ACAG support the proposed Accounting Standard.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

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Chairman
ACAG Financial Reporting and Auditing Committee

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Exposure Draft 176: Proposed Amendments to Australian Accounting Standards – Borrowing Costs of Not-For-Profit Public Sector Entities

ACAG has reviewed the exposure draft and respond to the following specific matters for comment.

Is the proposal to reintroduce the option for not-for-profit public sector entities to expense borrowing costs appropriate?

We are of the view that it is appropriate for the proposal to reintroduce the option to expense borrowing costs for not-for-profit public sector entities and therefore agree with the Board's proposed exposure draft in this respect.

Expensing borrowing costs as incurred is also consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, facilitating the harmonisation of GAAP and GFS.

We are doubtful whether capitalisation of borrowing costs is likely to result in information that is meaningful to users of the financial statements of public sector entities and are of the opinion that allowing the option to expense borrowing costs as incurred will improve the relevance of that information.

In addition, we are unclear about the effect of initial capitalisation of borrowing costs on subsequent revaluation of qualifying assets using depreciated replacement cost. We are not aware of any valuation guidance about how to incorporate borrowing costs in a depreciated replacement cost valuation, therefore we are concerned about the range of valuation practices that could emerge and the resulting adverse impact on the reliability of the information provided. We note that this issue remains for for-profit public sector agencies, and that there will also be consolidation adjustments required for whole of government financial reports to expense any capitalised borrowing costs of for-profit public sector agencies.

Further, there are higher costs involved in capitalising borrowing costs compared to expensing those costs, particularly where funds are borrowed for general purposes rather than for a specific qualifying asset. In such cases, there will need to be some analysis and allocation of the amount to be capitalised. This is especially common in the public sector.

Given that we do not see any benefit for entities being required to capitalise borrowing costs, expensing these costs is the preferred option.

Should the option also be reintroduced for not-for-profit private sector entities?

Based on the same reasons above, we are of the view that the option to expense borrowing costs should also be reintroduced for not-for-profit private sector entities.

Overall, would the proposals result in financial statements that would be useful to users?

We are of the view that the proposals would result in financial statements that would be useful to users.

Are the proposals in the best interests of the Australian economy?

In our view, the proposals in Exposure Draft 176 would be in the best interests of the Australian economy.