



Australian Government

Australian Accounting
Standards Board

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IAS 23 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Proposed Amendments to IAS 23 *Borrowing Costs*

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*. In formulating these comments, the AASB has sought and considered the views of Australian constituents (These responses are published on the AASB's website: www.aasb.com.au).

Generally, the AASB does not support implementing the proposed amendments, and recommends that the IASB not proceed with its intention to remove the option of immediately expensing borrowing costs that are directly related to the acquisition, construction, or production of a qualifying asset. The AASB believes that:

- the removal of the expense option in IAS 23 results in an accounting that is still noticeably different from the requirements of SFAS 34; and
- the IASB has not shown that the capitalise treatment is superior to the expense treatment and short-term convergence should be pursued only in situations where the accounting treatment being considered is superior to that which previously existed.

Question 1

The AASB does not support the proposal to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Both the AASB and its constituents believe that the proposal doesn't necessarily reflect the best conceptual outcome, or highest quality accounting, and that further research should be conducted. In relation to the contrasting requirements in the current IAS 23 and SFAS 34, Basis for Conclusions 3 states 'neither set of specific provisions may be regarded as being clearly of a higher quality than the other'. The AASB is concerned that little analysis of the relative merits of each accounting treatment has been considered by the IASB.

In addition, Basis for Conclusions 3 also notes that the IASB and the FASB aim to 'focus their short-term convergence effort on eliminating major differences between

IFRS and US GAAP'. The AASB is concerned that significant points of disparity remain, particularly between the definitions of a 'qualifying asset' and 'borrowing/interest cost' under the two standards. The divergent accounting treatments could lead to materially different amounts being reported in financial statements.

The definition of a qualifying asset in IAS 23 requires that an asset take a substantial period of time to be ready for its intended use. SFAS 34 merely requires that an asset be constructed or otherwise produced for an entity's own use over a period of time. No clarification is apparent in IAS 23 as to what constitutes a 'substantial period'. It is conceivable that applying these definitions in practice would result in different assets being considered to be qualifying assets under the two standards.

The definition of borrowing costs in IAS 23 includes interest as well as 'other costs that an entity incurs in connection with the borrowing of funds'. In contrast, SFAS 34 is limited to 'the portion of the interest cost incurred during the asset's acquisition'. The difference in definition is likely to result in a greater variety of costs being identified as borrowing costs under IAS 23 than SFAS 34.

Question 2

In the event that the IASB proceeds with the current proposals, 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.

If you have any queries regarding matter in this submission, please contact Chris Wallace (cwallace@asb.com.au) or myself.

Yours sincerely



David Boymal
Chairman