THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

28 September 2006

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

Dear Sir

**IAS 23 BORROWING COSTS**

I enclose the comments of the Institute of Chartered Accountants in England and Wales on the Exposure Draft of proposed amendments to IAS 23 *Borrowing Costs.*

I would be grateful for confirmation of receipt in due course.

Yours faithfully

Desmond Wright

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ICAEW representation

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

# ICAEW REP 56/06

## IAS 23 BORROWING COSTS

***Memorandum of comment submitted in September 2006 by the Institute of Chartered Accountants in England and Wales, in response to the Exposure Draft of proposed amendments to International Accounting Standard (IAS) 23*** **Borrowing Costs,** ***published for comment by the International Accounting Standards Board on 25 May 2006.***

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INVESTOR IN PEOPLE

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## INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on the Exposure Draft of proposed amendments to International Accounting Standard (IAS) 23 *Borrowing Costs*, published for comment by the International Accounting Standards Board on 25 May 2006. We have reviewed the Exposure Draft and set out below our response to its proposals.

## WHO WE ARE

2. The Institute is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Financial Reporting Council. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy.

## MAJOR ISSUES

4. We oppose removal of the option to recognise borrowing costs immediately as an expense. We can see no cost-benefit advantages to removing either of the options. While we support the Board's strategy of converging on high-quality standards, we do not believe that a principled basis has been established for arriving at the choice of which option to remove. The fact that US GAAP requires capitalisation is not a sufficient reason to justify the proposed choice.

5. Furthermore, even if the Board mandates capitalisation as the only allowed treatment, accounting under IAS 23 would continue to provide different answers from accounting under US GAAP, because of differences in the definition of a qualifying asset and in the computation of interest.

6. The proposal suggests that the Board is simply aiming for a quick win, moving towards convergence but without any consideration of the principles involved or the difference and overlaps between the two GAAPs. We would not support such an approach at any time, but we suggest that it is particularly undesirable at present, with so many other calls on the Board's resources. If the Board does not have the resources to address this issue properly, it should not do so at all. Moreover, acting with undue haste without due reference to principles increases the risk of inconsistencies between standards. We note, for example, that borrowing costs will have to be capitalised under these proposals, while acquisition costs would have to be expensed under the proposals of the Business Combinations 2 project. This appears to be inconsistent.

7. Any move to remove either of the options should be properly researched. We are not convinced that this has been done. We understand that analysts prefer the transparency of expensing interest costs, because it easier to separately identify the numbers. There is no indication in the exposure draft of the extent to which users have been consulted on the proposals.

**SPECIFIC QUESTIONS**

**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?*

8. For the reasons out in paragraphs 4 - 7 above, we do not agree with the proposal. We propose that the option should be retained pending research, and the development of a principled approach.

**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?*

9. If the Board persists in pressing ahead with a requirement for entities to capitalise interest costs, then we agree with this proposal.

DW/26.09.06