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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Sir David

Proposed Amendments to IAS 23 Borrowing Costs

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) exposure draft *Proposed Amendments to IAS 23 Borrowing Costs* (referred to as the ED).

The ED proposes to eliminate the option in IAS 23 of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. As such, financial reporting under IFRS will move closer to the recognition requirements of the comparable US standard, Statement of Financial Accounting Standards No. 34 *Capitalization of Interest Cost*.

You will be aware of our commitment to supporting the convergence efforts of the world's national accounting standard-setters and the IASB with the objective of developing a set of high-quality global accounting standards which command wide acceptance and support. While we support this process, we have reservations about how the IASB continues to approach its 'short-term convergence' agenda. The IASB has, for several years, maintained that the convergence of accounting standards globally must be to the highest quality solution. Part of the IASB's strategy with respect to its short-term convergence agenda has been to identify what it determines to be the highest quality solution available from the current population of accounting standards and move to that standard. We support this approach in principle, but stress that the IASB must, in all cases demonstrate (not merely assert) that there is conclusive evidence that the approach chosen is the highest quality solution.

We see the question of whether to capitalise interest to be a difficult *conceptual* issue, as the existence of allowed accounting alternatives in IAS 23 might indicate. Such alternatives suggest that there is a conceptual debate that has not been concluded. Indeed, FAS 34 was issued by the barest majority, suggesting that even in the United States the debate was not resolved satisfactorily. In addition, we find the *application* of the capitalisation approach to be a difficult issue in practice. For both these reasons, we are of the opinion that this issue deserves a proper debate and should not be the subject of a short-term project. However, we do not see the project (as currently scoped by the IASB) as a high priority when compared to the rest of the IASB's agenda.

We acknowledge that a general objective of the IASB's standard-setting agenda is the reduction of accounting alternatives in its standards. The ED could be seen in this light. However, we see no evidence to support the IASB's conclusion that requiring capitalisation of interest is a higher quality answer.

Specifically, we see no evidence in the Invitation to Comment or ED's Basis for Conclusions that the IASB conducted an analysis of whether users are concerned about treating interest as an expense as opposed to including it as part of the acquisition cost of an asset, and (if it did) what the conclusions of that analysis were. We are aware that users represented by the Chartered Financial Analyst Institute have consistently opposed capitalisation of borrowing costs. Indeed, in BC 3 the proposals seem to be justified primarily on the basis that FAS 34 and IAS 23 are equally poor standards. We do not think that such a justification is in the spirit of convergence.

With respect to convergence, we agree that meaningful convergence does not require standards that are identical word-for-word: what is required is comparability on major principles of recognition and measurement. We are concerned that the proposals achieve only the appearance of convergence with US GAAP, without resolving the differences that will continue to exist, for example with respect to the definition of a qualifying asset and measurement of the amounts of interest that qualify for recognition as part of the qualifying asset. These differences could lead to materially different amounts being reported in financial statements—and they will need to be addressed subsequently as the convergence process moves forward. The IASB's constituents would be served better by addressing the issues surrounding the capitalisation of interest once only.

The Board's unsubstantiated assertion that it 'does not expect capitalising borrowing costs to impose an unduly burdensome cost on entities' and that the benefits of 'convergence in principle with US GAAP will exceed any additional costs' (BC10) is not a proper justification. The Board has provided no evidence or analysis against which we can test this assertion.

We do not support the proposals in the ED for the fundamental reason that we do not think that the IASB has made its case for change and supported that conclusion with appropriate evidence and analysis. Consequently, we have no basis on which to assess whether the IASB came to the appropriate conclusions with respect to its proposals.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ken Wild
Global IFRS Leader