

iGAAP Alert.

IFRS – Proposed amendments to IAS 23



In a nutshell

The International Accounting Standards Board (IASB) has recently published an Exposure Draft (ED) of proposed changes to IAS 23 **Borrowing Costs**.

Under the ED's proposals, a company would be required to capitalise borrowing costs relating to the acquisition, construction or production of a qualifying asset measured on a cost basis as part of the cost of that asset.

The ED did not suggest a proposed effective date. Comments on the ED are due by 29 September 2006.

Main proposals

On 26 May 2006, the International Accounting Standards Board (IASB) issued an ED to amend IAS 23. The proposed amendments would eliminate the option in IAS 23 of recognising all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset measured on a cost basis, the revised standard would require that they be capitalised as part of the cost of that asset. All other borrowing costs would be expensed as incurred.

The proposals are part of the IASB's ongoing project to eliminate differences between International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (US GAAP). Although the ED addresses the main difference between US GAAP and IAS 23, some differences would remain (see below).

No effective date has been specified for the proposals – but it is unlikely to be before 1 June 2007. Retrospective application would not be required. The IASB has requested comments on the ED on or before 29 September 2006.

Principal changes

For the purposes of the current ED, the IASB has focussed on eliminating the choice between capitalisation of borrowing costs relating to qualifying assets and their immediate recognition as an expense.

A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

No substantive changes are proposed to the definitions of borrowing costs or qualifying assets, nor to the detailed criteria for the commencement, suspension or cessation of capitalisation.

The Board is taking the opportunity to propose one amendment to the scope of IAS 23 – to specifically exclude biological assets and other assets measured at fair value such as investment properties being redeveloped. The capitalisation of borrowing costs is limited to qualifying assets measured on a cost basis.

Ken Wild, Deloitte's global IFRS leader says:

"The impact of these changes is likely to vary significantly between jurisdictions. Our recent experience in Europe in 2005 is that entities were more likely to stick with their existing practice of expensing all interest when incurred. Therefore, a new requirement to switch to capitalisation will be quite a change.

On the wider question of convergence with US GAAP, I continue to be concerned at the approach that is being adopted. This ED is a prime example of a proposal to converge with US GAAP without any real debate as to whether this will result in better accounting. In addition, the fact that the ED does not address all of the difference between IFRSs and US GAAP in this area means that it would not result in convergence in any case."

Convergence with US GAAP

The IASB's principal objective in proposing these amendments is to achieve a measure of convergence with US GAAP. The ED addresses the main difference between IAS 23 and the US Statement of Financial Accounting Standards (SFAS) 34 **Capitalization of Interest Cost**.

However, other differences remain – in particular regarding the definition of borrowing costs that are eligible for capitalisation, the definition of a qualifying asset, and the detailed calculation of the amount to be capitalised. Therefore, in many cases, the amount capitalised under IFRSs may not be the same as the amount that would be capitalised under US GAAP.

Effective date and transitional provisions

No effective date has been specified for the proposals, although some transitional reliefs have been proposed.

Comment deadline

The comment deadline for the proposals is 29 September 2006.

In this publication, Deloitte refers to one or more of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither DTT nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the DTT Verein.

In the UK, Deloitte & Touche LLP is the member firm of DTT, and services are provided by Deloitte & Touche LLP and its subsidiaries. For more information, please visit the firm's website at www.deloitte.co.uk

Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte & Touche LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© Deloitte & Touche LLP 2006. All rights reserved.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office.
Tel: +44 (0) 20 7936 3000. Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London.