The Association of Corporate Treasurers

Comments in response to:
Exposure Draft: Proposed Amendments to IAS 23 Borrowing Costs

An Exposure Draft issued by the IASB, May 2006

September 2006

The Association of Corporate Treasurers (ACT)

Established in the UK in 1979, The Association of Corporate Treasurers is a centre of excellence for professionals in treasury, including risk and corporate finance, operating in the international marketplace. It has over 3,500 members from both the corporate and financial sectors, mainly in the UK, its membership working in companies of all sizes.

The ACT has 1,500 students in more than 40 countries. Its examinations are recognised by both practitioners and bankers as the global standard setters for treasury education and it is the leading provider of professional treasury education. The ACT promotes study and best practice in finance and treasury management. It represents the interests of non-financial sector corporations in financial markets to governments, regulators, standards setters and trade bodies.

General

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Summary

The ACT is grateful for the opportunity to comment on this exposure draft. We have a number of concerns with respect to the proposed amendments and these are explained below.

Comments on specific questions raised in the "Invitation to Comment"

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?

We do not support the amendments proposed in the exposure draft for the following reasons:

i. The objective of the short-term convergence project is to converge around whichever is considered to be the better of the two sets of requirements. This is reasonable; however in this case we not persuaded that the requirements of SFAS 34 are superior and it would therefore have been beneficial for there to have been some reasoned insight into why this is considered to be the case.

ii. Companies wishing to capitalise applicable borrowing costs are already able to do so and so the proposed amendment will not benefit this group. Those companies wishing to expense all such amounts will now be burdened with an additional workload requiring them to capitalise amounts if they carry debt and invest in qualifying assets. A straightforward, and in our view reasonable, policy of expensing all interest will no longer be acceptable.

iii. Notwithstanding the comments in ii above, we may have considered this to be acceptable in view of the merits of eliminating options in the application of standards. However, by not reconsidering other provisions of IAS 23 there remain inconsistencies in the standard which are of concern. For example, capitalisation of funding costs could not occur in the event that an entity had no borrowings and utilised its cash recources. One of the bases for the proposed amendments is that they would foster consistency in accounting treatment between a completed asset purchased from a third party, the price of which would include the financing costs of the third party (this would also include a margin however) and an internally developed asset. However, by only capitalising directly incurred borrowing costs there would be an inconsistent treatment for identical assets according to the manner in which the purchase was funded (whether by the same entity at different times, or by different entities). It is an anomaly to only recognise the fact that there is a funding cost for such qualifying assets when they are debt financed.

Whilst we understand that the purpose of the short-term convergence project is to focus on differences that can be resolved in a relatively short time, in view of the points raised above we do not believe it to be worthwhile proceeding in this case. Instead, we recommend that the board undertake a comprehensive review of IAS 23, including a full examination of the merits of each of the two approaches as well as addressing the point raised in iii above.

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 not? What alternative would you propose and why?

We disagree with the proposed amendments to IAS 23, however in the event they are adopted we agree with the above proposal.

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