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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **January 2008, London**

Project: **Foreign exchange and capitalisable borrowing costs
(Agenda Paper 4C)**

INTRODUCTION

1. In November 2007, the IFRIC published a tentative agenda decision not to take onto its agenda a project to provide guidance on which foreign exchange differences may be regarded as adjustments to interest costs for the purpose of applying IAS 23 *Borrowing Costs*. IAS 23 states that 'Borrowing costs may include...exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs'. The request asked for guidance both on the treatment of foreign exchange gains and losses and on the treatment of any derivatives used to hedge such foreign exchange exposures.
2. Two comment letters were received.
3. The first disagreed with the IFRIC's tentative decision. It stated that:
 - The principle in IAS 23 that borrowing costs include foreign exchange movements 'to the extent that they are regarded as an adjustment to interest costs' is too broad to be applied in practice.

- The revised IAS 23 will come into effect on 1 January 2009 which will require all entities to capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Because all entities will be required to capitalise such borrowing costs, divergence in practice will increase.
 - The requirement for borrowing costs to be directly attributable has not been reconciled with the detailed hedging requirements of IAS 39.
4. The commentator therefore argued that the IFRIC should add this issue to its agenda. At the least, the commentator argued, the IFRIC should clarify its understanding of the relationship between IAS 39 and IAS 23 in its agenda decision.
 5. The second comment letter agreed with the IFRIC's decision not to add this issue to its agenda. It noted that:
 - When the Board amended IAS 23, it specifically decided not to address this issue.
 - The accounting policy for such costs would be disclosed if it was significant enough to be required by IAS 1.
 6. The commentator argued that the Board had chance to address this issue when it considered amending IAS 23. The fact that it decided not to indicated that the Board was willing to accept some divergence in this area. The commentator did not therefore consider that it would be appropriate to add this issue to the IFRIC's agenda.

STAFF ANALYSIS

7. The staff notes that the comments that the revision to IAS 23 will require more entities to capitalise borrowing costs and that the principle in IAS 23 is too wide were discussed in the paper presented to the IFRIC in November. When the IFRIC discussed that paper, it tentatively decided not to add the issue to its agenda.
8. As discussed in the second comment letter, the staff considers that the Board was aware of these issues when it amended IAS 23. At that time, the Board decided that it would not provide further guidance as to how entities should

compute the foreign exchange movement that should be regarded as an adjustment to interest costs.

9. Similarly, the paper presented to the IFRIC in November discussed hedging instruments and how IAS 23 should interact with IAS 39. In that paper, the staff concluded that:

“in writing IAS 23, the Board intended that an entity should use judgement in assessing which costs should be considered to be directly attributable to the borrowing. It is not possible to dictate that a class of items such as hedging instruments is or isn’t directly attributable.”

10. In the light of the above, the staff considers that the comment letter does not raise any new issues that the IFRIC was not aware of when it published its tentative agenda decision in November.
11. Furthermore the staff considers that, since only two comment letters were received relating to this tentative decision, and because two different views as to whether the issue should be taken on to the agenda were expressed, there is not evidence of a strong need for interpretive guidance to be issued in this area.
12. The staff does not therefore propose that the IFRIC changes its decision in response to these comments.
13. The staff does, however recommend that the IFRIC make some minor changes to the tentative agenda decision published in September in response to comments received from IFRIC members. These changes are intended to clarify that, whilst entities may make an accounting policy choice as to how they apply IAS 23, they must exercise judgement in making that choice. They also clarify that, as well as potentially requiring disclosure as an accounting policy, the policy may require disclosure as a key judgement under IAS 1.
14. Whilst the staff considers that the changes enhance the tentative wording, the staff does not believe that these changes represent a significant change that would require re-exposure.
15. [Paragraph omitted from observer note].