IAS 23 ***Consolidated and Separate Financial Statements*** (January 2008)

Foreign exchange and capitalisable borrowing costs

The IFRIC received a request for guidance on which foreign exchange differences may be regarded as adjustments to interest costs for the purpose of applying IAS 23. 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' (emphasis added). 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.

The IFRIC noted that the principle set out in paragraph 8 of IAS 23 states 'an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.' The IFRIC also noted that paragraph 11 states 'the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.' Consequently, how an entity applies IAS 23 to foreign currency borrowings is a matter of accounting policy requiring the exercise of judgement. IAS 1 Presentation of Financial Statements requires clear disclosure of significant accounting policies and judgements that are relevant to an understanding of the financial statements.

The IFRIC noted that, notwithstanding the guidance in paragraphs 8 and 11 of IAS 23, the standard itself acknowledges that judgement will be required in its application and appropriate disclosure of accounting policies and judgements would provide users with the information they need to understand the financial statements. The IFRIC concluded that it was unnecessary to provide application guidance. The IFRIC also noted that, as part of its project to amend IAS 23, the Board specifically considered this issue and decided not to develop further guidance in this area. The IFRIC concluded that it should not develop guidance as the Board had already decided not to provide it.

The IFRIC therefore decided not to add the issue to its agenda.