

International Financial Reporting Interpretations
Committee
First Floor, 30 Cannon Street
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11 December 2007

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Dear Sir

Re: Tentative Agenda Decision IAS 23 *Borrowing Costs* (as revised in 2007) – Foreign exchange and capitalisable borrowing costs

The November IFRIC Update reported a tentative conclusion not to take onto its agenda the above issue.

The revisions to IAS 23 *Borrowing Costs*, which come into effect on 1 January 2009, will require all entities to capitalise all borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Differences in how the definition of borrowing costs in IAS 23 should be interpreted will therefore result in greater divergence in practice.

We agree that judgement is required in determining the amount of borrowing costs that should be capitalised. However, the standard should explain the principles on which it is based in sufficient detail to provide guidance as to how that judgement should be applied. IAS 23 contains a very broad principle for considering the amount of foreign exchange that relates to borrowings:

‘...to the extent that they are regarded as an adjustment to interest costs.’

However, this principle is too broad to be applied consistently in practice.

Further, the relationship between IAS 23 and the hedge accounting provisions of IAS 39 *Financial Instruments: Recognition and Measurement* are unclear and result in divergence in practice. IAS 39 was issued substantially later than IAS 23 (prior to the update in 2007) and this relationship, particularly as it relates to the strict hedging requirements of paragraphs 79 to 81 and 88 of IAS 39, has not been clearly reconciled with the requirements for borrowing costs to be ‘directly attributable’ as used in IAS 23.

We therefore urge the IFRIC to take this issue onto its agenda or to recommend improvements to the Board so as to reduce the uncertainty in the practical application of the standard. Alternatively, at a minimum, we urge the IFRIC to at least clarify their understanding of the relationship between IAS 23 and the hedge accounting provisions of IAS 39 in the reasons for not taking this item onto the agenda.

Should you wish to discuss any aspect of this letter, please contact Lynda Tomkins on 020 79510241.

Yours faithfully

