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Project	<b>Agenda decision</b>
Topic	<b>IAS 23 <i>Borrowing costs</i> – Meaning of ‘general borrowings’</b>

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## Introduction

1. In July 2009, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on what borrowings ‘general borrowings’ include for purposes of capitalising borrowing costs in accordance with IAS 23 *Borrowing costs*. The request asked for guidance on the treatment of general borrowings used to purchase a specific asset other than a qualifying asset as defined in the standard.
2. At its meeting in July 2009, the IFRIC asked that the Board to consider whether to add this issue to the annual improvements project.
3. At its meeting in July 2009, the Board decided against including this issue in the annual improvements project.
  
4. One comment letter<sup>1</sup> was received that agrees with the IFRIC’s agenda decision.

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<sup>1</sup> DTT

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

**Recommendation and question - wording of the final agenda decision**

The staff recommends that the IFRIC finalise its tentative agenda decision not to add the issue to its agenda.

Does the IFRIC agree?

The proposed wording for the agenda decision is set out in Appendix A and reflects both discussions at the IFRIC meeting and Board meeting in July. Changes from the tentative agenda decision are marked-up.

Does the IFRIC agree with the wording of the final agenda decision?

## Appendix A

**IAS 23 *Borrowing Costs* — Meaning of “general borrowings”**

The IFRIC received a request for guidance on what borrowings comprise “general borrowings” for purposes of capitalisation of borrowing costs in accordance with IAS 23. The request asked for guidance on the treatment of general borrowings used to purchase a specific asset other than a qualifying asset as defined in the standard. The IFRIC noted that IAS 23 paragraph 14 states that “To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset” (emphasis added). The request asked for guidance on the treatment of general borrowings used to purchase a specific asset other than a qualifying asset as defined in the standard.

~~The IFRIC noted that because paragraph 14 refers only to qualifying assets, some conclude that borrowings related to specific assets other than qualifying assets cannot be excluded from determining the capitalisation rate for general borrowings. Others note the general principle in paragraph 10 that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. The IFRIC also noted that IAS 23 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.’~~

~~The IFRIC noted that the standard itself acknowledges that judgement will be required in its application. In addition, the IFRIC concluded that any guidance it could provide would be in the nature of application guidance rather than an interpretation. The IFRIC also therefore asked noted that the Board to will consider whether to add this issue to the annual improvements project.~~

## IASB Staff paper

At its meeting in July, the Board noted that IAS 23 excludes only debt used to acquire qualifying assets from the determination of the capitalisation rate. The Board decided not to include this issue in the annual improvements project.

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