

STAFF PAPER

September 2018

IFRS® Interpretations Committee meeting

Project	IAS 23 <i>Borrowing Costs</i>— Borrowing costs on land		
Paper topic	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions of the Board are made in public and reported in IASB® *Update*. Decisions made by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. At its June 2018 meeting, the Committee discussed a submission about when an entity ceases capitalising borrowing costs on land. In the fact pattern described in the submission:
 - (a) an entity acquires and develops land and thereafter constructs a building on that land (development project)—the land represents the area on which the building will be constructed;
 - (b) both the land and the building meet the definition of a qualifying asset; and
 - (c) the entity uses general borrowings to fund the development project.

The submitter asked whether the entity ceases capitalising borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalise borrowing costs incurred in respect of land expenditures while it constructs the building.

2. The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation in the fact pattern described in the submission. Consequently, the Committee tentatively decided not to add this matter to its

standard-setting agenda. In June 2018, the Committee published a tentative agenda decision (see Agenda Paper 1 of this meeting for a copy of [June IFRIC® Update](#)).

3. The purpose of this paper is to:
 - (a) analyse the comments on the tentative agenda decision; and
 - (b) ask the Committee if it agrees with our recommendation to finalise the agenda decision.
4. There are two appendices to this paper:
 - (a) Appendix A—proposed wording of the agenda decision; and
 - (b) Appendix B—comment letters.

Comment letter summary

5. We received eight comment letters reproduced in Appendix B to this paper.
6. All respondents agree with the Committee’s decision not to add this issue to its agenda for the reasons set out in the tentative agenda decision. One of these respondents (the KASB) suggests that the agenda decision also address whether an entity capitalises borrowing costs as part of the cost of the land or as part of the cost of the building.

Staff analysis

Addressing whether an entity capitalises borrowing costs to land or buildings

Concern raised by respondent

7. The KASB suggests the agenda decision also address whether an entity capitalises borrowing costs incurred in respect of land expenditures during the construction of the building as part of the cost of the land or as part of the cost of the building.

Staff analysis

8. Paragraph 8 of IAS 23 requires an entity to 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. Paragraph 10 of IAS 23 states that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset has not been made.

9. We think the agenda decision should not discuss whether an entity capitalises these borrowing costs as part of the cost of the land or as part of the cost of the building. We note that one Committee member raised this matter at the June 2018 meeting. The Committee decided however not to include a discussion about it in the tentative agenda decision. This is because the assessment of which asset an entity capitalises these borrowing costs to depends on which asset the borrowing costs are directly attributable to—this assessment depends on the particular facts and circumstances. We continue to think the Committee is not in a position to comment further on this assessment and recommend no change to the agenda decision in this respect.

Staff recommendation

10. Based on our analysis, we recommend confirming the tentative agenda decision as published in IFRIC Update in [June 2018](#) with no changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the agenda decision

- A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove the square brackets in the last paragraph.

Borrowing costs on land (IAS 23 *Borrowing Costs*)

The Committee received a request about when an entity ceases capitalising borrowing costs on land.

In the fact pattern described in the request:

- (a) an entity acquires and develops land and thereafter constructs a building on that land—the land represents the area on which the building will be constructed;
- (b) both the land and the building meet the definition of a qualifying asset; and
- (c) the entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity ceases capitalising borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalise borrowing costs incurred in respect of land expenditures while it constructs the building.

The Committee observed that in applying IAS 23 to determine when to cease capitalising borrowing costs incurred on land expenditures:

- (a) an entity considers the intended use of the land. Land and buildings are used for owner-occupation (recognised as property, plant and equipment applying IAS 16 *Property, Plant and Equipment*); rent or capital appreciation (recognised as investment property applying IAS 40 *Investment Property*); or for sale (recognised as inventory applying IAS 2 *Inventories*). The intended use of the land is not simply for the construction of a building on the land, but rather to use it for one of these three purposes.

- (b) applying paragraph 24 of IAS 23, an entity considers whether the land is capable of being used for its intended purpose while construction continues on the building. If the land is not capable of being used for its intended purpose while construction continues on the building, the entity considers the land and building together to assess when to cease capitalising borrowing costs on the land expenditures. In this situation, the land would not be ready for its intended use or sale until substantially all the activities necessary to prepare both the land and building for that intended use or sale are complete.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to cease capitalising borrowing costs on land expenditures. Consequently, the Committee ~~decided~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters

20 August 2018

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision - IAS 23 *Borrowing Costs*: Borrowing costs on land

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on when an entity ceases capitalising borrowing costs on land.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

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21 August 2018

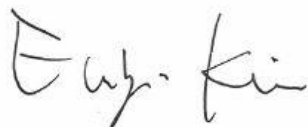
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf, London E14 4HD
United Kingdom

Dear Ms Lloyd:

The Korea Accounting Standards Boards (KASB) sends its comments on the two tentative agenda decisions on IAS 23 issued in June.

Please do not hesitate to contact us if you have any questions regarding our comments. You may direct your inquiries either to me (ehkim@kasb.or.kr) or to Jungah Yang, (yja518@kasb.or.kr), Director of KASB.

Best regards,



Eui-Hyung Kim
Chair, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Vice-Chair, Korea Accounting Standards Board
Se-hwan Park, Senior Director, Korea Accounting Standards Board
Hyun-Duck Choi, Director, Korea Accounting Standards Board

We are pleased to comment on the tentative agenda decisions on IAS 23 issued in June.

Tentative Agenda Decision—Borrowing Costs on Land (IAS 23)

We agree with the Tentative Agenda Decision—Borrowing Costs on Land (IAS 23).

According to the tentative agenda decision, borrowing costs incurred in respect of land expenditures during the construction of the building seem to be capitalised as the cost of the land. However, many entities have capitalised such borrowing costs as part of the cost of the building. Thus, we have a concern that diversity in practice would be induced unless the agenda decision clearly addresses this issue.

Tentative Agenda Decision—Expenditures on a Qualifying Asset (IAS 23)

We agree with the Tentative Agenda Decision—Expenditures on a Qualifying Asset (IAS 23).

We believe that it would help stakeholders better understand paragraphs 17 and 14 of IAS 23 if the Committee adds Appendix C (Calculation of borrowing costs eligible for capitalisation) of the agenda paper to this agenda decision.

Rio de Janeiro, August 21, 2018
CONTRIB 037/2018

Mr Hans Hoogervorst
International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Subject: Expenditures on a Qualifying Asset and Borrowing Costs on Land

Reference: Tentative agenda decision

Dear Mr Hoogervorst,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the topics: Expenditures on a qualifying asset and Borrowing costs on land. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We agree with the IFRS IC conclusions reported in these tentative agenda decisions that the principles and requirements in IFRS Standards provide adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation and when to cease capitalising borrowing costs on land expenditures in the fact pattern described in the submission.

We hope that our comments help the IASB in making the decisions necessary to develop and maintain principles-based standards of high quality. If you have any questions in relation to the content of this letter please do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

Rodrigo Araujo Alves

Chief Accounting and Tax Officer

21 August 2018

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions published in IFRIC Update June 2018:

- (1) Tentative Agenda Decision - Borrowing Costs on Land (IAS 23 *Borrowing Costs*).
- (2) Tentative Agenda Decision - Expenditures on Qualifying Asset (IAS 23 *Borrowing Costs*).
- (3) Tentative Agenda Decision - Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*).

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decision for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director



Sue Lloyd
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf
London E14 4HD

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 31 July 2018

Dear Sue,

IFRS IC's decisions in its June 2018 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2018 IFRIC Update.

We agree with the final agenda decision as regards IAS 7 and the two tentative agenda decisions in respect of IAS 23.

However, we do not fully concur with the tentative agenda decision on the IAS 21 issue, for the following reasons:

- Whilst agreeing with the IFRS IC's observations as regards the current requirements on how to assess the exchange rate to be used, we note that the IFRS IC did not answer the main question, being "*whether, in those circumstances, an entity is required to use an official exchange rate in applying IAS 21*". Hence, the IFRS IC's conclusion does not add clarity as to whether official rates should be used if restrictions apply.
- Further, the IFRS IC notes that IAS 21 does "*not ... include explicit requirements on the exchange rate [to be used] when the (official) spot exchange rate is not observable*", which in Venezuela's case seems a misplaced statement given that these rates are clearly *observable*. The "real issue" as we understand it is whether or not these rates are also

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President:
Prof. Dr. Andreas Barckow
Executive Director:
Prof. Dr. Sven Morich



applicable in situations where either official rates are limited to transactions that meet certain criteria that are not met for the specific transaction under consideration or other restrictions apply (e.g. limited liquidity). We also note that the issue is deeply intertwined with hyperinflation, at least in Venezuela's case.

- This said, we are unclear what the research suggested in the IFRIC Update would focus on. We have doubts that this issue could be resolved through narrow-scope standard-setting – as it evidences a more general lack of appropriate requirements on currency translation in situations where there is hyperinflation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Mrs Sue Lloyd

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Paris, August 28, 2018

Tentative Agenda Decisions – IFRIC Update June 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the June 2018 IFRIC Update.


We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



Michel Barbet-Massin



Edouard Fossat

Financial Reporting Technical Support

Appendix 3

Borrowing costs on land (IAS 23 Borrowing Costs)—Agenda Paper 3B

We agree with the decision made by the Committee not to add this matter to its standard-setting agenda.

Accounting professors

Pablo Duarte Dotti
Benjamin Dreifus Lewowicz

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Uruguay

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Tentative Agenda Decision – Borrowing Costs on Land (IAS 23)

Dear IFRS Interpretations Committee

We are submitting this letter in order to provide comments in relation to the tentative decisions reached by the IFRS interpretations Committee about not including this matter to its standards-setting agenda at its meeting in June 2018.

Request received by the Committee

The Committee received a request about when an entity ceases capitalizing borrowing costs on land.

In the fact pattern described in the request:

- a. an entity acquires and develops land and thereafter constructs a building on that land—the land represents the area on which the building will be constructed;
- b. both the land and the building meet the definition of a qualifying asset; and
- c. the entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity ceases capitalizing borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalize borrowing costs incurred in respect of land expenditures while it constructs the building.

Our conclusion

We agree with the conclusion of the Committee that this request shall not be included in the agenda, as there is enough guidance in IAS 23 “Borrowing Costs” considering the following paragraphs:

19. “For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization”

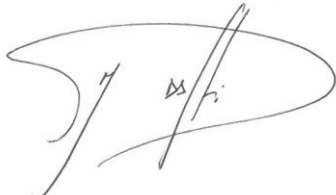
Based on this example, the standard clarifies that while land is not ready for its intended use as it is being developed; borrowing costs qualify for its capitalization.

Capitalization of borrowing costs shall stop when the asset is substantially ready for its intended use, as explained in the following paragraph:

22 “An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete”.

Nevertheless, as it was address by the committee, the Entity shall consider if parcial completion of the construction of the qualifying asset was achieved as established in paragraph 24: *"When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale"*.

19 August 2018, Montevideo, Uruguay

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

Pablo Duarte Dotti

Professor Universidad de la República Oriental del Uruguay

A handwritten signature in black ink, featuring a complex, overlapping structure with a long horizontal line extending to the right.

Benjamin Dreifus Lewowicz

Professor Universidad de la República Oriental del Uruguay

I, Pavitra Venkatraman, am a student of Accountancy and an independent accounting researcher. I welcome the opportunity to offer my views on Committee's tentative decision made in its meeting held in June 2018 with regards to Borrowing Costs on Land (Agenda Paper 3B IAS 23 - Borrowing Costs)

I agree with the Committee's view that Para 24 of IAS 23 provides a clear principle direction as to when an entity should cease capitalizing borrowing costs incurred on land. If the land is not capable of being used for its intended purpose, an entity should consider both land and building together to assess when to cease capitalising borrowing costs on the expenditure incurred on land.

Hence I concur with the Committee's decision not to add this matter to its standard setting agenda.

Regards
Pavitra Venkatraman