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International  
Accounting Standards  
Board

Latest revision: March 2007

**Amendments to the requirements of IAS 23 *Borrowing Costs***

*Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed as the project develops.*

**This project is complete. The Board published a revised IAS 23 in March 2007.**

**Objective**

1. The Board's objectives in this project are:
  - (a) This project is part of the Short-term Convergence project with the US Financial Accounting Standards Board (FASB). The purpose is to reduce differences between IFRSs and US generally accepted accounting principles (US GAAP) that can be resolved in a relatively short time and can be addressed outside major projects.
  - (b) The objective of this short-term convergence project is to amend IAS 23 *Borrowing Costs*, by removing the main difference between US GAAP and IAS 23.<sup>1</sup> This will be done by requiring the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of a qualifying asset.<sup>2</sup> The existing option of immediate recognition of those borrowing costs as an expense will be removed

<sup>1</sup> Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

<sup>2</sup> Assets eligible for capitalisation are those that need a period of time to get ready for their intended use or sale and are denominated by IAS 23 and SFAS 34 as qualifying assets.

## Is this project part of the MOU?

2. The MoU sets out a Roadmap of Convergence between IFRSs and US GAAP 2006-2008. The purpose of the Roadmap is to remove the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States of America. The intention is to issue converged standards, the contents and effective dates of which to be determined after taking full account of comments received in response to the Exposure Drafts. [Click here](#) for more information on the MoU.

The progress expected to be achieved by 2008 is to complete a final standard with the amendments to achieve the objectives set out above. The Board published a revised IAS 23 in March 2007, thus achieving the milestone set in the MoU.

## Due process steps completed

3. *Stage 1: Setting the agenda*

It was added to the agenda in April 2004. Work on this project commenced in October 2005 as part of the short-term convergence project.

4. *Stage 2: Project planning*

This project is being conducted by the IASB only. As noted above, the scope of this project is limited to amendments related to the Board's decision in the short-term convergence project. The Board has not reconsidered all of the requirements in IAS 23 and the project is part of the short-term convergence project, therefore no working group was considered necessary for this project.

5. *Stage 3: Development and publication of a discussion paper*

A discussion paper is not a mandatory step in the IASB Due Process Handbook. A discussion paper was not considered necessary for this project because the objective of the project is to reduce differences between IAS 23 and SFAS 34, not to develop a new approach to accounting for borrowing costs.

6. *Stage 4: Development and publication of an exposure draft*

An Exposure Draft was published on 25 May 2006 for public comment (click [here](#) for a copy of the exposure draft). The IASB invited comments on the Exposure Draft by 29 September.

7. *Stage 5: Development and publication of a revised Standard*

The Board published a revised IAS 23 in March 2007.

## Background

8. IAS 23 *Borrowing Costs* and SFAS 34 *Capitalization of Interest Cost*, prescribe the current accounting treatment for borrowing costs:
  - IAS 23 permits two possible treatments; either the capitalisation of borrowing costs, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, or alternatively, immediate recognition of the borrowing costs as an expense.
  - SFAS 34 requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Immediate recognition as an expense is not an option.
9. Other differences between the two standards exist and are explained in the Appendix.

## Project history

10. At the October 2005 meeting the Board discussed the two alternative treatments in IAS 23 of capitalisation and immediate expensing and agreed to remove the option of immediate expensing.
11. The Board decided, at its November 2005 meeting, to limit the scope of the project to the elimination of the option in IAS 23 of immediate expensing. The Board decided not to address the differences in the requirements for capitalisation under IAS 23 and SFAS 34. Doing so would be inconsistent with the Board's recent decision to work towards short-term convergence by addressing major differences only.
12. In January 2006 the Board discussed the transitional provisions and decided that:
  - (a) existing IFRS users should prospectively apply the proposed amendments to borrowing costs related to qualifying assets for which the commencement date for capitalisation is after the effective date. They should be permitted to apply the proposed amendments on or after any elected date before the effective date [1 January 2008]
  - (b) first-time adopters should apply transitional provisions equivalent to those available to existing IFRS users.
  - (c) the comment period for the exposure draft should be 120 days
13. At its March 2006 meeting the Board decided:
  - (a) to exclude from the scope of IAS 23 qualifying assets measured at fair value, such as biological assets. IAS 41 requires biological assets to be measured on initial recognition, and at each balance sheet date, at fair value less estimated point-of-sale costs. IAS 41 does not address the treatment of subsequent expenditure after initial recognition of a biological asset, because it was considered unnecessary under a fair value approach. The proposed amendment to require capitalisation would force entities to change their systems to capitalise

the interest costs, only to then write them off when remeasuring the assets to fair value;

(b) that black letter paragraphs should be changed editorially to improve their style.

14. On 25 May 2006 an Exposure Draft was published for public comment. The Board invited comments on the Exposure Draft by 29 September.
15. At its November 2006 meeting, the Board discussed comments received from respondents on the proposal in the Exposure Draft to eliminate the option to recognise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense immediately. The Board asked the staff to prepare, for its meeting in December, a paper on the arguments of respondents who disagreed with the proposal and the suggestions they made.
16. At its December 2006 meeting, the Board continued its discussion of comments received from constituents on the exposure draft of Proposed Amendments to IAS 23 *Borrowing Costs*. The Board decided that it would issue amendments to the requirements of IAS 23, as exposed, with one change—inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis will be excluded from the scope of IAS 23 for cost-benefit reasons. The wording for the scope exclusion will be taken from SFAS 34 *Capitalization of Interest Cost*. The Board also clarified that the scope of IAS 23 would exclude assets measured at fair value as proposed in the exposure draft, although it noted that entities were free to disclose information about borrowing costs that would have been capitalised if those assets had been measured at historical cost. In addition, the Board acknowledged the need to consider the effective date of the amendment to minimise disruption for entities reporting in accordance with US GAAP.

## Contact information

### 17. Staff contacts

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