



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Accounting

Brussels, 7 December 2007
MARKT/F3 D(2007)

Endorsement of IAS 23 *Borrowing Costs*

Effect Study

Public Consultation: Please send back responses no later than 25 January 2008

The European Commission is seeking further input regarding the endorsement of IAS 23 *Borrowing Costs* before finalising a report on the potential impact of endorsement for submission to the Accounting Regulatory Committee and the European Parliament in spring 2008.

We seek input from a broad range of constituents (incl. preparers, users, auditors, standard setters, academics) to the **Questionnaire (enclosed)**.

The Standard – IAS 23 *Borrowing Costs*

The IASB issued on 29 March 2007 a revised IAS 23 *Borrowing Costs*. The revised Standard replaces IAS 23 *Borrowing Costs* (revised in 1993), which is the Standard currently endorsed for use in the EU.

The revisions to IAS 23 are part of the convergence program between the IASB and FASB. This is a Short-Term Convergence project the main objective of which is to reduce the main differences between IAS 23 *Borrowing Costs* and SFAS 34 *Capitalization of Interest Cost*.

Accounting of borrowing cost according to IAS 23

In accordance with the previous version of IAS 23 (revised in 1993) borrowing costs (defined as interest and other costs incurred by an entity in connection with the borrowing of funds) that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (also referred to as a qualifying asset) could be recognised either as an expense in the period in which they are incurred or capitalised.

The main change introduced by the revised IAS 23 *Borrowing Costs* is the removal of the option of immediately recognising as an expense such borrowing costs. Therefore, entities are required to capitalise them as part of the cost of such assets during the period of time required to get the asset ready for use or sale.

How to submit your comments

Please submit your response, which should be as precise and short as possible, to the European Commission, DG Internal Market and Services, Accounting Unit F3, B-1049 Brussels and to the following e-mail addresses:

angel.monzon@ec.europa.eu and philippe.bui@ec.europa.eu

By no later than **25 January 2008**.

All responses will be on the public record unless the respondent requests confidentiality. However, such requests will, due to Commission transparency rules, normally not be granted unless supported by good reasons, such as motivated commercial interest.

Questionnaire

EFFECT STUDY ON REVISED IAS 23 *BORROWING COSTS*

Please provide the following details together with your response:

Preparer User Other (please specify) _____

Name of your organization / company

Short description of the general activity of your organization/ company

Country where your organization/ company is located

Contact details incl. e-mail address

Please indicate whether you submitted comments to IASB and/or EFRAG during their consultations on exposure drafts, comment letters or endorsement advice related to the revised IAS 23:

Yes No

In case we need further details on the submitted information we will take the liberty to contact the relevant respondent.

Information from preparers

Markets where your company is listed:

European Union US Others (please specify) _____

Size on group level:

Total assets _____ Revenues _____ Employees _____

1. General questions on IAS 23

a) Which method do you think will provide more relevant, reliable, comparable and understandable information?

Relevant Capitalising Expensing

Reliable Capitalising Expensing

Comparable Capitalising Expensing

Understandable Capitalising Expensing

b) Can you explain the reasons why you prefer one or the other method?

c) Do you think higher comparability will be achieved between companies through the removal of the expensing method?

d) What do you consider are the main costs and benefits of the revised IAS 23 and what weighting would you assign to each of them?

2. Questions for preparers

a) Can you explain how significant IAS 23 is for your business?

Significant Not significant

Please provide us with an explanation of your answer.

b) Are you currently expensing or capitalising your borrowing costs?

Expensing Capitalising

Comments:

c) Can you provide reasons for why your company has chosen to use the expensing or the capitalization method?

d) Can you describe what changes your company made in the past or will have to make in order to change from expensing to capitalizing borrowing costs?

e) Can you give a qualitative and quantitative estimation of the costs involved in applying the capitalisation method? Please distinguish between implementation costs and recurring costs if possible.

f) Can you describe the main problems you have encountered/believe you will encounter in applying the capitalization method and their significance?

3. Questions for users

- a) Can you explain what kind of information related to borrowing costs you need in order to make your analysis?
- b) Can you explain how the capitalization of borrowing costs impacts on your financial analysis?
- c) Do you believe the elimination of one option will make financial reports more comparable for your analysis?

4. Other Questions

- a) Can you provide any information that has been generated by field studies, research work, internal analysis carried out in your organization, jurisdiction?
- b) If you have any further comments on this consultation please provide them to us.