

# IPSAS Exposure Draft 74

## **Borrowing Costs - *Non-authoritative Guidance***





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





# Outline

- Background and objective
- Impact of ED 75 locally
- Key principles in IPSAS 5
- Proposed non-authoritative guidance
- Specific matter for comment
- Other comments





# Background and objective





# Background

- IPSASB issued CP, *Measurement* in 2019 which included proposals to remove the capitalisation of BC in IPSAS 5.
- Mixed feedback received resulted in the IPSASB's decision to retain the accounting policy options.
- IPSASB decided to clarify existing principles and develop implementation guidance.





# Objective

- ED 74 proposes non-authoritative guidance for determining the extent to which BC can be capitalised.
  - Basis for conclusions updated.
  - Implementation guidance and illustrative examples added.
  - No amendments to authoritative material.
- IPSASB aims to improve and clarify guidance for capitalising BC.





# Impact of ED 75 locally

- IPSASB proposals discussed locally to formulate a comment letter to the IPSASB
- Comment deadline: ASB → 22 February

IPSASB → 1 March

- Since GRAP 5 is based on IPSAS 5 → The Board will consider whether similar changes are necessary in GRAP 5 (policy decision).



# Key principles in IPSAS 5





**Benchmark treatment**

BC recognised as expense when incurred

BC is interest and other expenses incurred on borrowed funds

**Allowed alternative treatment**

BC directly attributable to the acquisition/construction/production of a **qualifying asset** capitalised

Qualifying asset takes a substantial period to get ready for use/sale

**Specific funding:**

Eligible BC for capitalisation = Actual BC less investment income

**General funding:**

Apply capitalisation rate to outlays on qualifying asset


**Capitalisation rate:**

Weighted average of BC to Borrowings outstanding during period



# Key principles in IPSAS 5

- Capitalisation starts when:
  - Outlays are incurred;
  - BC are incurred; and
  - Activities to prepare asset for intended use/sale are in progress
- Capitalisation stops when:
  - Substantially all activities to prepare asset for intended use/sale are complete



If capitalisation is suspended  
(i.e. when active  
development is interrupted  
e.g. COVID-19), BC is  
expensed.



# Proposed non-authoritative guidance



# Proposed implementation guidance

Ref	Topic
A.1	Period of borrowing cost capitalisation
A.2	Limit on capitalisation
A.3	Asset funded through transfers
A.4	Asset funded through centralised lending program – interest rates
A.5	Asset funded through an entity's own general borrowing – borrowings are not specified to qualifying asset
A.6	Asset funded through general borrowings – range of debt instruments



# Specific matter for comment

*Do you agree with the proposed additional implementation guidance? If not what changes would you make?*



# Proposed illustrative examples

Ref	Topic
1	Qualifying asset constructed over a period of time
2	Centralised borrowing program – eligible borrowing costs
3	General borrowing program – weighted average cost of borrowing
4	Specific borrowing – borrowing for part of a qualifying asset's amount





# Specific matter for comment

*Do you agree with the proposed additional illustrative examples? If not what changes would you make?*



# Other comments



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