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International
Accounting Standards
Board

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Amendments to IAS 23 Borrowing Costs – Appendix

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.

1. The following paragraphs summarise the main differences between IAS 23 *Borrowing Costs* (as revised in 2007) and SFAS 34 *Capitalization of Interest Cost*.

Definition of borrowing costs

2. IAS 23 uses the term 'borrowing costs' whereas SFAS 34 uses the term 'interest costs'. 'Borrowing costs' reflects the broader definition in IAS 23, which encompasses interest and other costs, such as:
 - (a) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs; and
 - (b) amortisation of ancillary costs incurred in connection with the arrangement of borrowings.
3. EITF Issue No. 99-9 concludes that derivative gains and losses (arising from the effective portion of a derivative instrument that qualifies as a fair value hedge) are part of the capitalised interest cost. IAS 23 does not address such derivative gains and losses.

Definition of a qualifying asset

4. The main differences are as follows:
 - (a) IAS 23 defines a qualifying asset as one that takes a substantial period of time to get ready for its intended use or sale. The SFAS 34 definition does not include the term *substantial*.
 - (b) IAS 23 excludes from its scope qualifying assets that are measured at fair value. SFAS 34 does not address assets measured at fair value.
 - (c) SFAS 34 includes as qualifying assets investments in investees accounted for using the equity method, in some circumstances.¹ Such investments are not qualifying assets according to IAS 23.
 - (d) SFAS 34 does not permit the capitalisation of interest costs on assets acquired with gifts or grants that are restricted by the donor or grantor in some situations. IAS 23 does not address such assets.

¹ While the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

Measurement

5. When an entity borrows funds specifically for the purpose of obtaining a qualifying asset:
 - (a) IAS 23 requires an entity to capitalise the actual borrowing costs incurred on that borrowing. SFAS 34 states that an entity may use the rate of that borrowing.
 - (b) IAS 23 requires an entity to deduct any income earned on the temporary investment of actual borrowings from the amount of borrowing costs to be capitalised. SFAS 34 does not generally permit this deduction, unless particular tax-exempt borrowings are involved.
6. SFAS 34 requires an entity to use judgement in determining the capitalisation rate to apply to the expenditures on the asset—an entity selects the borrowings that it considers appropriate to meet the objective of capitalising the interest costs incurred that otherwise could have been avoided. When an entity borrows funds generally and uses them to obtain a qualifying asset, IAS 23 permits some flexibility in determining the capitalisation rate, but requires an entity to use all outstanding borrowings other than those made specifically to obtain a qualifying asset.

Disclosure requirements

7. IAS 23 requires disclosure of the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation. SFAS 34 does not require this disclosure.
8. SFAS 34 requires disclosure of the total amount of interest cost incurred during the period, including the amount capitalised and the amount recognised as an expense. IAS 23 requires disclosure only of the amount of borrowing costs capitalised during the period. IAS 1 *Presentation of Financial Statements* requires the disclosure of finance costs for the period.