

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 23 *Borrowing Costs* (as revised in 2007) to refer to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* on effective interest rate when describing the components of borrowing costs.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question set out below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 23 not addressed in the exposure draft.

Question

Do you agree with the proposal to amend paragraph 6 of IAS 23 to make reference to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* relating to effective interest rate when describing the components of borrowing costs? If not, why?

Proposed amendment to IAS 23 *Borrowing Costs*

In the Standard, paragraph 6 is amended (new text is underlined, deleted text is struck through).

Definitions

...

6 Borrowing costs may include:

- (a) interest expense calculated using the effective interest rate method as described in IAS 39 *Financial Instruments: Recognition and Measurement* ~~interest on bank overdrafts and short term and long term borrowings;~~
- (b) ~~[deleted]~~amortisation of discounts or premiums relating to borrowings;
- (c) ~~[deleted]~~amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) finance charges in respect of finance leases recognised in accordance with IAS 17 *Leases*; and
- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Basis for Conclusions on Proposed Amendment to IAS 23 Borrowing Costs

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Definitions

- BC1 The Board identified a potential inconsistency in the components of borrowing costs between IAS 23 *Borrowing Costs* (as revised in 2007) and IAS 39 *Financial Instruments: Recognition and Measurement*.
- BC2 The Board notes that components of borrowing costs in paragraph 6 (a)-(c) of IAS 23 are broadly equivalent to the components of interest expense calculated using the effective interest method in accordance with IAS 39. The exception is in respect of ‘ancillary costs’ in paragraph 6(c), for which the Board noted that there is no definition in IFRSs.
- BC3 The Board decided that consistency between IFRSs would be improved if paragraph 6(a)-(c) of IAS 23 were replaced with a reference to interest expense calculated in accordance with the effective interest method as defined in IAS 39.