



Accounting Standards Board

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CANADA

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Dear Stephenie

Exposure Draft 35: IPSAS 5 'Borrowing Costs'

The UK Accounting Standards Board (ASB) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB) proposals for amending IPSAS 5 'Borrowing Costs'.

The proposals in ED 35 differ markedly from those in IAS 23 in that the latter generally requires capitalisation of borrowing costs where they are material, whereas ED 35 proposes prohibiting this (except in the case of borrowing costs that are 'specifically incurred' which we address below). Although we support IPSASB's strategic objective to converge IPSASs with IFRS, except where there are strong public sector reasons for departure, we agree with the proposals in ED 35.

In particular, we agree that in the public sector there is often no meaningful way to attribute borrowing costs to qualifying assets because borrowings are frequently used to finance current spending and because public sector entities may borrow for public policy purposes and to provide liquidity to the capital markets. Because we believe that IPSAS should only depart from IFRS where there are strong public sector reasons, we consider it important that the proposed standard sets out its arguments as clearly and persuasively as possible.

We do not agree with the proposal to permit, but not require, capitalisation where borrowing costs are specifically incurred on qualifying assets. We believe options in accounting standards impair comparability and are therefore rarely appropriate. In our view, the standard should require borrowing costs that are specifically incurred for the acquisition, construction or production of a qualifying asset to be capitalised as there should be no difficulty in identifying the relevant costs.

The standard is concerned only with the determination of the cost of an asset and its scope specifically excludes assets measured at fair value on initial recognition. We support this scope. We would, however, suggest that the standard makes clear that, where assets are revalued on a replacement cost basis, it does not preclude the assessment of that value from including the borrowing costs that might be incurred on replacement.

If you would like any further information on the comments made in this letter, then please contact me or Alan O'Connor on 020 7492 2421 or a.oconnor@frc-asb.org.uk.

Yours sincerely



Ian Mackintosh

Chair, Accounting Standards Board

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