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Le Président

AB/PhS

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IAS 23 Amendments

International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

United Kingdom

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 23 BORROWING COSTS

Dear Sir or Madam,

I am writing on behalf of the Conseil National de la Comptabilité to give you our comments on the above-mentioned exposure draft. Our detailed comments are set out in the Appendix.

We are, in principle, in favour of eliminating options in standards and achieving further convergence between IFRS and US GAAP because theoretically both contribute to the comparability of financial statements.

However, we think that the underlying technical debate should take place so that a conceptual basis for change is established.

The exposure draft proposes the elimination of the option to recognise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as an expense.

The technical arguments to justify capitalising as opposed to expensing financial acquisition costs are not given in the exposure draft even though the proposed amendment will result in a reversal of current practice for many constituents.

We do not therefore support the proposed amendments to IAS 23 because they have no conceptual basis.

Moreover, we question whether it is urgent to amend IAS 23 given that other IASB projects dealing with performance reporting and the conceptual framework are underway.

Yours sincerely,

Antoine BRACCHI

APPENDIX

CNC'S REPLY TO THE IASB'S EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 23 BORROWING COSTS

Question 1

This Exposure Draft proposes to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. *Do you agree with the proposal? If not, why? What alternative would you propose and why?*

We do not agree with the proposal.

We have the following comments:

1. There is no technical debate justifying the preference for capitalisation as opposed to expensing the relevant borrowing costs

Many constituents are frustrated by the lack of technical debate:

(a) Unless the technical arguments are produced, convergence with US GAAP appears to be an end in itself for the IASB. Convergence does not necessarily consist of adopting US GAAP although it would appear to be so without the technical debate. Moreover, the proposed amendments do not achieve full convergence since they do not address differences that exist in the composition of borrowing costs and calculation techniques.

(b) The mandatory capitalisation of financial acquisition costs does not appear consistent with the expected extension of fair value as a basis for the measurement of assets.

(c) the question is also linked to the view of performance we wish to portray (Performance reporting project) and the objectives of financial statements and other aspects of the conceptual framework project. Is it really urgent to amend IAS23 without having an overall view of what IFRS are moving towards?

2. Elimination of the option to recognise borrowing costs immediately as an expense may have negative consequence

We are in principle in favour of the elimination of options to the extent they make financial statements more comparable.

However, in this particular case we have the following reservations:

(a) The elimination of the expensing option will bring about a reversal of current practice in many cases although no technical arguments have been produced to justify this change. Currently IFRS 1 does not encourage capitalisation of borrowing cost as no exception to full retrospective application has been allowed to first time adopters of IFRS. So, groups that had a past practise of capitalising borrowing cost according to local principles that are not fully compliant with IAS 23 have been, in most cases, obliged to expense borrowing costs due to the practical difficulties of achieving full retrospective capitalisation under that standard. The ED recognises the practical difficulties of full retrospective application and proposes transitional provisions.

(b) According to the exposure draft, where qualifying assets are measured at historical cost the latter will include borrowing costs up until the assets are ready for use or sale (see § 20,23,25,27). The application of this principle produces different asset values according to how the acquisition is financed. We, therefore, do not think that the compulsory capitalisation of borrowing costs enhances the comparability of financial statements.

3.The definition of borrowing costs eligible for capitalisation needs refining

A clarification would appear necessary in respect of the following to take into account all the changes introduced by IAS 39 :

- (a) The inclusion of the impact of derivatives such as interest rate swaps.
- (b) The effect of financial income arising on payments made on account by customers under a long-term contract. Would there, for example be netting of interest income and expense in determining the amount to be capitalised?
- (c) The effect of foreign exchange differences on financial debts and of the related hedging instruments.

Question 2

This Exposure Draft proposes that entities shall apply the amendments to borrowing costs for which the commencement date is on or after the effective date. However, an entity is permitted to designate any date before the effective date and to apply the [draft] amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. *Do you agree with the proposal? If not, why? What alternative would you propose and why?*

We agree.