OICV-IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

September 29, 2006

Elizabeth Hickey
Director of Technical Activities
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Amendments to IAS 23 Borrowing Costs

Dear Ms. Hickey:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1 or SC1) thanks you for the opportunity to provide our thoughts regarding the Exposure Draft: *Proposed Amendments to IAS 23 Borrowing Costs (*the Exposure Draft or the Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

International Convergence

We note that one of the primary objectives of the International Accounting Standards Board (IASB or the Board) is the development of a set of high-quality financial reporting standards that can be used globally. As we have previously expressed to the IASB in our comment letters on other projects, we are supportive of the efforts of the IASB towards international convergence and in this case are supportive of exploring opportunities for convergence on accounting for borrowing costs with the FASB We also support the elimination of treatment alternatives to reduce diversity in accounting and financial reporting.

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91) 555.93.68
mail@oicv.iosco.org • www.iosco.org

Approach to the Project

In the Basis for Conclusions, the IASB cites both convergence and conceptual reasons for its decision to eliminate immediate expensing of borrowing costs. If this project is to be viewed only as a convergence project, we might have expected the IASB's Basis for Conclusions to be limited to a description of the fact that capitalisation is the approach used under US GAAP. In contrast, if this project is to be viewed as both improving IFRS as well as removing differences between IFRS and US GAAP, we believe the IASB should have provided a more comprehensive analysis of the treatment alternatives for borrowing costs and its reasoning for choosing capitalisation rather than immediate expensing. We elaborate on this comment below.

Basis for Conclusions

We believe that legitimate arguments exist in support of either expensing or capitalizing borrowing costs, and, accordingly, SC1 does not advocate one of these alternatives as being preferable to the other. However, we believe it is important for the Board to elaborate in the Basis for Conclusions on its consideration of these alternatives, including its understanding of what users believe results in the best information in the financial statements.

In the Exposure Draft, the Board concludes that capitalizing borrowing costs is most consistent with the existing Framework and will enhance comparability of financial reporting of assets that are internally developed and those that are acquired from third parties. In light of the provisions of the Framework, we believe that the Board should select the treatment that results in the most useful information to investors or other financial statement users. Accordingly, we believe the Board should better explain in the final standard's Basis for Conclusions why, on balance, it selected capitalisation rather than expensing of borrowing costs. In particular, we are interested in how the Board considered and rejected arguments in favor of expensing. In addition, we encourage the Board to carefully consider the views of users in response to its proposal, to determine whether or not users believe capitalisation of borrowing costs is an improvement to financial reporting.

Remaining Differences

While the Board's decision to eliminate the immediate expensing of borrowing costs will advance convergence with U.S. GAAP, we observed that based upon the scope and the types of costs that are eligible for capitalisation, certain differences would continue to exist between IAS 23 and FASB Statement No. 34, *Capitalization of Interest* (FAS 34). For example, differences may remain due to FAS 34 considering only the capitalisation of interest, whereas IAS 23 would consider interest plus fees and other ancillary costs in the amount eligible for capitalisation. In addition, FAS 34 scopes out all inventories that are routinely manufactured on a repetitive basis, regardless of how long it takes to produce the inventory, while IAS 23 scopes in inventories that require a substantial period of time to bring them to saleable condition. Other differences may be due to the treatment of investment income of funds specifically borrowed and temporarily invested, and interest on investments other than property.

While SC1 does not have a view on the significance or magnitude of these differences, we would encourage the IASB to identify in the final standard's Basis for Conclusions these and other remaining differences between IAS 23 and FAS 34 of which the IASB is aware. This identification will enhance the understanding of preparers and users of financial statements about the application of the standards addressing borrowing costs.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Scott A. Taub
Chair
IOSCO Standing Committee No. 1