



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



A F E P

Association Française des Entreprises Privées

IAS 23 Amendments

IASB

30 Cannon Street

London EC4M 6XH

United Kingdom

Paris, September 29, 2006

Ref: Amendments to IAS 23 : Borrowing costs

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the proposed amendments to IAS 23: Borrowing Costs.

Although we support the move towards greater convergence, we are not in a position to support the proposal put forward by the IASB in the ED. As we explain in our answer to the invitation to comment included as an appendix to this letter, we do not believe there is really any convergence reached at this stage. Moreover the change would trigger costs greatly outweighing any form of benefit that users can expect.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

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Le Président

Alexandre TESSIER

Le Directeur Général

Agnès LEPINAY

*La Directrice des Affaires Economiques,
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Appendix to ACTEO - AFEP - MEDEF comment letter on 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 acknowledge that this amendment has been triggered by the road-map to convergence which has been agreed between IASB, FASB and the SEC, with the aim of eliminating the reconciliation burden born by dual listed entities. We would therefore wish to support the revised draft.

However after thorough analysis and debate we come to the conclusion that such a support would not be reasonable. Indeed there is a series of hurdles which make adoption of the amendments proposed not practicable:

- 1- The amendment does not bring convergence but a mere alignment of accounting principle. Beyond this alignment in principle, specific and detailed IAS 23 requirements differ quite significantly from those of SFAS 34, in almost all aspects: definition of qualifying assets, computation method of interest costs. Therefore, entities listed in the US would have to carry up to three different sets of carrying amounts for their qualifying assets: at the subsidiary level in its separate financial statements (the financing structure between the subsidiary and the group may vary greatly), at the group level to comply with US GAAP, at the group level again to comply with IFRS. At present, entities listed in the US have generally made the choice of expensing borrowing costs in their IFRS accounts, the cost of carrying so many different sets of carrying amounts greatly exceeding the perceived benefit. They should not be required to capitalise borrowing costs before the reconciliation burden is lifted.
- 2- Capitalisation of borrowing costs requires sophisticated information systems specifically designed to fit detailed computation requirements. Nonetheless the IASB indicates in its basis for conclusions that neither IAS 23 nor SFAS 34 requirements were up to the quality standard that the IASB is seeking for IFRS. This implies that the proposed amendments are not meant to last and that sooner rather than later the Board will undertake the preparation of a new standard on Borrowing Costs. We do not believe that it is reasonable to expect all European entities to bear the cost of IT changes if the change is not meant for longer term.

We therefore recommend that an alternative route to convergence is defined with both the SEC and the FASB, with the aim to design convergence in terms viable in the long term.

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?

If notwithstanding our strong arguments against the proposed amendments, the IASB decided to implement its proposals, we would support the transition provisions as summarised above.

END