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30 August 2006

Mr Stig Enevoldsen
Chairman
EFRAG TEG
13-14 Avenue des Arts
B-1210 Brussels
Commentletter@efrag.org

Dear Sir, *Stig,*

RE: AMENDMENTS TO IAS 23: BORROWING COSTS

UNICE welcomes the opportunity to comment on the draft amendments of IAS 23: Borrowing Costs.

As you well know, UNICE has been and still is a strong supporter of convergence toward a single set of high quality accounting standards. We are also good supporters of all efforts aimed at eliminating the reconciliation obligation unnecessarily burdening companies listed both in the US and in Europe.

We understand that the proposed amendment to IAS 23 Borrowing Costs is a stage in the road-map to convergence agreed by IASB, FASB, the SEC and the European Union. We nonetheless fail to support the proposal because we are unable to identify the benefits which would be derived from such an amendment.

1- The amendment does not achieve convergence

Although the amendment would bring IAS 23 and SFAS 34 to converge in principle, application guidance of the two standards could not be more different. Definitions of qualifying assets, components of costs and calculation methods, i.e. all elements determining how capitalization of borrowing costs is implemented, differ. Although we can understand that 100% alignment is not reached for cost and efficiency purposes, we believe that convergence must achieve more than a mere reference to the same accounting principle.

2- In practice having to comply with both IAS 23 and SFAS 34 would be an administrative burden with no added value for users

Implementation of capitalization of borrowing costs implies quite sophisticated information systems. Within a group, implementing the method in a consistent manner already implies costly and lengthy consolidation adjustments, the financing structures of subsidiaries and the parent being often different and intra-group loans having to be eliminated on consolidation. The amendment would require from entities listed both in the US and in Europe to carry up to three different sets of carrying amounts for qualifying assets in order to prepare consolidated and

individual financial statements in conformity with IFRS and reconciling items to US GAAP. The IASB must be aware that although the aim is to remove the reconciliation obligation, European entities listed in the US would most probably have to provide reconciliations between IFRS and US GAAP for 2008 at least.

Such cost and effort would be worthwhile only if they lead to more meaningful and useful information being provided to users. However this would not be the case. Users of financial statements understand differences in accounts prepared in accordance with different sets of standards all the better when differences in principle appear clearly. A reconciling item between two sets of accounts prepared in accordance with the same stated accounting principle would be costly and difficult to generate without adding much to the investors' understanding.

3- The change in accounting policy would hit all IFRS compliant entities in Europe although the change is aimed at benefiting only a small number of them

Amending IAS 23 is the logic outcome of an effort aimed at eliminating the remaining options in IFRS. We believe that this evolution will benefit entities and users of financial statements all the more that it will be made for a durable accounting policy. In its basis for conclusions, the IASB indicates that IAS 23 capitalization method is not up to the quality standards sought by both the IASB and FASB. We therefore understand that the proposed amendment is rather short-term. Nonetheless capitalization of borrowing costs demands a costly implementation exercise. We believe it is against European interest to promote costly accounting changes which are not meant to last. This also plays against the need for comparability over time of the information presented.

We would like to encourage the IASB to find a solution which takes into account the high hurdles described above without jeopardising the efforts the IASB has undertaken towards the elimination of the SEC reconciliation obligation. The ideal route would be, in our view, that:

- the proposed amendment be dropped,
- the IASB and FASB agree to have undertaken, as of 2009, at least one step of their due process towards a joint standard on borrowing costs,
- the IASB suggest to the SEC that in the meanwhile it allow European entities listed in the US who capitalize borrowing costs in accordance with IAS 23 not to have to reconcile to US GAAP in this area. (The same policy could apply every time SFAS and IFRS have converged in principle and not in detailed implementation guidance. Reconciling IFRS 2 and SFAS 123R compliant accounts already results today in the same difficult practice for very little benefit).

If the IASB believes that leaving IAS 23 as is would undermine the overall progress towards the elimination of the SEC reconciliation obligation, one solution to alleviate part of the concerns described above would be to set the effective date of the revised standard as of January 1, 2009, i.e. the year when the reconciliation obligation is set to be lifted.