

Department of Treasury and Finance

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Ms Annette Davis
Technical Manager
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street
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CANADA

Dear Ms Davis

HOTARAC RESPONSE TO EXPOSURE DRAFT 35 *IPSAS 5 BORROWING COSTS*

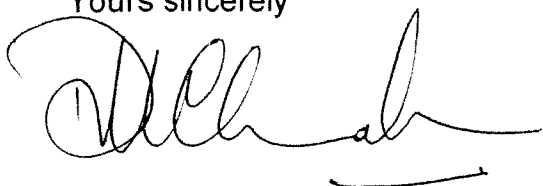
Thank you for your letter addressed to Peter Gibson regarding the Heads of Treasuries Accounting and Reporting Advisory Committee's preferred treatment of borrowing costs for qualifying assets. HoTARAC welcomes the opportunity to clarify its response to the International Public Sector Accounting Standards Board in regards to the option to capitalise borrowing costs incurred to acquire qualifying assets.

HoTARAC has expressed continued preference for public sector entities to expense all borrowing costs (whether or not specifically incurred to acquire qualifying assets) as this treatment is consistent with that required under the Government Finance Statistics reporting framework. In Australia, Financial Statements of the Australian Government and the Australian State and Territory Governments are prepared on a basis designed to harmonise Generally Accepted Accounting Principles and GFS. Consequently, there is a desire to minimise differences in accounting requirements between the two reporting frameworks.

HoTARAC is of the view that the removal of the Exposure Draft 35 option to allow for the capitalisation of borrowing costs incurred acquiring qualifying assets would not have an adverse impact on reporting by Australian public sector entities. HoTARAC would be concerned if the Standard required borrowing costs incurred to acquire qualifying assets to be capitalised, as this treatment would create a GAAP-GFS convergence.

If you have any further queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Government Department of Finance and Deregulation on +614 2 6215 3551.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D W Challen', with a horizontal line underneath.

D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

19 April 2009