

**Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West**

**Toronto, Ontario, Canada M5V 3H2**

**By email to: [edcomments@ifac.org](mailto:edcomments@ifac.org)**

**May 2009**

Dear Ms Fox

**2nd Comment on Exposure Draft, ED 35, “Borrowing Costs (Revised 200X),”**

The Dutch Local Government Accounting Standards Board (Commissie BVV) is pleased to present its second comment on this ED and your question regarding our first comment.

The Exposure Draft “Borrowing Costs” proposes that borrowing costs be recognized immediately as an expense except where borrowing costs are specifically incurred on qualifying assets. In such cases an entity is permitted, but not required to capitalize such costs and many respondents on this ED even indicated a preference for the removal of the last option to capitalize borrowing costs specifically incurred to obtain a qualifying asset.

In our opinion however conceptually the capitalization option is the better treatment of borrowing costs. We therefore did not agree with the ED, which limits the capitalization of borrowing costs to those costs that are specifically incurred. We proposed to allow capitalization of all borrowing costs, which are directly attributable to the asset.

In your opinion our first response indicated a preference for the removal of the option by making it a requirement for borrowing costs that are specifically incurred to obtain a qualifying asset be capitalized.

This is however not what we intended; we still propose to allow capitalization of all borrowing costs, which are directly attributable to the asset.

We give the following extra explanation:

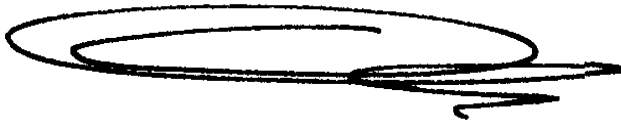
As mentioned before; in our Local Government Accounting Standards we do not confine the capitalization of borrowing costs to those costs that are specifically incurred or directly attributable. In fact, our standards allow capitalizing imputed interest costs even if the asset is financed with net assets/equity. The main reason of allowing capitalizing of all imputed interest costs is the vision that this is helpful to the budget allocation process and the idea that in case of investment decisions, given the nature of a government organization, also the cost of using net assets/equity have to be taken in consideration.

It is a specific political decision to capitalize interest costs when the asset is financed with net assets/equity that is laid down in local regulations. These capitalized costs are used as a basis for local taxation. And according our Local Government Accounting Standards the capitalization of costs, including borrowing costs, is constrained by - and may not exceed - the fair market value of the investment. And also a durable loss of fair market value has to be recognised.

We hope this extra explanation is a helpful contribution to the development of the revised standard.

Sincerely

**Dutch Local Government Accounting Standards Board (Commissie BVV)**

A handwritten signature in black ink, consisting of a large, loopy 'W' followed by a series of horizontal strokes and a final vertical stroke.

Willem G.J. Wijntjes

Chairman