

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: June 15–18 and 22, 2021

Agenda Item 7

For:

- ☒ Approval
☐ Discussion
☐ Information

AMENDMENTS TO IPSAS 5, BORROWING COSTS (NON-AUTHORITATIVE GUIDANCE)

Project summary	To issue amendments to IPSAS 5, <i>Borrowing Costs</i> , to clarify the application of “qualifying asset” and “directly attributable” based on the responses received to CP, Measurement.	
Board Sponsor	David Watkins, IPSASB Technical Advisor	
Meeting objectives Project management	Topic	Agenda Item
	Amendments to IPSAS 5, Borrowing Costs (Non-Authoritative Guidance): Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Summary Analysis of Responses to Amendments to IPSAS 5, Borrowing Costs	7.2.1
	Approval of Non-Authoritative Guidance to IPSAS 5, <i>Borrowing Costs</i>	7.2.2
Other supporting items	Analysis of Respondents by Region, Function and Language	7.3.1
	Detailed Analysis of Responses to Amendments to IPSAS 5, Borrowing Costs	7.3.2
	[draft] IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	7.3.3
	IPSASB Due Process Checklist	7.3.4

**AMENDMENTS TO IPSAS 5, BORROWING COSTS (NON-AUTHORITATIVE GUIDANCE):
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2019	1. Approve Consultation Paper and Illustrative Exposure Draft
December 2019	1. Preliminary Review of Responses to Consultation Paper
March 2020	1. Review of Responses to Consultation Paper 2. Discussion of Issues
June 2020	1. Review Exposure Draft
September 2020	1. Approve Exposure Draft
December 2020 to March 2021	1. Document Out for Comment
June 2021	1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2020	1. All instructions provided up until September 2020 were reflected in the Exposure Draft (ED) 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	1. All instructions provided up until September 2020 were reflected in the Exposure Draft (ED) 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Revenue with Performance Obligations		
September 2020	1. All decisions made up until September 2020 were reflected in the Exposure Draft (ED) 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	1. All decisions made up until September 2020 were reflected in the Exposure Draft (ED) 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance

Detailed Analysis of Responses to Amendments to IPSAS 5, Borrowing Costs

Question

1. Does the IPSASB agree updates to ED 74 should be limited to clarifications proposed in the responses.

Recommendation

2. Staff recommend proposals to clarify existing non-authoritative guidance identified in responses to the ED be **included** in the final pronouncement.
3. Staff recommend proposals to add authoritative and non-authoritative guidance identified in responses to the ED be **excluded** from the final pronouncement.

Background

4. On October 21, 2020, the IPSASB issued ED 74, *IPSAS 5, Borrowing Costs – Non-Authoritative Guidance*. The objective of ED 74 was to add non-authoritative material to IPSAS 5, *Borrowing Costs*, to support constituents in determining the extent to which borrowing costs can be capitalized in the public sector.
5. ED 74 was spun out of the measurement project. This was done because the IPSASB agreed:
 - (a) The decisions related to borrowing costs are independent of those related to the broader measurement project; and
 - (b) Given the responses to CP, *Measurement*, related to borrowing costs, the project could be scoped narrowly and completed using minimal resources.

One of the preliminary views included in CP, *Measurement*, was to remove the accounting policy choice in IPSAS 5 to either expense or capitalize borrowing costs, and require all borrowing costs be expensed.

Respondents were divided almost evenly between agreeing and disagreeing with the preliminary view. In March 2020, the IPSASB agreed to retain the accounting policy choice and clarify the application of “qualifying asset” and “directly attributable” expenditures in non-authoritative material.
6. The comment period for ED 74 closed on March 1, 2021. The IPSASB received 18 responses which have been posted on the [IPSASB Website](#).

Analysis

7. The proposals in ED 74 were strongly supported. Only one respondent disagreed. Respondent 1 appears to question the retention of the two accounting policy options on the grounds that one of them penalizes the taxpayer, using IPSAS 28 to support that point. Since the IPSASB had agreed to retain the policy choice prior to the exposure of the ED, and this response provided no new information the IPSASB had not previously consider, no further action is considered necessary.
8. The remainder of the respondents either agreed, or partially agreed with the proposals. Respondents that agreed, did so without reservation. Those that partially agreed suggested the IPSASB:
 - (a) Clarify the guidance (some suggested editorial amendments);

- (b) Add more non-authoritative guidance; and/or
- (c) Add authoritative guidance.
9. In determining which suggestions to action, staff reflected on the purpose of the project:
- (a) **Confirm accounting policy choice.** The primary purpose of the project was to re-confirm the accounting policy choice to expense or capitalize borrowing costs directly attributable to a qualifying asset.
- (b) **Clarify principles in IPSAS 5.** The IPSASB saw an opportunity to clarify some of the principles in IPSAS 5 at the same time as confirming the accounting policy choice. Clarification was limited to the concepts of “directly attributable” and “qualifying asset”.

This is a **narrow-scope project**, permitting the IPSASB to confirm its decision to retain the policy choice in a timely manner. When agreeing to separate this project from the measurement project, the IPSASB was aware resources would be limited and the focus should be on the challenges raised by respondents to the Measurement CP.

10. Given the project's purpose, ED 74 has been updated (see [Agenda Item 7.3.3](#)) in the light of respondents' comments to clarify the guidance, with no new examples added and no new authoritative text developed. Specifically, themes identified by respondents that partially agreed, were actioned as follows:

Theme	Actioned	Example of suggestion / Reason for inaction
Clarification	Yes	These were editorial comments or suggestions on how to clarify the meaning of the proposal. These suggestions were actioned where the Staff agreed with the suggestion.
Add non-authoritative guidance	No	Some respondents wanted more non-authoritative guidance related to: <ul style="list-style-type: none"> - Interpretation issues (for example, suspension of capitalization, concessionary loans, consolidation adjustments, etc.); - Add to complexity of examples; and - Have an equivalent IE for each IG. No action was taken because: <ul style="list-style-type: none"> - Interpretation issues identified are beyond the scope of the project and are not unique to the public sector; - The IPSASB focused on developing IGs and IEs that each address one principle. Constituents can then combine examples as required. Complex examples are only useful to constituents with identical case facts; and - IEs and IGs complement each other. It is never the intention to have an equivalent IE for each IG, or vice versa.

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		An IE or IG is selected based on the best way to illustrate the principle.
Add authoritative guidance	No	<p>Some respondents noted the equivalent paragraph IPSAS 5.25 was clarified by the IASB's Annual Improvements to IFRS Standards 2015-2017 Cycle. They suggested this change should be reflected in IPSAS 5.</p> <p>This change was made as part of the IPSASB's 2018 Improvements to IPSAS. It has been reflected in the 2019 version of the handbook.</p>

See detailed analysis in [Agenda Item 7.3.2](#).

Decision Required

11. Does the IPSASB agree with Staff's recommendation?

Approval of Non-Authoritative Guidance to IPSAS 5, *Borrowing Costs*

Question

1. Does the IPSASB:
 - a. Agree there are no additional issues raised by respondents it considers should be discussed by the IPSASB;
 - b. Agree that due process has been followed effectively;
 - c. Approve IPSAS 5, Borrowing Costs – Non-Authoritative Guidance;
 - d. Agree there has been no substantial change to ED 74 such that a vote on re-exposure is necessary; and
 - e. Agree no effective date is necessary.

Recommendation

2. Staff and the Board member sponsor recommend Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance be approved.

Due Process

3. IPSAS 5, *Borrowing Costs* – Non-Authoritative Guidance, amends existing non-authoritative guidance by adding public sector examples. The IPSASB has followed due process throughout this project. As such the final steps in due process are noted below.
4. The IPSASB released Exposure Draft (ED) 74 on October 21, 2020. This ED proposed additional non-authoritative guidance in IPSAS 5, *Borrowing Costs*, to clarify the requirements for determining the extent to which borrowing costs can be capitalized in the public sector. During Q2 2021:
 - a. Staff reviewed and analyzed 18 comment letters; and
 - b. The Board Sponsor reviewed the analysis and recommendations for the IPSASB's consideration.
5. When the staff are satisfied a proposed amendment to IPSAS is ready for approval, IPSASB's [Due Process and Working Procedures](#) sets out the necessary steps to facilitate approval of the pronouncement (bolded procedures require action by the IPSASB):
 - a. *Staff present the revised content of the exposed international standard to the IPSASB;*
[Agenda Item 7.3.3](#) includes all changes in mark-up.
 - b. *The IPSASB Program and Technical Director advises the IPSASB on whether due process has been followed effectively;*

Ross Smith, the IPSASB Program and Technical Director, asserts due process has been followed effectively, noting that:

- [ED 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance](#), was issued for consultation;

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- Responses to the ED were received and made publicly available on the [IPSASB website](#);
 - The IPSASB will deliberate matters raised in the comment letters, and significant decisions will be recorded in the minutes of the June 2021 virtual meeting; and
 - The IPSASB will be asked to consider whether there are any issues raised by respondents, in addition to those summarized by staff, which it considers should be discussed by the IPSASB, and agree that there are none.
- c. ***The IPSASB confirms whether or not it is satisfied the due process has been followed effectively;***
- d. ***The IPSASB votes on the approval of the final revised content of an amendment to IPSAS in accordance with its [terms of reference](#);***
- e. ***The IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary;***

Ross Smith, the IPSASB Program and Technical Director, in consultation with Ian Carruthers, the Chair of the IPSASB, advises the IPSASB that no substantial changes have been made to [ED 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance](#), such as to necessitate re-exposure.

Changes to ED 74, reflect matters raised in comment letters. These changes enhance the interpretation of the principles in IPSAS 5 to help constituents apply the standard in practice. No principles were altered.

- f. ***The IPSASB sets an effective date for the application of the Amendments to IPSAS 5;***
- The amendments to IPSAS 5 are non-authoritative. The new illustrative examples, implementation guidance and basis for conclusions clarify existing principles. They do not become effective on a specific date as no changes are coming into effect. They will be added to the next version of the IPSAS Handbook.
- g. ***The IPSASB issues Basis for Conclusions with respect to comments received on an exposure draft.***

See [Agenda Item 7.3.3](#).

Decisions Required

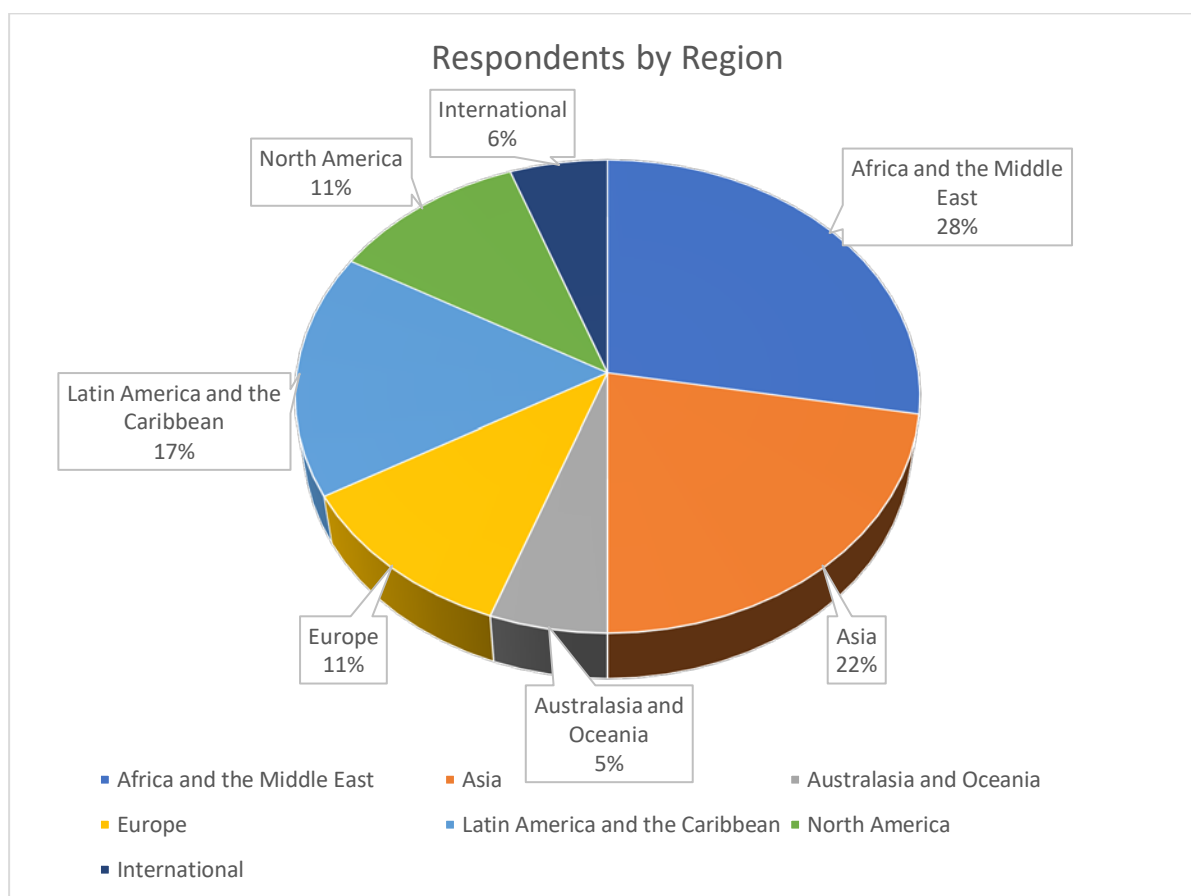
6. Does the IPSASB agree with the Staff recommendation?

Supporting Document 1 – Analysis of Respondents by Region, Function and Language

Analysis of Respondents by Region, Function and Language

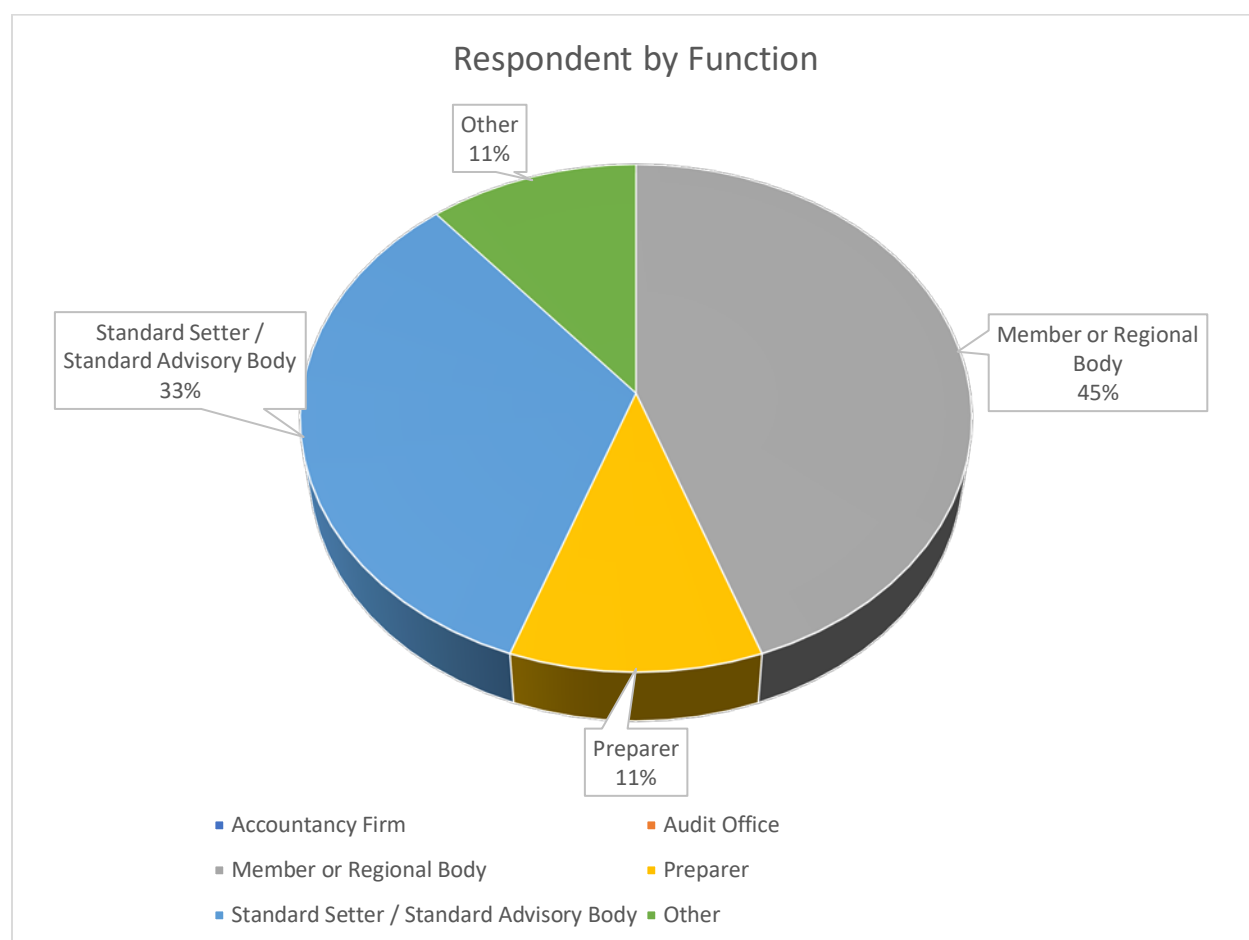
Geographic Breakdown

Region	Comment letter(s)	Total Respondents
Africa and the Middle East	05, 11, 13, 14, 17	5
Asia	04, 06, 07, 18	4
Australasia and Oceania	12	1
Europe	02, 03	2
Latin America and the Caribbean	01, 08, 10	3
North America	09, 15	2
International	16	1
Total		18



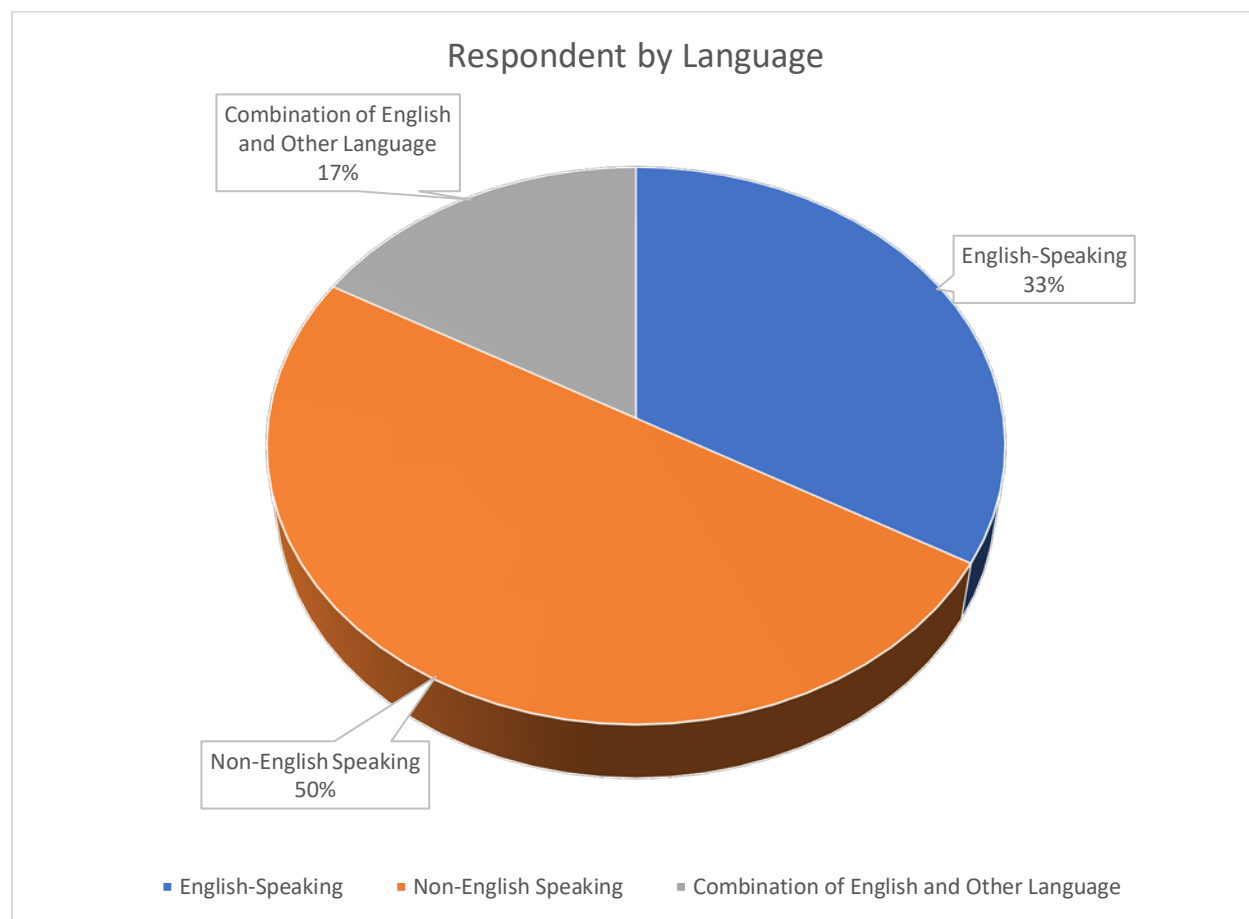
Functional Breakdown

Function	Comment letter(s)	Total Respondents
Accountancy Firm	-	-
Audit Office	-	-
Member or Regional Body	04, 07, 08, 10, 11, 13, 17, 18	8
Preparer	09, 12	2
Standard Setter / Standard Advisory Body	02, 03, 05, 06, 14, 15	6
Other	01, 16	2
Total		18



Linguistic Breakdown

Language	Comment letter(s)	Total Respondents
English-Speaking	05, 09, 12, 14, 16, 17	6
Non-English Speaking	01, 02, 03, 04, 06, 07, 08, 10, 15	9
Combination of English and Other Language	11, 13, 18	3
Total		18



List of Respondents

Comment Letter #	Respondent	Country	Function
01	Alvaro Vivas	Colombia	Other
02	CNOCP	France	Standard Setter / Standard Advisory Body
03	SRS	Switzerland	Standard Setter / Standard Advisory Body
04	MICPA	Malaysia	Member or Regional Body
05	ASB	South Africa	Standard Setter / Standard Advisory Body
06	KIPF	Korea	Standard Setter / Standard Advisory Body
07	JICPA	Japan	Member or Regional Body
08	CFC	Brazil	Member or Regional Body
09	GNWT	Canada	Preparer
10	IAA	Panama	Member or Regional Body
11	ICPAU	Uganda	Member or Regional Body
12	NSW Treasury	Australia	Preparer
13	PAAB	Zimbabwe	Member or Regional Body
14	PSASB	Kenya	Standard Setter / Standard Advisory Body
15	PSAB Staff	Canada	Standard Setter / Standard Advisory Body
16	Task force	International	Other
17	BICA	Botswana	Member or Regional Body
18	ICAI	India	Member or Regional Body

Supporting Document 2 – Detailed Analysis of Responses to Amendments to IPSAS 5, Borrowing Costs

Specific Matter for Comment 1:

Do you agree with the proposed additional implementation guidance and illustrative examples? If not, what changes would you make?

Response	Number of Responses
Agree (without reservation)	7
Partially Agree (suggested improvements to the proposals)	10
Disagree	1
No Comment	-
Total	18

The following table summarizes Staff's analysis of the responses received, and identified next steps, where appropriate.

Respondent	Agree with the additional IGs and IEs?	Comments	Staff Recommendation
1	Disagree	State entities may penalize the taxpayer who was required to present borrowing costs and generate a collection account without establishing a contract signed by mutual agreement between the parties, recording it in the accounting as a "Default interest" or a "cost" that would be paid by the taxpayer, as happens in the control entities that require the presentation of financial statements.	No action necessary Retaining the accounting policy choice to expense or capitalize directly attributable borrowing costs for qualifying assets allows entities to present borrowing costs that best suites the needs of their users.
2	Agree	-	-
3	Partially Agree	Add Non-Authoritative Guidance There is problematic hierarchizing of IPSAS 5 and IPSAS 41. An example should clearly distinguish	No action necessary Additional guidance is not necessary. IPSAS 41 proposes guidance on how to determine the effective

		the hierarchy between IPSAS 5 and IPSAS 41 and provide users with assistance in recognizing interest costs pursuant to IPSAS 41 when capitalizing or not capitalizing borrowing costs. The treatment of interest expense should also be included in an additional point of the Implementation Guidance (new Point A.7).	interest rate of a financial instrument. IPSAS 5 provides an accounting policy choice whether to capitalize or expense borrowing costs directly attributable to a qualifying asset.
		Clarify Guidance IE 13 lacks a corresponding point in the Implementation Guidance; lacking is in particular a link to Point A. 6 of the Implementation Guidance.	No action necessary IEs and IGs complement each other. While sometimes duplicative, practical guidance is developed as an IE or an IG based on the best format to communicate the guidance.
		Clarify Guidance A.3 is not clear whether “transfer” is a cash transfer or the transfer of an asset. Further, the formulation of the Point is (too) complicated and in the Answer it is not evident to what “no” applies to the transfer or to the underlying source of funds?	No action necessary IPSAS 5 does not distinguish between cash transfers and asset transfers. Clarifying whether the transfer is cash or not does not clarify the example. A.3. explains the underlying source of the funds is not relevant when determining the amount eligible for capitalization.
		Clarify Guidance A.4 refers to “interest rate incurred”, but in the Answer stands “weighted average interest rate incurred”. The expression “weighted average” should therefore be omitted.	Guidance clarified “Weighted average” was added to the question in A.4 for consistency with the answer.
		Clarify Guidance A.5 the supplement that at most the “interest incurred” may be applied is lacking. In Example IE 8 it is pointed out. In the Implementation Guidance,	Guidance clarified A.5 is clarified to indicate borrowing costs capitalized are limited to the amount of borrowing costs incurred in the

		under Point A.5 a corresponding reference is lacking.	period.
4	Partially Agree	Add Non-Authoritative Guidance For assets funded through an entity's own general borrowing, we agree with the use of weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period, excluding borrowings made specifically for the purpose of qualifying asset. However, we have a question as to whether borrowings made specifically for the purpose of a qualifying asset can be considered as part of general borrowings once the qualifying asset is ready for its intended use. In the absence of guidance, there has been diversity in practice in such cases. We wish that the IPSASB can consider to provide guidance in this area.	No action necessary Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues. Furthermore, this issue is not specific to the public sector.
		Add Non-Authoritative Guidance In September 2018, the IFRS Interpretations Committee ("IFRIC") discussed a case where an entity incurs expenditure on the qualifying asset both before and after it incurs borrowing costs on the general borrowings. The entity did not incur any borrowings at the start of the construction of the qualifying asset. However, during the course of construction, the entity borrowed funds generally and used them to finance the construction of the qualifying asset. The issue under the IFRIC's consideration was whether the entity is allowed to use the expenditure on the qualifying asset incurred before obtaining general borrowings while determining the amount of borrowing costs eligible for capitalisation. We hope that the IPSASB also looks into this matter. With regard to implementation guidance A.3 Asset Funded through Transfers, we understand the guidance in accommodating Paragraphs 27 and 28	No action necessary Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues. Furthermore, this issue is not specific to the public sector.

		<p>of IPSAS 5, Borrowing Costs on capitalisation of borrowing costs through funds transferred by a controlling entity to another controlled entity. However, pursuant to Paragraph 26 of IPSAS 5, Borrowing Costs, the word 'passed on' to a controlled entity was used. We find that the meaning of 'passed on' is ambiguous and would like to seek clarification on the meaning of 'passed on'. Furthermore, we suggest to include an illustrative example for borrowing cost capitalisation in relation to qualifying assets funded through transfers. We believe that illustrative example can provide greater clarity to users.</p>	
5	Partially Agree	<p>Clarify Guidance</p> <p>A.1 - Our stakeholders found the guidance to be contradictory in that activities exclude "the holding of an asset when no development or construction that changes the asset's condition is taking place". It was noted that, in the absence of examples, one could argue that the technical and administrative work undertaken prior to commencement of physical construction do not change the asset's condition. We suggest that the guidance clarifies when the principle in paragraph .33 of the Standard applies rather than replicating the same paragraph in the implementation guidance. It may also be useful if the guidance clarifies that the activities (i.e. technical and administrative work) undertaken prior to commencement of the physical construction should contribute to the actual development or construction of the asset. Currently, the Standard provides an example of activities associated with obtaining permits. More examples, such as design and technical assistance, could be added to clarify the types of technical and administrative work.</p>	<p>Guidance clarified</p> <p>A.1 is clarified to indicate the activities (i.e., technical and administrative work) undertaken prior to commencement of the physical construction should contribute to the actual development or construction of the asset.</p>

		Clarify Guidance A.4 - While we agree with the guidance added, we were of the view that the guidance should be set out differently. The guidance goes beyond the one question asked about whether to use the interest incurred by the lending agencies. It would be helpful to structure the guidance so that there are separate fact patterns with separate questions or have one fact pattern with different sub-questions.	No action necessary While the response to A.4 extends beyond the question, the response is complete: <ul style="list-style-type: none"> - No, the borrower does not consider the rate incurred by the lender; but - It must consider all facts and circumstances; and - The consolidated entity may be required to apply the lender's rate.
		Clarify Guidance Illustrative examples IE7 - We question the relevance of this paragraph in the fact pattern. Our view is that the visibility of how the lender sourced its funds or its weighted average borrowing costs does not change the principle that the borrower only considers the borrowings and borrowing costs that it itself has incurred.	No action necessary The paragraph highlights the borrower only considers the rate it incurs, not the rate incurred by the lender. While this point is also made in A.4, non-authoritative guidance may be reviewed piecemeal. Since centralized borrowing was a focus of this project, IE7 is retained.
		Clarify Guidance While we agree with the overall decision that borrowing costs are not the same as transaction costs, we thought it would be useful if the IPSASB explained what it means by "transaction cost" as there is no consistent definition across IPSAS. Including a definition (or a cross reference to the proposed definition in the ED, Measurement) will support the overall understandability of the IPSASB's decision.	Guidance clarified Reference to the definition of transaction costs in ED 77 has been made.
6	Partially Agree	Add Non-Authoritative Guidance In addition to IE1~IE3, it seems necessary to add more detailed IEs related to the topic of the period of borrowing cost capitalization. These IEs may include examples of whether the period of borrowing cost capitalization ends with the acquisition of land	No action necessary IPSAS 5.36 is clear <i>capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.</i>

		or completion of the construction in case of borrowing incurred to acquire land for building purposes.	No further clarification required.
		<p>Clarify Guidance</p> <p>To provide a clearer explanation on when the period of borrowing cost capitalization begins, it deems appropriate to revise IE1~IE3 to make the beginning of construction and issuance of bonds not identical.</p>	<p>No action necessary</p> <p>IPSAS 5.31 is clear <i>the capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:</i></p> <ul style="list-style-type: none"> (a) <i>Outlays for the asset are being incurred;</i> (b) <i>Borrowing costs are being incurred; and</i> (c) <i>Activities that are necessary to prepare the asset for its intended use or sale are in progress.</i> <p>Breaking the timing of the beginning of constructure from the issuance of the bonds emphasizes the principles in para. 31, however it further complicates the calculation for readers.</p> <p>No further clarification required.</p>
		<p>Add Non-Authoritative Guidance</p> <p>ED 74 do not provide IEs related to the third topic of A.4, but it seems necessary to include IEs for the case of an entity and a centralized lending agency being a part of the same economic entity. These examples may address:</p> <ul style="list-style-type: none"> - In what case the borrowing costs incurred by the centralized lending agency should be capitalized to the qualifying asset in the consolidated financial statements; - How to account for consolidation adjustments to eliminate those costs capitalized by the controlled entity; and - How to determine the borrowing costs for capitalization. In doing so, IPSASB could 	<p>No action necessary</p> <p>IEs and IGs complement each other. While sometimes duplicative, practical guidance is developed as an IE or an IG based on the best format to communicate the guidance.</p> <p>Given A.4 is explicit, <i>the borrowing costs incurred by the centralized lending agency can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity</i>, developing additional IEs would not add to clarification.</p>

		strengthen the linkage between IGs and IEs, and it could also serve as an explanation for paragraphs 27 and 28 of IPSAS 5.	
		Add Non-Authoritative Guidance Asset Funded through General Borrowings – Range of Debt Instruments IE4–IE8 only address the case of borrowing arrangements without concessionary terms. However, it is highly probable that government including public sector entities do not enter into a borrowing arrangement at the market terms. Therefore, it is advisable for IPSASB to consider extending IE4–IE8 or developing separate IEs that illustrate how to recognize financial liabilities with concessionary elements and how to calculate borrowing costs for capitalization based on a market related interest rate that the entity would have incurred on a similar loan. These IEs would be helpful for the preparers to better understand how the accounting for borrowing costs differ depending on the presence of concessionary terms, as well as, the relationship between accounting for borrowing costs and IPSAS 41, Financial Instruments.	No action necessary The IPSASB developed detailed guidance when accounting for concessionary loans in the IGs and IEs to IPSAS 41. This guidance illustrates the journal entries and how to determine the effective interest rate. No additional guidance required in IPSAS 5.
		Clarify Guidance Neither Paragraph 25 nor IE A.6 of IPSAS 5 provide clear explanations on which source of fund is assumed to be used first between general borrowings and specific borrowings. Hereupon, IE9–IE12 should be further amended to include the case of using both general borrowings and specific borrowings in order to help address the practical difficulties of the preparers.	No action necessary IE 13 – IE 15 provide an example where a borrowing costs related to a specific borrowing are capitalized in advance of other sources of funding. While this example does not explicitly include general borrowings, it is reasonable constituents can extend the example.
		Clarify Guidance BC11–BC14 need to be further amended to provide	No action necessary BC12 states the IPSASB concluded borrowing costs and

	<p>clearer understanding on the basis that determined borrowing costs and transaction costs as different economic phenomena. Especially, the</p> <p>phrase, 'transaction costs are independent of the contractual terms of the debt instrument', of BC14 needs to further specify that the transaction is attributable to the acquisition of qualifying assets.</p>	<p>transaction costs are different economic phenomena. BC 13 and BC 14 state why the IPSASB assumed this position.</p> <p>The position is well supported. No further clarification necessary.</p>
	<p>Add Authoritative Guidance</p> <p>To help avoid the public sector entity to discretionarily employ accounting policy for</p> <p>borrowing costs with limited reasonable basis of the adoption, it is advisable to include the following in Paragraph 40 of IPSAS 5 that it is mandatory to disclose the basis and policy that support the</p> <p>entity's decision on either capitalize or expense borrowing costs of qualifying assets.</p>	<p>No action necessary</p> <p>Beyond the scope of the project. This was a limited-scope project focused on adding non-authoritative guidance.</p> <p>Amendments to the authoritative guidance our outside the scope.</p>
	<p>Add Authoritative Guidance</p> <p>To ensure convenience in application, IASB amended Paragraph 14 of IAS 23(BC14A~BC14D)</p> <p>to allow the specific borrowing remained outstanding after the related qualifying asset became ready for its intended use or sale to be considered as a part of general borrowings. Likewise, it is suggestible to amend Paragraph 25 of IPSAS 5 following the intention of the amendment of IASB.</p>	<p>No action necessary</p> <p>Some respondents noted the equivalent paragraph IPSAS 5.25 was clarified by the IASB's Annual Improvements to IFRS Standards 2015-2017 Cycle. They suggested this change should be reflected in IPSAS 5.</p> <p>This change was made as part of the IPSASB's 2018 Improvements to IPSAS. It has been reflected in the 2019 version of the handbook.</p>

7	Partially Agree	<p>Clarify Guidance</p> <p>A.3 Asset Funded through Transfers In our view, the answer does not directly respond to the question. We suggest that the second sentence of the question should be reworded to reflect “When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer,” as described in the answer. For instance, we propose the following revision.</p> <p>(Proposed revision) Question: “In many jurisdictions, the acquisition, construction, or production of the qualifying asset is funded through a transfer from another public sector entity. Does the entity acquiring, constructing, or producing the qualifying asset apply the allowed alternative treatment, as described in paragraphs 17-18, <u>and capitalize the borrowing cost even when the acquisition, construction, or production of a qualifying asset is fully funded through a transfer?</u>”</p>	<p>No action necessary</p> <p>In developing A.3, providing examples of the “other sources of funds” was considered to be important. Accepting the proposed amendments would eliminate these examples that help readers understand the issue being addressed.</p>
		<p>Clarify Guidance</p> <p>IE2 Qualifying Asset Constructed Over a Period of Time The second sentence of IE2, “In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalizing the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowing.” explains the portion where the deduction is made in the formula of IE3. This sentence could confuse the readers as it does not support the first sentence of IE2. We contend that the second sentence of IE2 should be made a separate section or included in IE3.</p>	<p>Guidance clarified</p> <p>Agree IE2 the second sentence in IE2 does not support the first. IE2 was split into two paragraphs to enhance clarity.</p>

		Clarify Guidance IE14 Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount We suspect that the first sentence stating that “At December 31, 20X1, State Government C has incurred expenditures of CU200 million” and the second sentence stating that “These expenditures were transferred ... on January 1, 20X1” is incompatible in chronological order. We recommend either assuming that the two transactions were entered into on the same date or specifying that the expenditures were transferred as an advance payment on January 1, 20X1.	No action necessary Referencing “in advance” may call into question whether the transfer is a qualifying expenditure. Depending on the outcome of the transfer expenses project, transfers in advance of services being provide may be capitalized. This is not the principle the example is illustrating. The transfer occurs in one lump sum payment to simplify the interest calculation for the purposes of the example.
8	Agree	-	-
9	Agree	-	-
10	Agree	Clarify Guidance The following table, in the row of State Bonds the figure of CU1,000 million, must go in column A so the data of that first row must be corrected.	No action necessary Row “state bonds”, column A includes the figure CU1,000 million. No amendment necessary.
		Clarify Guidance It seems to us that an accounting entry should be included that shows how to apply the weighted average for each loan, where it is explained how to apply that rate and its effect on the nominal interest rate.	No action necessary The journal entries may be different depending on how the entity manages its debt instruments. One entry may be required to reverse the interest expenses across all three instruments, three entries may be required, or any other number of iterations. No further clarification required.
11	Agree	-	-

12	Partially Agree	Add Non-Authoritative Guidance Paragraph A4 of ED 74 states that where the entity acquiring, constructing or producing the qualifying asset receives loan funding on concessionary terms, it should “capitalise borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan”. This appears inconsistent with other sections of A3 and A4, which state that “The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred”. Further guidance or an illustrative example on a concessional loan which explains and reconciles these two principles may be helpful.	Guidance Clarified The IPSASB developed detailed examples to illustrate how to account for concessionary loans. These examples should not be duplicated in IPSAS 5. However, to solidify the link, reference to the illustrative examples in IPSAS 41 has been added to paragraph A4. Furthermore, no inconsistency exists between those borrowing costs which the entity itself has incurred and borrowing costs associated with a concessionary loan. The interest rate related to a concessionary loan may not be explicit in the arrangement, however, it is a cost the entity itself incurs.
		Clarify Guidance Paragraph A4 notes that consolidation adjustments may be required where borrowing costs incurred by a centralised lending agency differ to those of the controlled entity which acquired, constructed or produced the qualifying asset. HOTARAC notes this could involve significant work on consolidation where governments elect to capitalise borrowing costs.	No action necessary Where both the controlled entity and the controlling entity elect to capitalize borrowing costs, consolidation entries are required. This may result in significant work on consolidation, but to ignore this would duplicate the interest capitalized.
13	Agree	-	-
14	Agree	-	-
15	Partially Agree	Add Authoritative Guidance However, there is one proposal in the proposed Implementation Guidance that, if retained, should	No action necessary Some respondents noted the equivalent paragraph IPSAS 5.25 was clarified by the IASB’s Annual

		<p>prompt an update to the standard, IPSAS 5. Paragraph A.5 states that:</p> <p>“An entity shall exclude from the weighted average calculation, those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete.”</p> <p>The bolded part of the sentence was included as an amendment to IAS 23, Borrowing Costs, because of the International Accounting Standards Board's Annual Improvements to IFRS Standards 2015-2017 Cycle, to clarify this issue for stakeholders. PSAB staff recommends ensuring a similar amendment be made to paragraph 25 of IPSAS 5, to align with IAS 23 and the proposed non-authoritative guidance in the Exposure Draft.</p>	<p>Improvements to IFRS Standards 2015-2017 Cycle. They suggested this change should be reflected in IPSAS 5.</p> <p>This change was made as part of the IPSASB's 2018 Improvements to IPSAS. It has been reflected in the 2019 version of the handbook.</p>
		<p>Clarify Guidance</p> <p>In reviewing the proposed guidance, PSAB staff noted the use of the term “expenditures” in paragraphs BC6(b), A.2, A.5, IE14, and IE15. While expenditures are referred to in the comparative standard IAS 23, IPSAS 5 exclusively uses the term “outlay” in its existing text. PSAB staff suggests retention and consistent usage of IPSAS terminology such as outlays, where guidance has been modified from International Financial Reporting Standards, to ensure clarity to stakeholders.</p>	<p>Guidance Clarified</p> <p>Implementation guidance and illustrative examples have been updated for consistency with IPSAS 5 terminology.</p>

	<p>Clarify Guidance</p> <p>Basis for Conclusions</p> <p>PSAB staff notes that IPSASB's initial proposal to eliminate the option to capitalize borrowing costs, per paragraph BC5, appears to be driven by objectives to reduce burden in financial statement preparation, enhance comparability, and more closely align with the requirements in the Government Finance Statistics (GFS) Manual 2014. Should more explanation be provided to stakeholders in discussing and linking these concepts to IPSASB's subsequent decision in paragraph BC7 to retain existing guidance? That is, the decision to retain the existing option was based on facilitating 'preparers to select the policy that best achieves the measurement objective of the qualifying asset'. Did the Board conclude that this objective was more critical than further alignment with GFS?</p>	<p>Guidance Clarified</p> <p>Additional wording was added to BC7 to indicate the concerns raised in BC5 were not abandoned. Retaining the policy choice to expense or capitalize borrowing costs addressed the concerns in BC5 while maintaining alignment with IFRS.</p>
	<p>Clarify Guidance</p> <p>PSAB staff agrees with the assertion of paragraph BC9b) that the accounting treatment for borrowing costs should be driven by the most appropriate reflection of costs attributable to a qualifying asset. However, PSAB staff is unsure whether this driver for the choice of approach is clear in the text of IPSAS 5. The existing standard does not prescribe or state a preference regarding the capitalization or expensing of borrowing costs. Paragraph BC9b) appears to imply that capitalization of borrowing costs should be applied in all cases where</p>	<p>No action necessary</p> <p>The standard does not prescribe when borrowing costs should be capitalized. It is a policy choice. BC9b) is currently drafted to indicate the policy choice is retained to assist users in obtaining the most appropriate reflection of the asset. BC9b) is consistent with IPSAS 5.</p>

		<p>borrowing costs may be applied to a qualifying asset, which is not clear within the standard itself.</p>	
		<p>Clarify Guidance</p> <p>In reviewing paragraphs BC13-14, PSAB staff notes that the IPSASB basis for differentiating the accounting treatment for borrowing costs and transaction costs was driven significantly by the contractual transferability of such costs. PSAB staff disagrees with the argument that because these types of costs are different economic phenomena, as further detailed by BC 13-14, it is appropriate to differentiate their treatment. PSAB staff asserts that for both types of costs, capitalization would be driven by an assessment of both: a) probability of future economic benefit or service potential, and b) reliable measurement of cost or fair value. Both transaction costs (IPSAS 41.57) and borrowing costs (IPSAS 5.18) are capitalized when they are deemed directly attributable to the underlying transaction, and as such PSAB staff does not agree contractual transferability impacts the assessment of capitalization for either of these types of costs.</p>	<p>No action necessary</p> <p>The thought pattern developed in the response is consistent, but not explicit, with BC11-BC14.</p> <p>The BCs are written to evaluate whether borrowing costs and transaction costs should be accounted for in a consistent manner.</p> <p>BC12 concludes transaction costs and borrowing costs are different economic phenomena. Because of this the accounting could be different depending on the facts on circumstances.</p> <p>Guidance when accounting for transaction costs is included in ED 77, <i>Measurement</i>, while guidance on borrowing costs is included in IPSAS 5. Whether either are capitalized or expensed depends on facts and circumstances.</p>
		<p>Clarify Guidance</p> <p>Implementation Guidance</p> <p>PSAB staff notes that paragraph A.1 draws from paragraph 31 of IPSAS 5. However, the usage within the proposed application guidance appears to implicitly include a presumption that outlays for the asset are being incurred in a period. As the proposed non-authoritative guidance does appear to</p>	<p>Guidance Clarified</p> <p>Added wording to A.1 to clarify borrowings, outlays and activities must occur.</p> <p>“Where <u>outlays and</u> borrowings have been...”</p>

		<p>draw directly from paragraphs 31 and 33 of IPSAS 5, referencing these paragraphs and ensuring the inclusion and assessment of all three criteria of paragraph 31 may assist stakeholders in understanding the proposed guidance.</p> <p>PSAB staff notes that the paragraph should be amended to "...borrowings should be capitalized when the activities necessary to get the asset ready for use necessary to prepare the asset for its intended use or sale begin," to align with the guidance of IPSAS 5.31.</p>	
		<p>Add Non-Authoritative Guidance</p> <p>PSAB staff agrees with the implementation guidance provided in paragraph A.2. However, PSAB staff is unsure if there exists a limit on the amount of investment income deducted from temporary investments on the capitalization of borrowing costs. Consider a situation where the criteria of IPSAS 5.31 have been satisfied, but the investment income on excess borrowings exceeds the amount of borrowing eligible for capitalization. Might this result in a conceptual negative interest rate and thereby reduce the carrying value of the qualifying asset, or is there a limit on the reduction of borrowing costs?</p>	<p>No action necessary</p> <p>Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues.</p> <p>Furthermore, this issue is not specific to the public sector.</p>
		<p>Clarify Guidance</p> <p>In reviewing paragraph A.3, PSAB staff agrees with the proposed guidance where procurement of a</p>	<p>No action necessary</p> <p>When developing IGs and IEs, the IPSASB focused on developing guidance that related to one principle (as</p>

		<p>qualifying asset is fully funded through a transfer. Conversely, PSAB staff believes the standard and proposed non-authoritative guidance lack clarity regarding the appropriate treatment for qualifying assets that are funded through a combination of transfers or concessionary grants, and interest-bearing borrowings. For example:</p> <ul style="list-style-type: none"> o Would the full amount of qualifying borrowing costs, with consideration for limits on capitalization, apply? o Does the provision of specifically applied concessionary funding source, such as a non-interest-bearing transfer, impact the proportion of borrowing costs that may be applied in a period? 	<p>opposed to combining multiple principles into one example). This is based on the view it is easier to combine multiple simple examples as opposed to applying on parts of complex ones.</p> <p>A numeric example on using multiple funding sources exists (IE14-IE16) and A.4 provides guidance when accounting for borrowing costs related to concessionary loans. This, combined with A.5, which indicates the limit on capitalization, addresses the complex examples proposed.</p>
		<p>Add Authoritative Guidance</p> <p>As noted above, paragraph A.5 states that an “entity shall exclude from the weighted average calculation, those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete.” This appears to be drawn from either paragraph 25 or 38 of IPSAS 5. However, in reviewing paragraph 38 of IPSAS 5, PSAB staff notes that the context for this guidance appears to be restricted to component parts of a specific qualifying asset, rather than to the general exclusion of borrowings made specifically to any other qualifying asset. Conversely, paragraph 25 does not contain guidance to include, in the weighted average calculation, borrowings specifically to other</p>	<p>No action necessary</p> <p>Some respondents noted the equivalent paragraph IPSAS 5.25 was clarified by the IASB’s Annual Improvements to IFRS Standards 2015-2017 Cycle. They suggested this change should be reflected in IPSAS 5.</p> <p>This change was made as part of the IPSASB’s 2018 Improvements to IPSAS. It has been reflected in the 2019 version of the handbook.</p>

		<p>qualifying assets that are ready for their intended use.</p> <p>PSAB staff notes that the above bolded sentence was included as an amendment to IAS 23, Borrowing Costs, because of the International Accounting Standards Board's Annual Improvements to IFRS Standards 2015-2017 Cycle, to clarify this issue for stakeholders. PSAB staff recommends ensuring a similar amendment be made to paragraph 25 of IPSAS 5, to align with IAS 23 and the proposed non-authoritative guidance of the Exposure Draft.</p> <p>Further, PSAB staff suggests an additional or revised example, considering both general and specific project funding streams, to illustrate this concept to stakeholders. Illustrating the inclusion of excess borrowing for specific qualifying assets that are ready for use in general borrowings would also be of benefit to stakeholders in interpreting and applying the standard's guidance.</p>	
		<p>Add Non-Authoritative Guidance</p> <p>Illustrative Examples</p> <p>As previously noted, PSAB staff supports the inclusion of a robust example of weighted average borrowing rate calculation that considers multiple specific project borrowings, general borrowings, and inclusion of excess specific project borrowings for</p>	<p>No action necessary</p> <p>When developing IGs and IEs, the IPSASB focused on developing guidance that related to one principle (as opposed to combining multiple principles into one example). This is based on the view it is easier to combine multiple simple examples as opposed to applying on parts of complex ones.</p>

		ready for use qualifying assets for inclusion in general borrowing. PSAB staff believes a comprehensive example would be of value to stakeholders and reflective of the breadth of complex funding arrangements that exist within the public sector.	A numeric example on using multiple funding sources exists (IE14-IE16) and A.4 provides guidance when accounting for borrowing costs related to concessionary loans. This combine with A.5, which indicates the limit on capitalization, addresses the complex examples proposed.
		<p>Clarify Guidance</p> <p>In reviewing paragraph IE13-15, PSAB staff notes the implication that there is precedence in the draw-down of funding sources, whereby expenditures of CU200 million are applied wholly against the loan of CU250 million, rather than considering that a proportion of expenditure may also be allocated from the Federal grant provided of CU500 million. PSAB staff is unsure whether the standard is clear that interest-bearing borrowings would be considered exclusively in the determination of capitalized borrowing costs, rather than factoring in the concessionary element of the Federal grant in determining amounts eligible for capitalization.</p>	<p>No action necessary</p> <p>When developing the example, the IPSASB agreed borrowed funds are first applied against outlays.</p> <p>Since there are no repayment terms on the federal grant, there is no concessionary element to bifurcate from a financial liability.</p>
16	Partially Agree	<p>Add Non-Authoritative Guidance</p> <p>It would be useful to develop a different example, with multiple investments taking place under an entity's general borrowing and financed from several origins (borrowing, tax revenue and other fees and transfers), in which the allocation to them of capitalized expenses complies with the constraint of the amount of borrowing costs capitalized during a period not exceeding the amount of borrowing costs incurred during that period.</p>	<p>No action necessary</p> <p>When developing IGs and IEs, the IPSASB focused on developing guidance that related to one principle (as opposed to combining multiple principles into one example). This is based on the view it is easier to combine multiple simple examples as opposed to applying on parts of complex ones.</p>

	<p>Clarify Guidance</p> <p><i>Implementation Guidance contained in “A.1 Period of Borrowing Cost Capitalization”</i></p> <p>An issue remains that may represent an obstacle for public sector entities wishing to recognize borrowing costs according to the Allowed Alternative Treatment of IPSAS 5, i.e. the period of borrowing cost capitalization. This issue is well recalled in the Implementation Guidance contained in “A.1 Period of Borrowing Cost Capitalization”, but no Illustrative Example is provided to this regard. The implementation guidance focuses only on the beginning of activities necessary to get the asset ready for use, but remains vague. No examples of such activities are provided. Furthermore, other cumulative preconditions for capitalizing borrowing costs are missing. Pursuant paragraph 31 of IPSAS 5, “The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when: (a) Outlays for the asset are being incurred; (b) Borrowing costs are being incurred; and (c) Activities that are necessary to prepare the asset for its intended use or sale are in progress”. Considering that acquisition, construction, or production in the public sector mostly begin through staged processes (e.g. public procurement), it may be useful to extend the Implementation Guidance contained in “A.1 Period of Borrowing Cost Capitalization” and complement it with an Illustrative Example for each of the commencement conditions listed in paragraph 31 of IPSAS 5.</p>	<p>Guidance Clarified</p> <p>Added wording to A.1 to clarify borrowings, outlays and activities must occur.</p> <p>“Where <u>outlays and</u> borrowings have been...”</p> <p>No additional illustrative examples have been developed because IEs and IGs complement each other. While sometimes duplicative, practical guidance is developed as an IE or an IG based on the best format to communicate the guidance.</p>
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		<p>Add Non-Authoritative Guidance</p> <p><i>Implementation Guidance contained in “A.2 Limit on Capitalization” and the complementing</i></p> <p><i>Illustrative Example “Qualifying Asset Constructed Over a Period of Time” (IE1-IE3)</i></p> <p>A.2 and the complementing Illustrative Example explain the procedure of calculating the maximum amount eligible for capitalization. The term “limit” in connection with “when applying the allowed alternative treatment” might express that the capitalized amount might be lower, if the entity applies a different accounting policy with respect to those cases covered by the illustrative example. The special feature of the example given is that the borrowing and its utilisation by the qualifying asset differ. We will elaborate this alternative accounting policy with respect to the Illustrative Example “Qualifying Asset Constructed Over a Period of Time” (IE1-IE3) in the following. The rationale behind the alternative accounting policy is based on IPSAS 5.21 (“The borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made.”) The Illustrative Example “Qualifying Asset Constructed Over a Period of Time” (IE1-IE3) explains how the maximum amount of borrowing costs eligible for capitalization is calculated for the first period, starting on March 31) (i.e. the first nine months) of</p>	<p>No action necessary</p> <p>Beyond the project scope. The limited-scope project aimed to clarify specific principles in IPSAS 5.</p> <p>Expanding on the current example, making it more complex, is a direction the IPSASB actively avoids. The IPSASB focused on developing guidance that related to one principle (as opposed to combining multiple principles into one example). This is based on the view it is easier to combine multiple simple examples as opposed to applying on parts of complex ones.</p>
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		<p>the whole construction period. When applying this accounting policy procedure for the whole construction period of five years, ending on March 31 of the sixth period, we calculate the following: borrowing costs (CU25 million) less temporary investment revenues (CU6 million) sum up to CU19 million, thus raising acquisition, construction, or production costs from 5xCU20 million to CU119 million. This increase in costs also raises the risk of an impairment loss. A different accounting policy, limiting the borrowing costs to the funding of the outlays incurred (CU20 million in the 2nd, 3rd, 4th quarter of the first period; CU20 million for the 1st and CU40 million for the remaining quarters in period 2, etc.) can lower this risk and could be considered by the entity to be more appropriate if the government was not forced by legislation to borrow in excess “to show it was able to secure financing” (IE13). In other words, if excess borrowing is not due to compliance with existing regulations, but to the borrowing government’s inefficiency, the following two exemplary accounting policies might be applied voluntarily, limiting the capitalization to the borrowing costs for expenses incurred for the acquisition, production or construction of a qualifying asset.</p> <ul style="list-style-type: none"> - The first alternative might follow the general rule, to capitalize the directly attributable amount of borrowing costs and reduce it by income on temporary investments on excess funding, e.g. unused funds. - The second alternative might renounce deducting the income on temporary investments for consistency reasons: as excess borrowing costs are not capitalized, 	
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		<p>income on the corresponding temporary investment might not be deducted from capitalisation.</p> <p>Therefore, we also propose to add a clarification if less than the maximum amount might be capitalized.</p> <p>Finally, as the example expands to a 25-year period, we suggest that for illustration purposes the example covers the whole period under analysis. To the same backdrop, we encourage the IPSASB to add Illustrative Examples:</p> <ul style="list-style-type: none"> - covering paragraphs 34-35 on Suspension of Capitalization; - about the distinction between borrowing costs and transaction costs (see BC 13 and BC 14); - covering the Implementation Guidance A.4, referring to assets funded through a Centralised Lending Program - more specifically about the capitalisation of borrowing costs based on market interest rates when concessional terms are identified. 	
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			<ul style="list-style-type: none"> - this example is outside the scope of the limited-scope project - as noted, this is addressed in the BCs - guidance on accounting for concessionary loans is referenced in A.4 to IPSAS 41. Examples will not be duplicated in IPSAS 5.
		Clarify Guidance <p>The Exposure Draft introduces twelve new points in the Basis for Conclusions of IPSAS 5, with numbers BC3 to BC 14. As a matter of fact, the 2020 Edition of the IPSAS Handbook, page 327, reports BC3 already exists, so we wonder if the correct numbering for the additional Basis for Conclusions should read BC4 to BC 15. Should this be the case, the amendment ought to concern both the Summary, at page 5 of</p> <p>3 ED74, and the actual Basis for Conclusions, pages 6-8 of ED 74.</p>	Guidance Clarified <p>BCs have been re-referenced. They now begin with BC8.</p>
		Clarify Guidance <p>IE15 complements IE13 and IE14, but does not really add significant points. It seems therefore redundant. A more interesting remark, in this example, would be to recall the reader's attention on</p>	No action necessary <p>While IE15 adds little to the fact pattern, it does restate the accounting in written form as opposed to calculations. This may benefit those reading the guidance.</p>

		the fact that the federal grant is not relevant in this case, and to repeat the reasons thereof.	
		Clarify Guidance In IE9, it reads "State Government T manages its own borrowings; however, it does not borrow for specific projects". We believe that it should be made explicit that the borrowings is related only to investments and not operating or other activities.	No action necessary Clarification may not be correct. The borrowings in the example are used for capital projects, but they may also be used for normal operations. The point is the borrowings are not specific to one project.
17	Partially Agree	Add Non-Authoritative Guidance <i>Period of Borrowing Cost Capitalization and limit on capitalization</i> While the implementation guidance clearly explains the period of capitalization of borrowing costs and when such capitalization should cease, the Illustrative Example provided does not provide workings related to suspension of capitalization of borrowing costs. We would suggest that examples of temporary stoppages caused by whatever reason be provided and the ensuing costs be calculated with the ensuing costs being expensed rather than being capitalized. Limit on capitalization is well explained in the implementation guidance and the calculations provided in the Illustrative Example clearly capture the limitation of borrowing costs to be capitalized.	No action necessary Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues. Furthermore, this issue is not specific to the public sector.
		Add Non-Authoritative Guidance Centralized Borrowing Program – Eligible Borrowing Costs	No action necessary Consolidation adjustments are beyond the scope of this project.

		<p>The implementation guidance aptly explains that when the centralized entity is responsible for borrowing the loans the weighted average cost of the centralized lending agency does not qualify as borrowing costs for the entity that is acquiring, constructing or producing a qualifying asset. The IG further explains that where the entity acquiring, constructing or producing a qualifying asset determines that the interest rates its being charged by the central lending agency are below market rates then it must apply the requirements of IPSAS 41 – Financial Instruments. It further states that the entity acquiring, constructing or producing a qualifying asset can only include those borrowing costs that it has incurred itself. Where the entity is a controlled entity by the central lending agency the IG states that the central lending agency may include the borrowing costs as part of the qualifying assets of the group but necessary adjustments need to be done.</p> <p>The Illustrative Examples provided are detailed enough to help users appreciate the concept EXCEPT that in the case of a consolidated structure the IE does not provide any example of the treatment. We therefore recommend that such an illustrative example be avoided.</p>	
		<p>Add Non-Authoritative Guidance</p> <p><i>General Borrowing and Weighted Average Cost of Borrowing</i></p> <p>The Implementation guidance explains that where an entity generally borrows and uses its cash in</p>	<p>No action necessary</p> <p>Adding an example where the borrowing is 150 million and the total expenditure is 200 million is not overly relevant to readers. While this may be common in practice, the entire borrowing costs associated with the</p>

	<p>hand to finance any qualifying asset, the borrowing costs will be determined by applying a weighted average cost of all borrowings of the entity outstanding during the period excluding any borrowings that are specific to another qualifying asset. The Illustrative Examples IE9 – IE12 clearly explain the principle including how the calculation of the weighted average interest rate will be. No further additional information is necessary. The Implementation guidance further explains that where multiple debt instruments are used to fund the cost of a qualifying asset a weighted average cost of borrowings will also be applied based on all the debt instruments used to fund the cost of the qualifying asset. The Illustrative Example given IE13 – IE15 does explain situations where the borrowings exceed the costs of the qualifying asset therefore not necessitating the use of the weighted average cost.</p> <p>We would therefore suggest that a further IE be provided where the borrowing is say, CU150 million with all the other details remaining the same. This would then provide users of the IG with a clearer understanding of how to apply the weighted average cost.</p>	<p>borrowing could be capitalized.</p>
	<p>Add Non-Authoritative Guidance</p> <p>This ED should also provide Illustrative Examples for the following scenarios.</p> <ol style="list-style-type: none"> 1. Public sector entity temporarily suspends the acquisition, construction or procurement of a qualifying asset for whatever reasons. 2. The resources for the acquisition, construction or procurement are diverted to other purposes. 	<p>No action necessary</p> <p>Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues.</p> <p>Furthermore, this issue is not specific to the public sector.</p>

18	Partially Agree	Clarify Guidance (AI-A6): It is noted that the structure adopted by IPSAS Board for providing the IG in draft IPSAS 5 is somewhat different from other IPSASs. It is further noted that some questions A1-A6 (on commencement, amount eligible, centralised borrowings etc.), have been framed and a few of those have already been addressed directly in the main part of the Standard itself. It does not seem relevant to reproduce the same guidance again in the IG as it is. It may be explored to merge these explanations/clarifications (provided in A1 to A6) appropriately with the examples practical situations in draft for better understanding of the users. (An example for A1 is enclosed for ready reference)	No action necessary The structure of the IEs and IGs broadly follows the format applied in the IPSASBs most recent publications. While some duplication exists with the core text, this again is consistent with recent publications as it provides readers with a different way of reading the guidance.
		Add Non-Authoritative Guidance IE:- It is suggested that illustrative examples specifically to address the commencement, suspension, and cessation of capitalisation of borrowing Costs may be inserted appropriately for more clarification.	No action necessary Beyond the project scope. The limited-scope project aimed to clarify principles in IPSAS 5, not interpret specific practice issues. Furthermore, this issue is not specific to the public sector.
		Clarify Guidance BC 10 may be provided in bold to be highlighted so that the outcome of the 'measurement' project is available at a glance itself instead of going through the whole BC, as per the requirement of the user.	No action necessary BC10 indicates why this pronouncement was developed. It is the conclusion of the preceding paragraphs. Furthermore, BCs are not bolded.

Supporting Document 3 – IPSAS 5, Borrowing Costs – Non-Authoritative Guidance

1. This Agenda Item includes a draft version of IPSAS 5, Borrowing Costs – Non-Authoritative Guidance. This version reflects changes to the ED74 version approved by the IPSASB.

Review Instructions

2. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing the draft pronouncement:
 - a. Amendments proposed to the draft pronouncement are based on responses received to ED 74, IPSAS 5, Borrowing Costs – Non-Authoritative Guidance. Changes are tracked.

[DRAFT] Final Pronouncement
July 2021

IPSAS®

*[PROPOSED] International Public Sector Accounting
Standard®*

IPSAS 5, Borrowing Costs – Non- Authoritative Guidance

IPSASB

International Public
Sector Accounting
Standards Board®

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The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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IPSAS 5, BORROWING COSTS – NON-AUTHORITATIVE GUIDANCE

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Objective

1. The objective of this ~~Exposure Draft (ED)~~pronouncement is to add non-authoritative material to IPSAS 5, *Borrowing Costs*, and to provide guidance for determining the extent to which borrowing costs can be capitalized. No amendments are proposed to the authoritative material. The guidance proposed adds implementation guidance and illustrative examples, which IPSAS 5 does not currently contain. The IPSASB's decisions to add non-authoritative material to IPSAS 5 are explained in the amended Basis for Conclusions.
2. The IPSASB consulted constituents in its April 2019 Measurement Consultation Paper about whether it should remove the option to capitalize borrowing costs in IPSAS 5. Feedback on this issue was mixed and the IPSASB decided to retain both accounting policy options in IPSAS 5. However, the IPSASB has developed additional implementation guidance and illustrative examples to clarify the extent to which borrowing costs can be capitalized.

Summary of Proposed Non-Authoritative Guidance

Section of IPSAS 5, <i>Borrowing Costs</i>	Summary of Proposed Non-Authoritative Guidance
Basis for Conclusions	Explains the IPSASB decision to <ul style="list-style-type: none"> • Retain the accounting policy choice to capitalize borrowing costs as part of the cost of the asset when they are directly attributable to the acquisition, construction, or production of a qualifying asset (BC3 <u>BC8 – BC9</u><u>BC14</u>); • Add Implementation Guidance and Illustrative Examples (<u>BC10</u>5); and • Distinguish between borrowing costs and transaction costs (BC11–BC16 – <u>BC14</u><u>BC18</u>).
Implementation Guidance	Guidance added to clarify the extent to which borrowing costs can be capitalized.
Illustrative Examples	Examples added to clarify the extent to which borrowing costs can be capitalized.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 5.

...

Revision of IPSAS 5 as a result of the IPSASB's Consultation Paper, *Measurement*, issued in April 2019

- BC8. In April 2019, the IPSASB published the Consultation Paper, *Measurement*. The Consultation Paper proposed a comprehensive framework outlining how measurement bases should be determined when applied in the context of IPSAS. One of the objectives of the Consultation Paper was to seek feedback on whether one of the accounting policy choices in IPSAS 5, *Borrowing Costs* should be removed.
- BC9. IPSAS 5 permits two accounting policy choices for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset: capitalization or recognition as an expense.
- BC10. The IPSASB proposed eliminating the option to capitalize borrowing costs in order to:
- (a) Address a public sector issue where borrowing is centralized and determined for the economic entity as a whole. Expensing borrowing costs lessens the burden of attributing centralized borrowing costs to specific projects within the public sector;
 - (b) Enhance comparability between the cost of the acquisition, construction, or production of the qualifying asset between public sector entities; and
 - (c) Align more closely with the requirements in the Government Finance Statistics Manual 2014 (GFSM).
- BC11. In developing its preliminary view, the IPSASB acknowledged the complexity of the issue. This complexity, and opposing views on what should be included in cost, resulted in responses to the preliminary view being split with many respondents supporting the Board's proposal, and equally, many respondents disagreeing. Those that disagreed with the proposal to remove the existing accounting policy choice considered that the reasons given for doing so were insufficient. They argued that:
- (a) The difficulties in attributing borrowing costs to specific projects in the public sector were overstated and were an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs;
 - (b) Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are part of the cost of that asset. During the period when an asset is under development, the **outlayexpenditures** for the resources used must be financed. Financing has a cost. The cost of the asset should include all costs necessarily incurred to get the asset ready for its intended use or sale, including the cost incurred in financing the **outlayexpenditures** as a part of the asset's acquisition, construction, or production cost;

- (c) Capitalizing directly attributable borrowing costs enhances accountability and decision making; and
 - (d) Immediate expensing of borrowing costs would be inconsistent with the requirements in other standards to capitalize transaction costs directly attributable to the acquisition, construction, or production of a qualifying asset.
- BC12. Having reviewed the responses, the IPSASB decided to retain the existing accounting policy choice. This addresses the issues identified in BC5 and enables preparers to select the policy that best achieves the measurement objective of the qualifying asset.
- BC13. The IPSASB observed the existing accounting policy choice is consistent with the measurement principles in the Conceptual Framework and allows preparers of public sector financial statements to consider the qualitative characteristics of useful information when selecting an approach that most faithfully represents the cost of the asset.
- BC14. Further supporting its decision to retain the accounting policy choice, the IPSASB noted the following:
- (a) Both capitalizing borrowing costs and expensing borrowing costs have technical merits. In some cases, respondents took opposite views: for example, on whether borrowing costs are an attribute of the cost of an asset;
 - (b) The goal of the approach when accounting for borrowing costs is to assist financial statement users in obtaining the most appropriate reflection of acquisition, construction, or production costs of a qualifying asset, which may in some cases include borrowing costs;
 - (c) While at certain levels of government the allocation of borrowing costs is challenging, at other levels, such as at the local government levels, it can be relatively straightforward;
 - (d) Capitalization of borrowing costs would align with IFRS where that is an economic entity's preferred approach, whereas the expensing of borrowing costs would demonstrate alignment with GFS if that is an economic entity's preferred approach; and
 - (e) There would need to be a clear benefit to expensing all borrowing costs before the IPSASB would remove the existing accounting policy choice to capitalize borrowing costs. Because there are unavoidable costs in eliminating an accounting policy choice, the IPSASB carefully considered the costs and benefits of any new pronouncement. In this case, the IPSASB had not been informed that preparers who elected to capitalize borrowing costs under IPSAS 5 found doing so unnecessarily burdensome.
- BC15. Some respondents to the Consultation Paper identified practical public sector challenges in capitalizing borrowing costs. The IPSASB therefore developed Implementation Guidance and Illustrative Examples to assist entities in determining the extent to which borrowing costs can be capitalized.

Distinction between borrowing costs and transaction costs

- BC16. In reaching the conclusion to retain the accounting policy choice, the IPSASB noted that accounting for borrowing costs may not be consistent with accounting for transaction costs¹. Some respondents proposed that the accounting treatment of borrowing costs and transaction costs should be consistent because they considered either:
- (a) Borrowing costs to be a type of transaction costs. Borrowing costs are directly attributable to the borrowing (for example, the issuance of a government financial instrument). Therefore, they meet the criteria of a transaction cost; or
 - (b) Transaction costs to be a type of borrowing costs. Some respondents proposed this view based on the methodology applied in calculating the effective interest rate of a financial instrument. This is because some transaction costs are added to, or subtracted from, the principal amount of a financial instrument when determining the gross proceeds of a borrowing in order to determine the effective interest rate.
- BC17. The IPSASB considered these views, but decided that borrowing costs and transaction costs are different economic phenomena. The IPSASB concluded it is appropriate for the accounting principles to differ for each type of “cost” depending on the facts and circumstances.
- BC18. In reaching this view, the IPSASB noted that borrowing costs comprise interest and other expenses incurred by an entity in connection with borrowing funds. Borrowing costs are often contractually linked to the underlying borrowing. Should the borrowing be transferred, the borrowing costs would either be transferred to the new counterparty or separated contractually.
- BC19. Transaction costs are incremental costs directly attributable to the transaction. However, transaction costs are independent of the contractual terms of the debt instrument. Should the item be transferred, the entity transferring the item is generally not compensated for the transaction costs because they are not transferred to the counterparty assuming the item.

¹ Transaction costs are defined in [draft] IPSAS [X], *Measurement*

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 5.

A.1 Period of Borrowing Cost Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, when can an entity begin to include borrowing costs in the cost of the qualifying asset?

Where outlays and borrowings have been incurred specifically to fund an asset's acquisition, construction, or production, the costs of those borrowings should be capitalized when the activities necessary to get-prepare the asset ready for its intended use or sale begin. The activities necessary to get the asset ready for use encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production, but exclude holding the asset when no development that changes the asset's condition is being undertaken.

The activities (i.e., technical and administrative work) undertaken prior to commencement of the physical construction should contribute to the actual development or construction of the asset.

A.2 Limit on Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, to specific borrowings, are borrowing costs included in the cost of the qualifying asset in that period limited to the borrowing costs incurred in that period?

Yes. If a borrowing can be specifically associated with outlayexpenditures on acquisition, construction, or production of the qualifying asset, the amount of borrowing costs capitalized during that period is limited to the borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

A.3 Asset Funded through Transfers

In many jurisdictions, the acquisition, construction, or production of the qualifying asset is funded through a transfer from another public sector entity. Does the entity acquiring, constructing, or producing the qualifying asset consider the underlying source of the funds, i.e., whether the funds are generated by tax revenues, general cash holdings or borrowings, when it determines the amount that can be included in the cost of the qualifying asset when applying the allowed alternative treatment, as described in paragraphs 17–18?

No. When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer, there will be no directly attributable borrowing costs to capitalize. The entity may include in the cost of the qualifying asset only those borrowing costs which it has incurred.

A.4 Asset Funded through a Centralized Lending Program – Interest Rates

A centralized lending agency may fund its activities by borrowings through several separate loan instruments. Each instrument may have a different interest rate. An entity may borrow funds from the centralized lending agency and use these funds for the acquisition, construction, or production of a qualifying asset. If the entity is using the allowed alternative treatment, as described in paragraphs 17–18, does the entity apply the weighted average interest rate incurred by the centralized lending agency when including borrowing costs in the cost of the qualifying asset?

No. The weighted average interest rate incurred by the centralized lending agency is not relevant in the preparation of the financial statements of the entity acquiring, constructing, or producing the qualifying asset. The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred.

The entity must consider all facts and circumstances when determining the borrowing costs incurred in its arrangement with the centralized lending agency. In some cases, the interest rate stated in the terms of the arrangement may not reflect the true borrowing costs associated with the funds received. When the entity identifies concessionary terms, the entity should apply the requirements in IPSAS 41, *Financial Instruments*, paragraphs AG118–AG127² and capitalize borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan (see IPSAS 41, IE153-IE172 for examples illustrating how to determine the interest rate in a concessionary loan). Interest expense calculated using the effective interest rate method is eligible for inclusion in the cost of the qualifying asset in accordance with this Standard.

If the centralized lending agency and the entity to which it lends funds are part of the same economic entity, in the financial statements of the consolidated entity, the borrowing costs incurred by the centralized lending agency can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

A.5 Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset

When an entity acquiring, constructing, or producing a qualifying asset manages its own borrowing program, but borrowings are not specific to the qualifying asset, how does the entity determine the borrowing costs directly attributable to the qualifying asset? This may occur when an entity uses cash on hand to fund the cost of a qualifying asset. This cash on hand is funded from general borrowings, tax revenue and other fees and transfers.

The amount of borrowing costs eligible for inclusion in the cost of the qualifying asset is determined using the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period. The weighted average of borrowing costs is then applied to the ~~expenditures-outlays~~ on the qualifying asset incurred during the period in determining the amount eligible for capitalization.

The entity shall exclude from the weighted average calculation, those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete. ~~The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.~~

A.6 Asset Funded through General Borrowings – Range of Debt Instruments

Does an entity apply a weighted average of borrowing costs when multiple debt instruments are used to fund the cost of a qualifying asset?

² Where an entity has not yet adopted IPSAS 41, the requirements in IPSAS 29, *Financial Instruments: Recognition and Measurement*, paragraphs AG84-AG90 are applied. Similar to the IPSAS 41 requirements, an entity should capitalize borrowing costs based on a market related interest rate that the constructing entity would have incurred on a similar loan.

Yes. An entity may not be able to fund the cost of a qualifying asset with a single debt instrument. When multiple debt instruments are used, the cost of borrowing is determined by calculating the weighted average of all the debt instruments used to fund the cost of the qualifying asset.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 5.

Qualifying Asset Constructed Over a Period of Time

- IE1. On March 31, 20X1, Municipality XYZ begins construction of a tunnel to accommodate transit between two commercial hubs. The construction period is 5 years and the project is budgeted to cost CU100 million (CU20 million is paid to the construction company on the date the construction begins and on March 31 of each subsequent year during the construction period). Municipality XYZ issues a 25-year CU100 million bond on March 31, 20X1 that yields a fixed coupon of 5 per cent per annum. This bond was issued specifically to finance the construction of this project. The Municipality has a December 31 year end and earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.
- IE2. On December 31, 20X1, the Municipality has accrued borrowing costs of CU3.75 million (CU100 million x 5 percent x 9/12 months).
- IE3. In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalizing the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.
- IE3IE4. At December 31, 20X1, Municipality XYZ recognizes its tunnel asset as a work in progress. The amount capitalized is CU21.95 million (CU20 million + [CU100 million x 5 percent x 9/12 months] – [CU80 million x 3 percent x 9/12 months]). This represents the funds transferred to the construction company and the borrowing costs incurred during the period less the investment income earned on the CU80 million invested.

Centralized Borrowing Program – Eligible Borrowing Costs

- IE4IE5. The Department of Infrastructure begins construction of a new road network on June 15, 20X1. The project costs are budgeted to be CU500 million. All financing required by the Department of Infrastructure, and all other government departments, is secured centrally by the Department of Finance.
- IE5IE6. The Department of Finance estimates its cash flow needs on an annual basis in order to determine the most appropriate source of funding to meet its internal lending needs. These sources include tax revenue, fee revenue, bonds issuances and loans.
- IE7IE6. The Department of Infrastructure negotiates a 10-year loan from the Department of Finance. The Department of Finance requires the Department of Infrastructure to pay borrowing costs of 3 percent per annum. This is consistent with the market rate of interest the Department of Infrastructure would incur if the arrangement was negotiated at arm's length.
- IE7IE8. When the Department of Infrastructure secures financing from the Department of Finance, the Department of Infrastructure is aware borrowings comprise various sources, but has no visibility of how the Department of Finance sources the funds, nor of the weighted average borrowing costs the Department of Finance incurs.

IE8IE9. In determining the borrowing costs eligible for inclusion in the cost of the road network, the Department of Infrastructure includes only those borrowing costs which it itself has incurred. Because the loan is at market terms the Department of Infrastructure concludes there are no concessionary elements and determines borrowing costs eligible for inclusion in the cost of the road network are based on the interest rate of 3 percent stated in the contract.

General Borrowing – Weighted Average Cost of Borrowing

IE9IE10. State Government T has begun construction of a new airport. The cost of this airport is budgeted to be CU500 million. State Government T manages its own borrowings; however, it does not borrow for specific projects. In determining its borrowing needs, State Government T budgets its cash short fall over a given period and ensures borrowings will cover its liquidity needs.

IE40IE11. Over the construction period, State Government T held three instruments that were open for the entire construction period:

- State Bonds – CU1 Billion, yielding an annual rate of 5 percent;
- Loan with Financial Institution A – CU300 million, with an annual interest rate of 7 percent; and
- Loan with Financial Institution B – CU600 million, with an annual interest rate of 9 percent.

IE44IE12. In determining the amount of borrowing costs eligible for inclusion in the cost of the airport, State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period.

	<u>A</u> <u>Principal</u>	<u>B</u> <u>Interest Rate</u>	<u>C</u> <u>Proportion of</u> <u>Debt</u>	<u>D = B x C</u> <u>Weighted</u> <u>Average</u>
<u>State Bonds</u>	<u>CU1,000 million</u>	<u>5 percent</u>	<u>1,000 / 1,900</u>	<u>2.63</u>
<u>Loan A</u>	<u>CU300 million</u>	<u>7 percent</u>	<u>300 / 1,900</u>	<u>1.11</u>
<u>Loan B</u>	<u>CU600 million</u>	<u>9 percent</u>	<u>600 / 1,900</u>	<u>2.84</u>
<u>Weighted Average Interest Rate</u>				<u>6.58 percent</u>

IE42IE13. State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period to be 6.58 percent.

Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

IE43IE14. State Government C began construction of a new road network on January 1, 20X1. The cost of this road network is budgeted to be CU750 million. State Government C funds this project with amounts received on January 1, 20X1 from two sources:

- Federal grant in the amount of CU500 million; and
- Loan from a financial institution of CU250 million, with an annual interest rate of 5 percent.

In order to receive the federal grant, State Government C was required to show it was able to secure financing. It is State Government C's policy to allocate borrowed funds to the construction of the qualifying asset first. State Government C earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

~~IE14~~IE15. At December 31, 20X1, State Government C has incurred ~~outlay~~expenditures of CU200 million as part of the construction of the asset. These ~~outlay~~expenditures were transferred in one lump sum payment to the construction company at the commencement of construction on January 1, 20X1. In addition to the ~~outlay~~expenditures of CU200 million, State Government C capitalizes CU11 million ($[\text{CU250 million} \times 5 \text{ percent}] - [\text{CU50 million} \times 3 \text{ percent}]$) in borrowing costs, against the qualifying asset.

~~IE15~~IE16. Because State Government C borrowed CU250 million for the purposes of obtaining the road network, but has only incurred ~~outlay~~expenditures related to that qualifying asset in the amount of CU200 million, State Government C was able to earn interest revenue on the excess funds borrowed. State Government C capitalized borrowing costs incurred during the period of CU12.5 million less the investment income of CU1.5 million on the temporary investment of those borrowings.

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Supporting Document 4 – IPSASB Due Process Checklist

Project: Amendments to IPSAS 5, Borrowing Costs (Non-Authoritative Guidance)

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2017 meeting (see Agenda Item 11.3)
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the March 2017 IPSASB meeting (section 11)
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	The CAG considered the project and the guidance needed to improve public sector measurement in June 2017 (see Agenda Item 5)
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB issued the Consultation Paper, Measurement , in April 2019. The minutes of the March 2019 IPSASB meeting (section 6) document the IPSASB review and approval of the consultation paper issued.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	Yes	At its December 2019 meeting, the IPSASB undertook a preliminary review of responses to the Consultation Paper (see Agenda Item 11 and section 11 of the minutes). The IPSASB further discussed the responses received at its March 2020 (section 8 of the minutes), June 2020 (section 7 of the minutes) and September 2020 (section 5 of the minutes) meetings.
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	The CAG's advice was sought at its December 2019 meeting (see Agenda Item 8 and section 8 of the minutes to the December 2019 CAG meeting). The IPSASB provided feedback to the CAG on how these views had been addressed at the June 2020 meeting of the CAG (see Agenda Item 3.2.2).

#	Due Process Requirement	Yes/No	Comments
B4.	The IPSASB has approved the issue of the exposure draft.	Yes	<p>The IPSASB considered an issues paper and draft exposure draft (ED) for approval at its September 2020 meeting:</p> <p>https://www.ifac.org/system/files/publications/files/IP SASB-Exposure-Draft-74.pdf</p> <p>The IPSASB approved the issue of ED at its September 2020 meeting.</p> <p>See the September 2020 minutes (section 4).</p>
C. Public Exposure			
C1.	The approved exposure draft has been posted to the IPSAS website for public comment for an appropriate period.	Yes	<p>The ED was published in October 2020. Comments were requested by March 1, 2021.</p> <p>https://www.ifac.org/system/files/publications/files/IP SASB-Exposure-Draft-74.pdf</p>
C2.	Comments on the exposure draft have been posted to the IPSASB website after the end of the exposure period.	Yes	<p>18 comment letters were received. <u>All responses were made available publicly on the IPSASB website.</u></p>
D. Consideration of Respondents' Comments on an Exposure Draft			
D1.	Staff have provided the IPSASB, as part of the public agenda papers, with an analysis summarizing the significant issues raised by respondents, outlined their proposed disposition, and, as appropriate, explained why significant changes recommended by respondents have or have not been accepted.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The issues raised by respondents to the ED were presented to the IPSASB.</p> <p>See Agenda Item 7 of the June 2021 meeting.</p>
D2.	The IPSASB has deliberated significant matters raised in the comment letters, and significant decisions have been minuted.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The IPSASB deliberated the issues raised in the comment letters at its June 2021 meeting. See</p>

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#	Due Process Requirement	Yes/No	Comments
			section 7 of the June 2021 minutes.
D3.	The IPSASB has considered whether there are any issues raised by respondents, in addition to those summarized by Staff, that it considers should have been discussed by the IPSASB.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The IPSASB considered whether there were any issues raised by respondents, that should be discussed, other than those raised by staff. The IPSASB was comfortable that all issues raised by respondents were discussed. See section 7 of the June 2021 minutes.</p>
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>No major public interest issues were identified. The IPSASB CAG was updated on the responses as part of the Program and Technical Director's Report. See June 2021 Agenda Item 2.</p>
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	N/A	<p>(To be Updated After June 2021 Meeting)</p> <p>N/A – see D4.</p>
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The Program and Technical Director provided his assessment that there had been no substantial change to the exposed document such that re-exposure is necessary. The IPSASB members agreed with this assessment. See section 7 of the June 2021 minutes.</p>
D7.	If applicable, the IPSASB has voted on a resolution in favor of re-exposure.	N/A	<p>(To be Updated After June 2021 Meeting)</p>
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>See section 7 of the June 2021 minutes.</p>
D9.	If the exposure draft has been	N/A	<p>(To be Updated After June 2021 Meeting)</p>

#	Due Process Requirement	Yes/No	Comments
	re-exposed, the explanatory memorandum accompanying the re-exposure draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.		
E. Approval			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively the final standard is approved for issuance.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The Technical Director asserted that due process had been followed effectively, in that:</p> <ul style="list-style-type: none"> • An ED had been issued for consultation; • Responses to the ED were received and made publicly available on the IPSASB website; • The IPSASB had deliberated significant matters raised in the comment letters, and significant decisions will be minuted; and • The IPSASB had considered whether there are any issues raised by respondents, in addition to those summarized by Staff, that it considers should have been discussed by the IPSASB, and agreed there were none. <p>This will be reflected in the minutes when available.</p>
E2.	The IPSASB has approved the final revised content of the exposed standard in accordance with its Terms of Reference.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The IPSASB approved the final revised text of <i>IPSAS 5, Borrowing Costs – Non-Authoritative Guidance</i>, including the Basis for Conclusions. There were XX members in agreement, XX members against, XX abstention and XX members absent. The approval vote will be reflected in the minutes when available. See section 7 of the June 2021 minutes.</p>
E3.	If applicable, the IPSASB has set an effective date for application of the final standard.	Yes	<p>(To be Updated After June 2021 Meeting)</p> <p>The amendments clarify existing principles. They do not become effective on a specific date as no changes are coming into effect. This decision will be reflected in the minutes when available. See section</p>

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#	Due Process Requirement	Yes/No	Comments
			7 of the June 2021 minutes.
E4.	The IPSASB's basis for conclusions has been prepared and included in the final standard.	Yes	(To be Updated After June 2021 Meeting) The basis for conclusions will be included in the final standard when published.

Completed by:

Staff

MMM DD, YYYY