

## IPSAS 5, Borrowing Costs – *Non-Authoritative Guidance*

This summary provides an overview of the IPSASB's Exposure Draft 74, *IPSAS 5, Borrowing Costs – Non-Authoritative Guidance*

<b>Project objective:</b>	This Exposure Draft (ED) proposes adding non-authoritative material to IPSAS 5, <i>Borrowing Costs</i> , to provide guidance for determining the extent to which borrowing costs can be capitalized.
<b>The project stage:</b>	The International Public Sector Accounting Standards Board® (IPSASB®) issued ED 74 in October 2020.
<b>Next steps:</b>	The IPSASB seeks feedback on ED 74 to guide it in developing non-authoritative guidance to the International Public Sector Accounting Standard® (IPSAS®) guidance on accounting for borrowing costs.
<b>Comment deadline:</b>	ED 74 is open for public comment until March 1, 2021.
<b>How to respond:</b>	Respondents are asked to submit their comments electronically through the IPSASB website, using the " <a href="#">Submit a Comment</a> " link on the ED page. Please submit comments in both a PDF and Word file. All comments will be a matter of public record and will be posted on the website.

## Objective and Background

The purpose of the IPSASB’s project on borrowing costs is to improve and clarify the IPSAS guidance for determining the extent to which borrowing costs can be capitalized.

### Objective

The objective of this ED is to add non-authoritative material to IPSAS 5, *Borrowing Costs*, to provide non-authoritative guidance for determining the extent to which borrowing costs can be capitalized in the public sector.

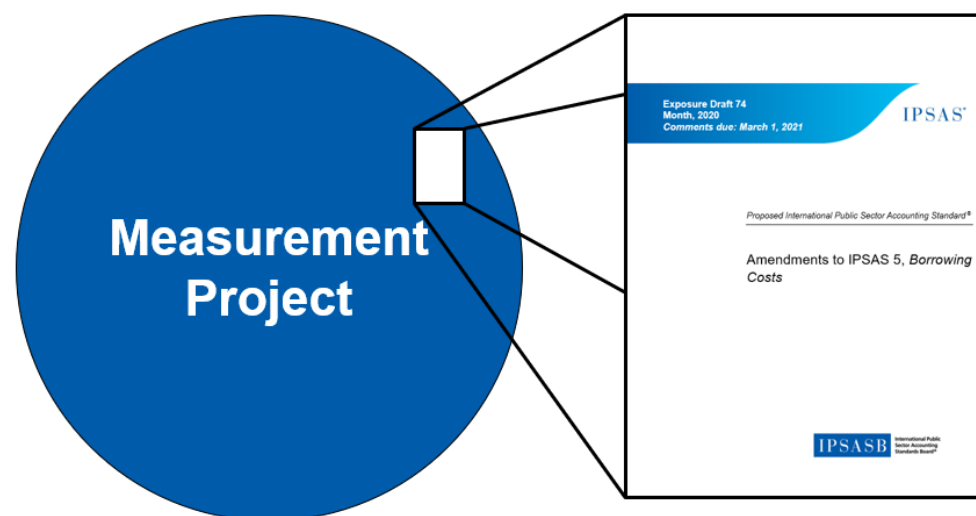
The proposed guidance adds implementation guidance and illustrative examples, which IPSAS 5 does not currently contain. No amendments are proposed to the authoritative material.

### Background

In April 2019, the IPSASB issued Consultation Paper, *Measurement* which included proposals as to whether it should remove the option to capitalize borrowing costs in IPSAS 5.

Feedback on this issue was split between those supporting the proposal to remove the option to capitalize borrowing costs, and those supporting retention of the option. This informed the IPSASB’s decision to retain the accounting policy options in IPSAS 5 to allow entities to select an accounting policy that best reflects the entity’s objectives. In addition to retaining the accounting policy choice, the IPSASB has decided to clarify existing principles and developed additional implementation guidance and illustrative examples to clarify the extent to which borrowing costs can be capitalized.

Figure 1: ED 74 Background



## Scope and Output

Non-authoritative amendments to IPSAS 5 clarify existing principles in the borrowing costs guidance as a practical way of addressing stakeholder concerns.

### IPSAS 5 Guidance Clarified

ED 74 proposes clarifications to existing guidance for determining the extent to which borrowing costs can be capitalized.

These clarifications were developed as non-authoritative guidance in the form of illustrative examples and implementation guidance.

Adding guidance in IPSAS 5 clarifying the extent to which borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset can be capitalized facilitates the preparation of financial reporting information that is relevant, faithfully representative and comparable for these important public sector transactions.

Figure 2: Proposed Non-Authoritative Guidance in IPSAS 5

<i>Implementation Guidance</i>	
<b>A.1</b>	Period of Borrowing Cost Capitalization
<b>A.2</b>	Limit on Capitalization
<b>A.3</b>	Asset Funded through Transfers
<b>A.4</b>	Asset Funded through a Centralized Lending Program – Interest Rates
<b>A.5</b>	Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset
<b>A.6</b>	Asset Funded through General Borrowings – Range of Debt Instruments
<i>Illustrative Examples</i>	
<b>1</b>	Qualifying Asset Constructed Over a Period of Time
<b>2</b>	Centralized Borrowing Program – Eligible Borrowing Costs
<b>3</b>	General Borrowing – Weighted Average Cost of Borrowing
<b>4</b>	Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

## Next Steps

The deadline for comments is March 1, 2021.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

### How Can I Comment on the Proposals?

The ED requests comments on the Specific Matter for Comment (SMC).

Respondents may provide comments and answers on the SMC. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

### Stay Informed

The IPSASB’s website will indicate the meetings at which feedback on the ED will be discussed. The dates and locations of the 2021 meetings are at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/measurement>