



**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

Panamá, República de Panamá, February 25th, 2020

Oficio N° 47/2021 AIC

Members of the Board
International Public Sector Accounting Standard Board (IPSASB)
529 5th Avenue, 6th Floor
New York, New York 10017

REF: Proposed IPSASB 5 ED 74, Borrowing Costs – Non- Authoritative Guidance

Dear Members of the Board,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the Exposure IPSAS 5, Borrowing Costs – Non- Authoritative Guidance.

This reply summarizes the views of different member countries of the IAA, according to the following due process:

Due process:

The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO); hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members

General comments:

We decisively support the IPSASB initiative on this important issue, considering the educational issue as fundamental in the formation and exercise of the accounting and auditing professional.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

Maria Clara Cavalcante B.
PRESIDENT



**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to; “Proposed IPSAS 5 ED 74, Borrowing Costs – Non-Authoritative Guidance”

We have answered the questions of the document in accordance with the provided instructions. Please see our answers and related comments below.

Request for Specific Comments

Specific Matter for Comment 1:

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

Yes. We agree.

It seems to us that the criterion of capitalizing borrowing costs in suitable assets should be strengthened, indicating the importance of separating spending from investment, since it is clear that, when financing to build public works, it is investing in infrastructure and not you must consider financial expense.

Observations, on the illustrative examples:

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.

IE11. 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.

	A	B	C	D = B x C
	<u>Principal</u>	<u>Interest Rate</u>	<u>Proportion of Debt</u>	<u>Weighted 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>

IE12. 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.



**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

Note:

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.

In our case it is not clear to us, the purpose of using or determining a weighted rate, since as can be seen in the following calculations, it is in effect the same:

As can be seen, in column B, the nominal rate is being used for each loan (5%, 7% and 9%), an amount that must be used when registering the payment of a fee plus its respective amortization to the principal.

In the first column, the average rate that differs from the nominal rate is being applied; however, in the end the effect is the same.

6.58	B	Difference
65,789,473.6	50,000,000.0	(15,789,473.6
19,736,842.1	21,000,000.0	1,263,157.8
39,473,684.2	54,000,000.0	14,526,315.7
125,000,000.	125,000,000.	0.00