01 March 2021

**BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO EXPOSURE DRAFT 74 – BORROWING COSTS**

**Introduction**

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IPSASB’s Exposure Draft 74 – Borrowing Costs. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully


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| *Signed electronically* | *Signed electronically* |
| **Mosireletsi M Mogotlhwane ACA** | **Edmund Bayen** |
| Manager – | Director - |
| Technical and Public Sector | Technical and Public Sector |
| Accounting Services | Accounting Services |

**RESPONSES TO SPECIFIC QUESTIONS**

<u>*Specific Matter for Comment 1*</u>

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

what changes would you make?

<u>*Approach to this commentary*</u>

The approach taken in the ED is to address each area of concern separately. In preparing this commentary we have further opted to address the propositions together with the related illustrative examples and our recommendation.

**Period of Borrowing Cost Capitalization and limit on capitalization**

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.

**Asset Funded through Transfers**

The implementation guidance clearly explains that an entity that acquires, constructs, or produces a qualifying asset through transfers from another public sector entity does not need to capitalize any borrowing costs since there are no directly attributable borrowing costs in such circumstances. We are also in agreement that no Illustrative Example needs to be provided for this explanation.

**Centralized Borrowing Program – Eligible Borrowing Costs**

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.

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 availed.

**General Borrowing and Weighted Average Cost of Borrowing**

The Implementation guidance explains that where an entity generally borrows and uses its cash in 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.

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.

**Recommendation**

In addition to the individual recommendations made after each area of interest we are of the view that IPSASB should proceed and issue this ED as an Implementation guidance also provide Illustrative Examples for the following scenarios.

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.