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The Malaysian Institute of
Certified Public Accountants
Institut Akauntan Awam Bertauliah Malaysia
195801000106 (3246-U)

February 18, 2021

The Chairman
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2
Canada

Via Online Submission

Dear Mr Ian Carruthers

COMMENTS ON EXPOSURE DRAFT 74, *"IPSAS 5, BORROWING COSTS – NON-AUTHORITATIVE GUIDANCE"*

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on the Exposure Draft 74, *"IPSAS 5, Borrowing Costs – Non-Authoritative Guidance"*.

We also applaud the effort of the International Public Sector Accounting Standards Board ("IPSASB") to provide implementation guidance and illustrative examples in support of the public sector.

Overall, we believe that the IPSASB's proposed implementation guidance and illustrative examples are useful to the users of the financial statements in the public sector. We are generally agreed with the proposed implementation guidance and illustrative examples. However, we would like to seek guidance on other concerns relating to borrowing costs.

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.

In addition to the above, we are aware that the IFRS Interpretations Committee ("IFRIC") of International Accounting Standards Board ("IASB") in its update issued in September 2018 mentioned a case where an entity incurs expenditure on the qualifying asset both before and after it incurs borrowing costs on the general borrowings.

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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 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.

We trust our comments, to be of value and useful to the IPSASB, in your onward deliberation. MICPA looks forward to further strengthening such dialogues with your organisation.

Please do not hesitate to contact the undersigned or the Technical Director, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours sincerely,

NOVIE BIN TAJUDDIN
Chief Executive Officer