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Technical Director

The International Public Sector Accounting Standards Board

277 Wellington St. West
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[Submission via website](#)

Dear Ross

COMMENTS ON ED 74 ON IPSAS 5, BORROWING COSTS - NON-AUTHORITATIVE GUIDANCE

We welcome the opportunity to provide comments on Exposure Draft (ED) 74 on *IPSAS 5, Borrowing Costs – Non-Authoritative Guidance*.

We commend the IPSASB for its efforts to provide guidance to assist entities to deal with the practical challenges of capitalising borrowing costs. We are generally supportive of the amendments to the issues raised by respondents in the Consultation Paper, *Measurement*. We believe that the amendments will improve the application of the principles set out in IPSAS 5.


Our comments on the proposals in ED 74 are outlined below.

The comments outlined in this response have been developed by the Secretariat of the ASB and not the Board. The comments have been formulated after consultation with stakeholders.

If you have any questions regarding our responses, please feel free to contact me.

Board Members: Mr V Ngobese (chair), Ms F Abba, Mr C Braxton, Mr K Hoosain,
Ms I Lubbe, Ms K Maree, Ms P Moalusi, Ms N Themba, Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

Yours sincerely

A handwritten signature in black ink, appearing to read "Poggiolini". The signature is written in a cursive, flowing style with some loops and flourishes.

Jeanine Poggiolini

Technical Director

ANNEXURE A – RESPONSE TO SPECIFIC MATTER FOR COMMENT

Specific Matter for Comment 1:

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

We are generally supportive of the proposed additional implementation guidance and illustrative examples. Our comment on the guidance is included below.

Reference	Comments
<i>Implementation guidance</i>	
A.1	<p>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.</p> <p>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>
A.4	<p>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.</p>
<i>Illustrative examples</i>	
IE7.	<p>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.</p>

ANNEXURE B – GENERAL COMMENTS

We agree with the update to the Basis for Conclusions to reflect the IPSASB's decision on the areas discussed.

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.