KOREA INSTITUTE OF PUBLIC FINANCE
Government Accounting and Finance Statistics Center

IPSASB Exposure Drafts

Borrowing Costs–Non-Authoritative Guidance

Comments on the Exposure Draft 74, Borrowing Costs–Non-Authoritative Guidance

February 26, 2021

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Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: The comments on the Exposure Draft 74,

Borrowing Costs–Non-Authoritative Guidance

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the "GAFSC") at Korea Institute of Public Finance would like to express our sincere gratitude for the opportunity to respond to Exposure Draft 74, Borrowing Costs–Non-Authoritative Guidance issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Grace Choi (gracechoi@kipf.re.kr).

Sincerely,

김완희
Kim, Wan Hee
Chief Director of GAFSC at KIPF

[Specific Matter for Comment 1]

Do you agree with the proposed additional Implementation Guidance and Illustrative Examples? If not, what changes would you make?

[GAFSC Comments]

Agree with the proposed IGs and IEs in principle. Yet, IPSASB's further consideration on modifying or adding IEs is recommendable that the following IEs could enhance users' understanding on the IGs for the proposed IEs address some practical issues identified from Q&A or educational sessions and strengthen the linkage between IGs and IEs.

(1) In addition to IE1~IE3, it seems necessary to add more detailed IEs related to the topic of the period of borrowing cost capitalization. These IEs may include examples of whether the period of borrowing cost capitalization ends with the acquisition of land or completion of the construction in case of borrowing incurred to acquire land for building purposes.

(2) To provide a clearer explanation on when the period of borrowing cost capitalization begins, it deems appropriate to revise IE1~IE3 to make the beginning of construction and issuance of bonds not identical.

(3) As demonstrated in the table below, ED 74 do not provide IEs related to the third topic of A.4, but it seems necessary to include IEs for the case of an entity and a centralized lending agency being a part of the same economic entity. These examples may address ① in what case the borrowing costs incurred by the centralized lending agency should be capitalized to the qualifying asset in the consolidated financial statements, ② how to account for consolidation adjustments to eliminate those costs capitalized by the controlled entity, and ③ how to determine the borrowing costs for capitalization. In doing so, IPSASB could strengthen the linkage between IGs and IEs, and it could also serve as an explanation for paragraphs 27 and 28 of IPSAS 5.

<Table: IGs and Related IEs of ED 74>

<table>
<tr><th colspan="3">Implementation Guidance</th><th colspan="2">Illustrative Examples</th></tr>
<tr><td>A.1</td><td colspan="2">Period of Borrowing Cost Capitalization</td><td rowspan="2">IE1~IE3</td><td rowspan="2">Qualifying Asset Constructed Over a Period of Time</td></tr>
<tr><td rowspan="2">A.2</td><td rowspan="2" colspan="2">Limit on Capitalization</td></tr>
<tr><td rowspan="2">IE13~IE15</td><td rowspan="2">Specific Borrowing – Borrowing for Part of Qualifying Asset’s Amount</td></tr>
<tr><td rowspan="2">A.3</td><td rowspan="2" colspan="2">Asset Funded through Transfers</td></tr>
<tr><td rowspan="3">IE4~IE8</td><td rowspan="3">Centralized Borrowing Program – Eligible Borrowing Costs</td></tr>
<tr><td rowspan="3">A.4</td><td rowspan="3">Asset Funded through a Centralized Lending Program – Interest Rates</td><td>Whether the weighted average interest rate incurred by the centralized lending agency has been applied</td></tr>
<tr><td>In case of concessionary elements in the borrowing arrangement with the centralized lending agency</td></tr>
<tr><td>In case of the entity and the centralized lending agency are part of the same economic entity</td><td>-</td><td>-</td></tr>
<tr><td>A.5</td><td colspan="2">Asset Funded through an Entity’s Own General Borrowing – Borrowings are not Specific to Qualifying Asset</td><td rowspan="2">IE9~IE12</td><td rowspan="2">General Borrowing – Weighted Average Cost of Borrowing</td></tr>
<tr><td>A.6</td><td colspan="2">Asset Funded through General Borrowings – Range of Debt Instruments</td></tr>
</table>

(4) IE4~IE8 only address the case of borrowing arrangements without concessionary terms. However, it is highly probable that government including public sector entities do not enter into a borrowing arrangement at the market terms. Therefore, it is advisable for IPSASB to consider extending IE4–IE8 or developing separate IEs that illustrate how to recognize financial liabilities with concessionary elements and how to calculate borrowing costs for

capitalization based on a market related interest rate that the entity would have incurred on a similar loan. These IEs would be helpful for the preparers to better understand how the accounting for borrowing costs differ depending on the presence of concessionary terms, as well as, the relationship between accounting for borrowing costs and IPSAS 41, Financial Instruments.

(5) Neither Paragraph 25 nor IE A.6 of IPSAS 5 provide clear explanations on which source of fund is assumed to be used first between general borrowings and specific borrowings. Hereupon, IE9~IE12 should be further amended to include the case of using both general borrowings and specific borrowings in order to help address the practical difficulties of the preparers.

[Additional Comments]

In addition to the SMC1 of ED 74, it is worth considering the following on the Basis of Conclusions of ED 74 and IPSAS 5, 'Borrowing Costs'.

First, BC11~BC14 need to be further amended to provide clearer understanding on the basis that determined borrowing costs and transaction costs as different economic phenomena. Especially, the phrase, 'transaction costs are independent of the contractual terms of the debt instrument', of BC14 needs to further specify that the transaction is attributable to the acquisition of qualifying assets.

Second, to help avoid the public sector entity to discretionarily employ accounting policy for borrowing costs with limited reasonable basis of the adoption, it is advisable to include the following in Paragraph 40 of IPSAS 5 that it is mandatory to disclose the basis and policy that support the entity's decision on either capitalize or expense borrowing costs of qualifying assets.

Third, to ensure convenience in application, IASB amended Paragraph 14 of IAS 23(BC14A~BC14D) to allow the specific borrowing remained outstanding after the related qualifying asset became ready for its intended use or sale to be considered as a part of general borrowings. Likewise, it is suggestible to amend Paragraph 25 of IPSAS 5 following the intention of the amendment of IASB.