COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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International Financial Reporting Intepretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Reference: IAS 23 - Borrowing Costs

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Outreach IAS 23 – Borrowing Costs.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for entities operating in Brazil.

If you have any questions about our comments, please do not hesitate to contact me at operacoes@cpc.org.br.

Yours sincerely,

Rogerio Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for entities operating in Brazil. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Information requested:

Issue I: Expenditure to which the capitalisation rate is applied

In your experience,

1. *Is the situation described in Appendix A (ie that an entity obtains general borrowings part-way through the development of a qualifying asset) common?*

We have not performed a comprehensive study in the Brazilian companies to positively respond to this request. However, based on the experience of the CPC members, we have not found this issue very often.

2. *Paragraph 14 of IAS 23 requires an entity to apply a capitalisation rate to expenditures on a qualifying asset when determining the borrowing costs eligible for capitalisation in particular circumstances.*

If you answered 'yes' to Question 1, in determining the expenditures to which an entity applies the capitalisation rate, does the entity include expenditures incurred on the qualifying asset before obtaining the general borrowings? Please explain the accounting treatment with reference to the requirements in IFRS Standards applied.

Although we have not answered yes to Question 1, we believe that IAS 23 is very clear in relation to this issue, and view 1 must be followed. Application of view 2 would require a significant revision in said standard. Therefore, we believe that the reasoning 5a) for the IFRS IC to address this issue is not accurate (it is is not an accounting policy).

Issue 2: Borrowing costs on expenditures for land

In your experience,

1. *Is the situation described in Appendix B common?*

We have not performed a comprehensive study in the Brazilian companies to positively respond to this request. However, based on the experience of the CPC members, we are not aware of the occurrence of this situation very often.

2. *If you answered 'yes' to Question 1, how do entities determine the borrowing costs eligible for capitalisation during the construction period for the building (for example, do entities continue to capitalise borrowing costs on land development expenditures while the building is being constructed)? Please explain the accounting treatment with reference to the requirements in IFRS Standards applied.*

Although we have not answered yes to Question 1, we believe that based on IAS 23 view 2 must be followed. We point out that paragraph 19 of IAS 23 provides some guidance in situations with land involved, and seems not necessary the application of IAS 16 in the case (relating to asset costs).