A practical guide to capitalisation of borrowing costs

November 2008

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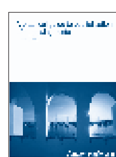

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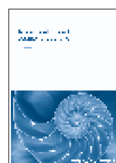

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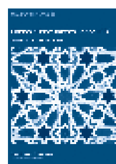

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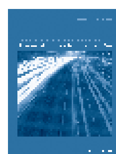

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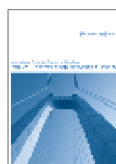

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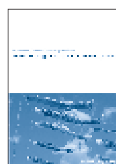

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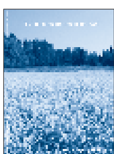

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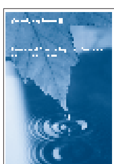

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Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

IFRS news
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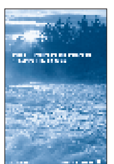

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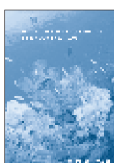

Illustrative consolidated financial statements

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- Corporate, 2008
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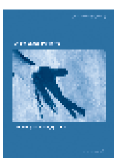
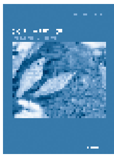
- Investment funds, 2008
- Investment property, 2008
- Private equity, 2008

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

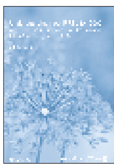


Share-based payment – a practical guide to applying IFRS 2
Assesses the impact of the new standard, looking at the requirements and providing a step-by-step illustration of how to account for share-based payment transactions. June 2004.



SIC-12 and FIN 46R – The substance of control
Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.

Understanding financial instruments – A guide to IAS 32, IAS 39 and IFRS 7
Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.



Understanding new IFRSs for 2009 – A guide to IAS 1 (revised), IAS 27 (revised), IFRS 3 (revised) and IFRS 8
Supplement to IFRS Manual of Accounting. Provides guidance on these new and revised standards that will come into force in 2009 and will help you decide whether to early adopt them. Chapters on the previous versions of these standards appear in the IFRS Manual (see above).

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Introduction

The IASB amended IAS 23, 'Borrowing costs', in March 2007 to converge with US GAAP. The broad principles of IAS 23 (Revised) are the same as those in FAS 34, 'Capitalisation of interest cost', although the details differ. The revised standard requires borrowing costs incurred to finance construction of qualifying assets to be capitalised. Convergence at this high level was relatively simple to achieve, with the elimination of the existing option to expense all interest.

Questions about the practical implementation of the new requirements emerged soon after the standard's release, despite the expectation that the change would be straightforward. Relatively few IFRS preparers had been capitalising interest, and perhaps the standard had not been the subject of much scrutiny or debate. Some of the questions seem related to the rules-based nature of IAS 23R. It requires borrowing costs to be capitalised but prohibits consideration of the cost of equity. The 'cost of equity' is not considered when arriving at net profit or loss, and so there is a distinction from borrowing costs. The standard may give a more complete picture of the costs incurred by an entity for qualifying assets but many would observe that this is a more accurate, but less relevant, number driven by a rule-based requirement.

Convergence through eliminating the option to expense borrowing costs meant that the IASB did not reconsider, in any depth, the requirements of IAS 23. Challenges remain about how to treat specific versus general borrowings, when to start capitalisation in some situations, and whether the scope exemptions are mandatory or optional.

This publication looks at some of the practical questions that have been raised about how to apply IAS 23R. It is intended to be guidance on how to apply the standard, not to create a subset of additional rules. Entities should consider the full text of the standards, consult with their auditors and apply professional judgement to their specific accounting questions.

General scope and definitions

1.1 A qualifying asset is an asset that 'necessarily takes a substantial period of time to get ready for its intended use or sale'. Is there any bright line for determining the 'substantial period of time'?

No. IAS 23R does not define 'substantial period of time'. Management exercises judgement when determining which assets are qualifying assets, taking into account, among other factors, the nature of the asset. An asset that normally takes more than a year to be ready for use will usually be a qualifying asset. Once management chooses the criteria and type of assets, it applies this consistently to those types of asset.

Management discloses in the notes to the financial statements, when relevant, how the assessment was performed, which criteria were considered and which types of assets are subject to capitalisation of borrowing costs.

1.2 The IASB has amended the list of costs that can be included in borrowing costs, as part of its 2008 minor improvement project. Will this change anything in practice?

The amendment eliminates inconsistencies between interest expense as calculated under IAS 23R and IAS 39. IAS 23R refers to the effective interest rate method as described in IAS 39. The calculation includes fees, transaction costs and amortisation of discounts or premiums relating to borrowings. These components were already included in IAS 23. However, IAS 23 also referred to 'ancillary costs' and did not define this term. This could have resulted in a different calculation of interest expense than under IAS 39. No significant impact is expected from this change. Alignment of the definitions means that management only uses one method to calculate interest expense.

1.3 Can borrowing costs incurred to finance the production of inventories that has a long production period, like wine or cheese, be capitalised?

Yes. IAS 23R does not mandate the capitalisation of borrowing costs for inventories that are manufactured in large quantities on a repetitive basis. Interest capitalisation is allowed as long as the production cycle takes a 'substantial period of time', as with wine or cheese. The choice to capitalise borrowing costs on those inventories is an accounting policy choice; management discloses it when material.

1.4 Can an intangible asset be a 'qualifying asset' under IAS 23R?

Yes. An intangible asset that takes a substantial period of time to get ready for its intended use or sale is a 'qualifying asset'. This would be the case for an internally generated intangible asset in the development phase when it takes a 'substantial period of time' to complete, such as software. The interest capitalisation rate is applied only to costs that themselves have been capitalised.

1.5 Should management's intention be taken into account to assess the 'substantial period of time to get ready for its intended use or sale'?

Yes. When an asset is acquired, management should assess whether, at the date of acquisition, it is 'ready for its intended use or sale'. Depending on how management intends to use the asset, it may be a qualifying asset under IAS 23R.

For example, when an acquired asset can only be used in combination with a larger group of fixed assets or was acquired specifically for the construction of one specific qualifying asset, the assessment of whether the acquired asset is a qualifying asset is made on a combined basis.

Example

A telecom company has acquired a 3G licence. The licence could be sold or licensed to a third party. However, management intends to use it to operate a wireless network. Development of the network starts when the licence is acquired.

Should borrowing costs on the acquisition of the 3G licence be capitalised until the network is ready for its intended use?

Solution

Yes. The licence has been exclusively acquired to operate the wireless network. The fact that the licence can be used or licensed to a third party is irrelevant. The acquisition of the licence is the first step in a wider investment project (developing the network). It is part of the network investment, which meets the definition of a qualifying asset under IAS 23R.

Example

A real estate company has incurred expenses for the acquisition of a permit allowing the construction of a building. It has also acquired equipment that will be used for the construction of various buildings.

Can borrowing costs on the acquisition of the permit and the equipment be capitalised until the construction of the building is complete?

Solution

Yes for the permit, which is specific to one building. It is the first step in a wider investment project. It is part of the construction cost of the building, which meets the definition of a qualifying asset.

No for the equipment, which will be used for other construction projects. It is ready for its 'intended use' at the acquisition date. It does not meet the definition of a qualifying asset.

1.6 In a service concession arrangement, should an operator capitalise borrowing costs incurred when constructing or upgrading an infrastructure asset?

Service concession arrangements are accounted for under IFRIC 12. The consideration received in exchange for the construction or upgrade services is recognised at its fair value either as a financial asset or an intangible asset depending on the terms of the agreement.

An operator that recognises an intangible asset in exchange for the construction capitalises the associated borrowing costs incurred during the construction phase. However, an operator that recognises a financial asset expenses the associated borrowing costs as incurred.

1.7 Property under construction or development for future use as an investment property is in the scope of amended IAS 40 (May 2008) and should be measured at fair value also during the construction period, if fair value is the accounting policy of the entity for investment property. Can borrowing costs attributable to investment property measured at fair value be capitalised?

Yes. IAS 23R does not mandate the capitalisation of borrowing costs for assets measured at fair value as, on a net basis, the measurement of the asset would not be affected. But management can still elect to capitalise those borrowing costs. An entity that elects to do so reduces its interest expense incurred during the period by the amount of borrowing costs capitalised and adjusts the carrying amount of the investment property accordingly. Re-measurement of the investment property to fair value has a direct effect on the gain or loss arising from a change in the fair value of investment property recorded in profit or loss for the period.

Borrowing costs eligible for capitalisation

2.1 An entity has no borrowings and uses its own cash resources to finance the construction of property, plant and equipment. Cash being used to finance the construction could otherwise have been used to earn interest. Can management capitalise a 'notional' borrowing cost representing the opportunity cost of the cash employed in financing the asset's construction?

No. A 'notional' borrowing cost cannot be capitalised. IAS 23R limits the amount that can be capitalised to the actual borrowing costs incurred. The standard states that it does not address actual or imputed cost of equity.

2.2 A subsidiary (or jointly controlled entity or associate) finances the construction of a qualifying asset with an inter-company loan. Are borrowing costs incurred on the inter-company loan capitalised in the separate financial statements of the subsidiary (or jointly controlled entity or associate)?

Yes. Borrowing costs are capitalised to the extent of the actual costs incurred by the subsidiary (or jointly controlled entity or associate).

2.3 A subsidiary (or jointly controlled entity or associate) finances a qualifying asset through a capital increase, which is provided by the parent company (or venturer or investor). Can a notional amount of borrowing costs be capitalised in the separate financial statements of the subsidiary (or jointly controlled entity or associate)?

No, as the subsidiary (or jointly controlled entity or associate) has not incurred any borrowing costs. The standard does not deal with actual or imputed cost of equity.

2.4 Assume the same fact pattern as above. However, the parent company (or venturer or investor) finances the inter-company loan or capital increase with a bank loan. How is this treated in the financial statements of the parent company?

	Stand-alone financial statements	Consolidated financial statements		
	Cost or fair value	Full consolidation	Proportionate consolidation	Equity method
Subsidiary	No[a]	Yes[b]	n/a	n/a
Jointly controlled entity	No[a]	n/a	Yes[c]	No[d]
Associate	No[a]	n/a	n/a	No[d]

(a) In stand-alone financial statements, the investor (or venturer or parent) recognises only the investment in subsidiary (or jointly controlled entity or associate). This is not a qualifying asset, so the borrowing costs cannot be capitalised.

(b) Capitalisation of borrowing costs is required. However, the amount of the borrowing costs incurred by the subsidiary in the case of inter-company loans might be adjusted to reflect how the qualifying asset was financed from the perspective of the group as a whole:
- If the group uses external general borrowings, the borrowing costs capitalised by the subsidiary are adjusted if the capitalisation rate at the group level is different from the rate used by the subsidiary.
- If the group uses specific external borrowings, the borrowing costs are adjusted if the borrowing costs on the external borrowings vary from the amount of borrowings costs capitalised by a subsidiary.

Borrowing costs calculated and capitalised in accordance with IAS 23R cannot exceed the amount of borrowing costs incurred at the group level.

If the parent company does not have any external borrowings, the borrowing costs capitalised by the subsidiary are eliminated, as there are no borrowing costs incurred from the perspective of the group.

(c) When the proportionate consolidation method is applied to account for jointly controlled entities, the qualifying asset of the jointly controlled entity will meet the definition of IAS 23R in the financial statements of the venturer. The borrowing costs eligible for capitalisation are therefore determined taking into account the interests incurred for the bank loan if specific or, if not, the capitalisation rate of the general borrowings including the bank loan.

(d) The only asset recognised in the financial statements of an investor that uses the equity method is the investment in associate or jointly controlled entity. Neither is a qualifying asset as defined in IAS 23R. The borrowing costs cannot therefore be capitalised.

2.5 An entity has investment income on general borrowings. Does management deduct investment income from the borrowing costs available for capitalisation?

No. No specific guidance is given about general borrowings, unlike specific borrowings (borrowing costs less investment income). The funds invested ‘temporarily’ cannot be considered to be those from the general borrowings rather than from other sources (equity or cash generated from operating activities). It cannot therefore be demonstrated that the income is earned from the general borrowings.

2.6 How is the amount of borrowing costs eligible for capitalisation determined when a qualifying asset is financed by a combination of borrowings that are specific to the asset and by general borrowings?

The amount of borrowing costs eligible for capitalisation is calculated asfollows:

- To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, management determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings (IAS 23R paragraph 12).

- To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, management determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset (IAS 23R paragraph14).

The following example illustrates how to calculate the amount of borrowing costs to be capitalised.

Example

On 1 July 2006, entity A entered into a C2.2 million contract for the construction of a building . The building was completed at the end of June 2007. During the period, the following payments were made to the contractor:

Payment date	Amount (C'000)
1 July 2006	200
30 September 2006	600
31 March 2007	1,200
30 June 2007	200
Total	**2,200**

Entity A's borrowings as at its year end of 30 June 2007 were as follows:

1. 10% four-year note with simple interest payable annually, which relates specifically to the project; debt outstanding at 30 June 2007 amounted to C700,000. Interest of C65,000 was incurred on these borrowings during the year, and interest income of C20,000 was earned on these funds while they were held in anticipation of payments.
2. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1 July 2006 amounted to C1,000,000 and remained unchanged during the year.
3. 10% 10-year note with simple interest payable annually; debt outstanding at 1 July 2006 amounted to C1,500,000 and remained unchanged during the year.

Assume for purposes of this example that interest expenses equals borrowing costs.

Solution

Expenditures incurred in obtaining a qualifying asset are first allocated to any specific borrowings. The remaining expenditures are allocated to any general borrowings.

Analysis of expenditure

	Expenditure (C'000)	Amount allocated to general borrowings (C'000)	Weighted for period out-standing (C'000)
1 July 2006	200	0	0
30 September 2006	600	100*	100 x 9/12
31 March 2007	1,200	1,200	1,200 x 3/12
30 June 2007	200	200	200 x 0/12
Total	**2,200**		**375**

*Specific borrowings of C700,000 are fully utilised; remainder of expenditure is therefore allocated to general borrowings.

The capitalisation rate relating to general borrowings is the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Weighted average borrowing cost: 12.5% (1,000/2,500) + 10% (1,500/2,500) = 11%

Borrowing cost to be capitalised

	Amount (C)
Specific loan	65,000
General borrowings (C375,000 × 11%)	41,250
Total	**116,250**
Less interest income on specific borrowings	(20,000)
Amount eligible for capitalisation	**86,250**

Therefore, the borrowing costs to be capitalised are C86,250.

2.7 Is interest on a finance lease of a qualifying asset capitalised as borrowing costs?

Yes. Interest incurred for a finance lease is specific to an asset. Interest is capitalised if the asset is a qualifying asset or is used solely for the construction of a qualifying asset. For example, a crane or a dockyard is leased for the purpose of constructing a ship. The ship is a qualifying asset. The interest on the finance lease of the crane or dockyard is capitalised as borrowing costs. Borrowing costs on the finance lease can only be capitalised up to the point when the construction of the qualifying asset is complete.

2.8 Is it appropriate to capitalise gains and losses on derivative instruments (for example, interest rate swaps and foreign currency swaps) that have not been designated in a hedging relationship under IAS 39?

No. Such instruments fall under the category 'fair value through profit or loss'. As they have not been linked to borrowing activities of the entity through an IAS 39 hedging relationship, the gains and losses on such derivatives are not considered a borrowing cost as defined under IAS 23R.

2.9 Are the effects of a cash flow or fair value hedging relationship on interest for a specific project borrowing capitalised?

Yes. IAS 23R BC 21 indicates that the standard does not address whether the effects of hedging should be capitalised. However, the purpose of an IAS 39 hedging relationship is to modify the borrowing costs of the entity related to a specific debt. We therefore believe that entities should capitalise interest on borrowings in an IAS 39 designated hedging relationship after taking into account the effects of hedge accounting.

Ineffectiveness on such hedging relationships should continue to be recognised in profit or loss.

2.10 In computing the capitalisation rate for an entity, is the effect of cash flow or fair value hedging relationships on borrowings taken into account?

Yes. IAS 39 designated hedging relationships modify the borrowing costs of the entity. Where an entity borrows funds not related to specific projects, the capitalisation rate computed in accordance with IAS 23R paragraph 14 is calculated after taking into account effective hedging relationships designated under IAS 39 for all outstanding borrowings other than those borrowings made specifically for the purposes of obtaining a qualifying asset.

Ineffectiveness on such hedging relationships should continue to be recognised in profit or loss.

2.11 The entity uses general borrowings to finance its qualifying assets. However, cash flows from the operating activities would be sufficient to finance the capital expenditures incurred during the period. Can management claim that the general borrowings are used to finance working capital and other transactions (for example, merger and acquisition activity, finance leases) but not to finance the qualifying assets, in which case no borrowing costs would be capitalised?

No. It is presumed that any general borrowings in the first instance are used to finance the qualifying assets (after any funds specific to a qualifying asset). This is the case even where the cash flows from operating activities are sufficient to finance the capital expenditures.

It may be appropriate in some limited circumstances to exclude some general borrowings from the calculation of the borrowing rate to the extent it does not result in a capitalisation rate of nil.

2.12 The entity uses general borrowings and cash from operating activities to finance its qualifying assets. It has a capital structure of 20% equity and 80% current and non-current liabilities including interest-bearing debt from general borrowings. Can management argue that only 80% of the qualfying assets are financed with borrowings and apply the capitalisation rate to only 80% of the amount of qualfing assets?

No. The borrowing rate is applied to the full carrying amount of the qualifying asset. IAS 23R does not deal with the actual or imputed cost of capital.

2.13 A subsidiary obtained an interest-free loan from its parent and used it for the construction of a qualifying asset. Is the accretion of interest capitalised as borrowing costs in the subsidiary's separate financial statements?

The liability is initially recognised at fair value according to IAS 39. The subsidiary has an accounting policy choice regarding how to account for the difference between the fair value of the loan and the amount of funds received from the parent. This difference may be treated as either an addition to the subsidiary's equity or as income in the income statement. This should reflect the economic substance of the transaction. When treated as income, the gain does not represent a reduction of borrowing costs.

The liability is subsequently measured at amortised cost, with interest accrued using the effective interest rate method. The interest determined using the effective interest method is an element of the borrowing costs and is considered for determining the costs eligible for capitalisation.

2.14 When the construction of a qualifying asset is performed by a third party, are borrowing costs capitalised on the prepayments made to the third party for the acquisition of the asset?

Yes. The borrowing costs incurred by an entity to finance prepayments on a qualifying asset are capitalised on the same basis as the borrowing costs incurred on assets constructed by the entity.

The capitalisation starts when all three conditions are met: expenditures are incurred, borrowing costs are incurred, and the activities necessary to prepare the asset for its intended use or sale are in progress.

Expenditures on the asset are incurred when the prepayments are made (payments of the instalments). Borrowing costs are incurred when borrowing is obtained. The last condition – the activities necessary to prepare the asset for its intended use or sale are in progress – can vary depending on facts and circumstances. When the construction process by the third party does not start at the prepayment date, management assesses whether it is appropriate to start capitalisation from this date or whether it should be deferred to a later date.

Foreign exchange differences

3.1 How should management determine the amount of foreign exchange differences to be capitalised?

IAS 23R requires capitalisation of foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings. Other differences that are not adjustments to interest costs may include, for example, increases or decreases in the foreign currency rates as a result of changes in other economic indicators such as employment or productivity, or a change in government.

IAS 23R does not prescribe which method should be used to estimate the amount of foreign exchange differences that may be included in borrowing costs.

The following two methods were considered by the IFRIC staff in recent discussions:

- The portion of the foreign exchange movement may be estimated based on forward currency rates at the inception of the loan; and,
- The portion of the foreign exchange movement may be estimated based on interest rates on similar borrowings in the entity's functional currency.

Other methods might be possible. Management uses judgement to assess which foreign exchange differences can be capitalised. The method used to determine the amount that is an adjustment to borrowing costs is an accounting policy choice. The method is applied consistently to foreign exchange differences whether they are gains or losses.

Cessation of capitalisation

4.1 When does capitalisation cease if the construction is completed in phases and each phase can be operated separately?

Capitalisation for one given phase ceases when this phase is ready for its intended use or sale. Each subsequent phase will give rise to capitalisation of borrowing costs over its own construction period.

Interaction between IAS 23 and IAS 11

5.1 An entity incurs borrowing costs for the construction of an asset accounted for under IAS 11. Does management treat the borrowing costs as a contract cost under IAS 11?

Yes. Borrowing costs that are directly attributable to the construction of an asset are treated as contract costs in accordance with IAS 23 and IAS 11.

5.2 Does management take into account payments received in advance from customers when determining the amount of borrowing costs to be included in contract costs?

Yes. The determination of the amount of borrowing costs to be capitalised in the financial statements of the constructor are based on the net position of the contract, after taking into account any customer payments in respect of the contract.

5.3 A contract accounted for under IAS 11 is financed with general borrowings and is in a net credit position (advances in excess of costs incurred). Is the net interest income treated as a contract 'cost'?

No. If the contract is in a net credit position during the whole construction period, no costs are capitalised. The constructor has not incurred any borrowing costs, as the financing was provided by the client.

The net position in a contract may change over the construction period from net debit to net credit (or vice versa). Capitalisation is required for those periods when the contract is in a net debit position.

5.4 Does the amount of borrowing costs capitalised under IAS 11 become part of the cost that is used as a measure for the stage of completion?

Borrowing costs that are attributable to contract activity are considered to be part of the contract costs. The cost-to-cost method will generally take into account all actual costs incurred and expected costs to complete when measuring the stage of completion. Costs that do not reflect the stage of completion (for example – costs that relate to future activity (IAS 11 paragraph 27) are excluded. This might include borrowing costs incurred on specific borrowings obtained in advance for the whole project.

Transition, first-time adoption and US GAAP differences

6.1 What is the effective date of IAS 23R?

IAS 23R is effective for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

Entities preparing financial statements in accordance with IFRSs as adopted by the EU cannot apply IAS 23R until it is endorsed.

6.2 Does IAS 23R apply to qualifying assets existing at the transition date?

No. IAS 23R applies to qualifying assets for which the commencement date for capitalisation is on or after the effective date. IAS 23R does not affect qualifying assets for which the commencement date for capitalisation is earlier than the transition date However, management can decide to designate any date before the effective date and apply IAS 23R to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

- it incurs expenditures for the asset;
- it incurs borrowing costs; and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

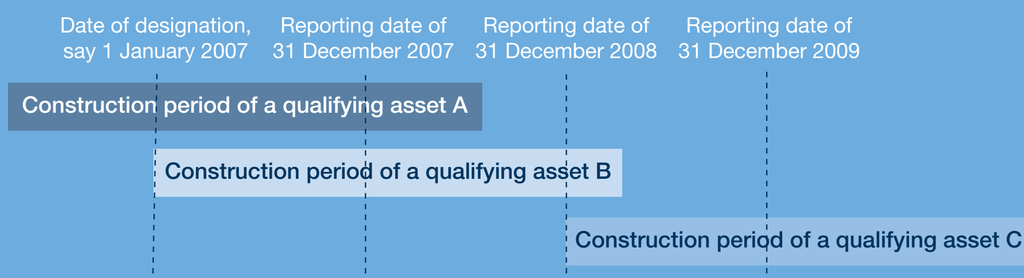
Example

A company decides to designate 1 January 2008 as the date from which borrowing costs will be capitalised.

The borrowings were obtained at the same time when the construction of the qualifying assets A, B and C started; the capitalisation criteria for all assets (A, B and C) were therefore first met when the construction started.

Solution

If the designation date is 1 January 2007, borrowing costs will be capitalised for qualifying asset B but not capitalised for qualifying asset A. The capitalisation criteria for asset A were met before 1 January 2008.



If the designation is 1 January 2009, borrowing costs will be capitalised for qualifying asset C but not capitalised for qualifying assets A and B.

6.3 Should management restate the comparative period(s) in its financial statements if it decides to adopt IAS 23R from a date that is before the opening balance sheet date of the current year presented?

IAS 23R is applied prospectively from the date elected for early application. If this date is before the opening balance sheet of the current reporting period, the early application would result in restating the numbers of the prior-year financial statements. Therefore, the comparatives in the financial statements for the current period will show the effect of the prospective application of IAS 23R from the earlier date.

6.4 Are companies that capitalised borrowing costs under IAS 23 affected by IAS 23R?

No. Most companies will not be affected, as the guidance regarding the determination of the amount of the borrowing costs eligible for capitalisation, commencement, suspension and cessation of capitalisation remain substantially unchanged.

A company that capitalised borrowing costs on inventories or assets measured at fair value might be affected, as this is no longer required under IAS 23R.

6.5 Under previous GAAP, a first-time adopter was capitalising borrowing costs using a methodology different from IAS 23R. Can the same methodology be used for the assets under construction at the date of transition to IFRS?

No. A first-time adopter has the following two options under IFRS 1 for the assets already under construction at the date of transition to IFRS:

- measure the assets in accordance with other standards (IAS 16, IAS 38, IAS 11) without capitalising any borrowing costs (alternatively, some assets can be measured at fair value in accordance with IFRS 1 if certain conditions are met); or
- designate a date before the transition date that coincides with the commencement date of capitalisation under IAS 23R. Borrowing costs are measured and capitalised under IAS 23R from this date forward.

6.6 When reporting under US GAAP, a foreign private issuer was capitalising interest expense in accordance with FAS 34. Can management use the same methodology as the one used under US GAAP to report under IFRS?

No. IAS 23R is a converged standard but some aspects of measurement still differ from FAS 34. The main theoretical differences are presented in IAS 23R BC19-26.

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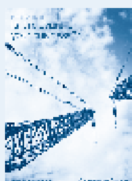

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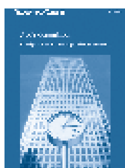

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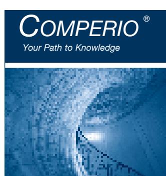

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