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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Berlin, 28. September 2006

Dear Sir David

Re: Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*

We are pleased to comment on the Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*. As a measure to further reduce the range of accounting alternatives, and as a further step towards convergence, we support the IASB's proposal to eliminate the option in IAS 23 of recognising borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. This decision, however, has only been reached after much debate and intensive discussions.

In particular, we note that the proposed amendments do not seek to resolve all differences that currently exist between IAS 23 and its US GAAP equivalent FAS 34 *Interest Cost*. As a result, borrowing costs will continue to be a reconciling item for entities that prepare financial statements under both IFRS and US GAAP.

Furthermore, we note that the Short-term Convergence project could have provided a useful opportunity to review the treatment of borrowing costs in a more thoroughgoing manner and incorporate more current thinking into standards that have been developed some years ago and might require reconsideration. In particular, it would have been worthwhile to consider the conceptual implications of both basic approaches or discussing alternative concepts of capitalisation, such as the economic cost model. This would have helped to address concerns that under the current (and future) capitalisation model, the capital structure of an entity inappropriately affects the recorded cost of its assets.

Although we would have welcomed a more fundamental revision of IAS 23, and a more thorough analysis of the concepts involved, we acknowledge that this might have considerably lengthened the project, and from a convergence perspective would only have made sense if conducted as a joint project with the FASB. We understand that the likelihood of a joint project being set up and completed in the near future is remote, and that the Board therefore concluded that it should focus on eliminating the major difference. In reaching this conclusion, the Board also appears to have considered recent announcements by the SEC and the European Commission stating that, for their purposes, convergence on the detailed aspects of IAS 23 and IAS 34 is not necessary.

Since the alternative to proceeding as proposed in the ED seems to be spending considerable time and resources on a project that would not be conducted jointly with the FASB, we finally concluded to agree with the Board's decision not to consider aspects of IAS 23 beyond the choice between capitalisation and immediate recognition as an expense at this stage.

Please refer to the appendix to this letter for our specific answers to the questions outlined in the ED.

Yours sincerely,

Prof. Dr. Harald Wiedmann
President

Comments to the Questions of ED on Proposed Amendments to IAS 23 – Borrowing Costs

Question 1 – Eliminating expense option

This Exposure Draft proposes to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Do you agree with the proposal? If not, why? What alternative would you propose and why?

We agree with the proposal, which will eliminate another accounting option from IFRS and achieve convergence in principle with US GAAP.

As discussed in the cover letter, we would have preferred that a FASB/IASB joint project be set up to redeliberate the specific requirements of both IAS 23 and FAS 34 in order to develop an approach of treating borrowing costs that is both relevant and consistent. However, since a joint project does not seem to be a realistic alternative at this stage, we support the Board's decision to eliminate the expense option but not reconsider any of the other requirements of IAS 23.

We regret, however, that the exposure draft does not contain a conceptual discussion of the two basic approaches to treating borrowing costs, and neither addresses the shortcomings of the current capitalisation model nor the arguments in favour of the expense model. We understand that a number of constituents consider borrowing costs to be costs of the period, and support the expense approach because otherwise the capital structure of an entity might inappropriately affect the cost of its assets.

Furthermore, concerns have been raised among our constituents about the effects of capitalisation on reported operating and finance results. The capitalisation of borrowing costs will disproportionately impact income statement line items, capitalisation being recognised as a reduction of finance costs, whereas subsequent amortisation will be charged to operations. Thus prior years' interest expense will be included in operating income. At the same time the usefulness of P&L line item 'finance costs' (which is required to be disclosed under IAS 1, para 81) is diminished as the item neither shows the total interest expense of the year (because of capitalization) nor the total interest cost charged to income in the period (because some interest expense is charged to operating income). Constituents also argued that capitalization of interest cost contradicts the approach currently discussed under the IASB's Financial

Statement Presentation Project which aims at separating an entity's financing activities from its business and other activities.

Finally, it has been argued that capitalisation could well require complex adjustments on consolidation in order to eliminate interest cost charged for intercompany loans from the carrying amount of group assets or group amortisation expense.

We certainly think that concerns such as these should have been addressed in the exposure draft, and their implications clarified before taking the step of converging with FAS 34.

Question 2 – Transitional provisions

This Exposure Draft proposes that entities should apply the amendments to borrowing costs for which the commencement date for capitalisation is on or after the effective date. However, an entity would be permitted to designate any date before the effective date and to apply the proposed amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

Do you agree with the proposal? If not, why? What alternative would you propose and why?

We agree.