

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <https://www.asb.or.jp/en/>



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Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Tentative Agenda Decision Relating to IAS 23 *Borrowing Costs* - Over Time Transfer of Constructed Good

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to IAS 23 *Borrowing Costs* — Over Time Transfer of Constructed Good, proposed in the November 2018 IFRIC Update.
2. This tentative agenda decision illustrates the thought process and interpretations of how the principles and requirements in IAS 23 would apply to a specific fact pattern. We believe that, as noted in the tentative agenda decision, the principles and requirements in IAS 23 provide an adequate basis to determine the appropriate accounting treatment for the specific fact pattern provided in the tentative agenda decision. However, we believe that the tentative agenda decision needs to consider the following matters.
3. The tentative agenda decision noted, as the basis for concluding that a contract asset is not a qualifying asset, that the intended use of a contract asset is to collect cash or another financial asset and that it does not necessarily takes a substantial period of time to get ready for its intended use or sale. However, we question if this reasoning is appropriate because some contracts require a substantial amount of time to get ready to collect cash or another financial asset. We believe that it is necessary to

consider whether a contract asset is a qualifying asset, that is, an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, by clarifying the nature of contract assets.

4. We are not uncomfortable with the conclusion that a contract asset is not a qualifying asset for the fact pattern provided in the tentative agenda decision. Nevertheless, we believe another way to address this issue may be to amend paragraph 7 of IAS 23 and clarify that, similar to financial assets, a contract asset is not a qualifying asset, except for certain cases (such as when a contract asset is a qualifying asset as a result of applying paragraphs 19 and 22 of IFRIC Interpretation 12 *Service Concession Arrangements*), on the grounds that the intended use of a contract asset is to collect cash or a financial asset, just like the intended use of a receivable is to collect cash or another financial asset.
5. We also note that the tentative agenda decision states that “any contract asset that the entity recognises is not a qualifying asset”. However, this statement is inaccurate because there are cases where a contract asset becomes a qualifying asset as a result of applying paragraphs 19 and 22 of IFRIC Interpretation 12. Therefore, we believe that it is necessary to clearly describe that the statement applies specifically to the fact pattern described in the request, similar to how the tentative agenda decision describes how it applies to inventory.
6. We hope our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', with a stylized flourish at the end.

Yukio Ono
Chairman
Accounting Standards Board of Japan