STAFF PAPER

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IASB Meeting

Project	**Comprehensive review of the *IFRS for SMEs***		
Paper topic	Accounting policy options		
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Purpose of this paper

1. Agenda Paper 8D (this agenda paper) asks the IASB to consider the responses received to the questions in the IASB's 2012 Request for Information (RFI) relating to accounting policy options and to consider whether any amendments should be made to the *IFRS for SMEs*.

Introduction

2. There are three questions in the RFI that relate to whether SMEs should be able to apply a more complex accounting policy based on requirements currently required or permitted in full IFRSs. These questions are as follows:

   (a) Revaluation of property, plant and equipment (Question S9 in the RFI and Issue 5 for the SME Implementation Group (SMEIG) meeting).

   (b) Capitalisation of development costs (Question S10 in the RFI and part of Issue 6 for the SMEIG meeting).

   (c) Capitalisation of borrowing costs on qualifying assets (Question S14 in the RFI and part of Issue 6 for the SMEIG meeting).

3. For each question above this agenda paper includes:

   (a) the question asked in the RFI (slightly condensed for this agenda paper);

   (b) a detailed summary of the main comments received;

   (c) staff analysis;

   (d) recommendations of the SMEIG and the IASB staff; and

   (e) the question for the IASB to discuss.

4. There are also two appendices to this agenda paper:

   (a) Appendix A containing a full extract of the SMEIG recommendations on the issues in this agenda paper from the final SMEIG report.

   (f) Appendix B explains the process staff followed in summarising responses in the comment letters.

Revaluation of property, plant and equipment (Issue 5: Question S9)

> **Question S9 in the RFI: Revaluation of property, plant and equipment (Section 17)**
>
> The *IFRS for SMEs* currently prohibits the revaluation of property, plant and equipment (PPE). Revaluation of PPE was one of the complex accounting policy options in full IFRSs that the IASB eliminated in the interest of comparability and simplification of the *IFRS for SMEs*.
>
> **Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?**
>
> (a) No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.
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> (b) Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).
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> (c) Other—please explain.
>
> Please provide reasoning to support your choice of (a), (b) or (c).

Responses from comment letters

5. Approximately 30% of comment letters responding to Question S9 would not add an accounting policy option to revalue PPE to the *IFRS for SME* (choice (a)). The following points cover the main reasons given:

   (a) There was a lengthy debate on accounting policy options when the *IFRS for SMEs* was being developed. Introducing options makes the *IFRS for SMEs* more complex and reduces comparability between SMEs. Options increase costs for preparers, eg when deciding which option to use and additional costs if they choose the more complex option and for users as they need to examine the different policies chosen and assess their effects.

   (b) The cost model for PPE meets the needs of smaller entities.

   (c) If a revaluation model is added, more complex requirements will need to be added in other areas of the *IFRS for SMEs*, eg for deferred taxation and impairment requirements.

   (d) SMEs do not need to revalue their PPE to improve access to loan financing. Instead, companies can provide revaluation disclosures in the notes to the financial statements or obtain third party valuations of properties. Regardless of the accounting policy chosen, financial institutions often require a separate valuation to be performed before providing loan finance.

   (e) Reliable fair values are often unavailable for items of PPE (this is a bigger issues in developing jurisdictions). Revaluation of PPE in the absence of public information on market values introduces subjectivity and reduce the reliability of financial information.

   (f) The fair value of a non-financial asset is only relevant to users of the financial statements if the SME is likely to sell the item in the near future. Most PPE is used within the business for its useful life and then scrapped.

6. Approximately 65% of comment letters responding to Question S9 would permit an entity to choose, for each major class of PPE, whether to apply the cost model or the revaluation model (choice (b)). The following points cover the main reasons given:

   (a) Adding a revaluation option would not add significant preparer complexity to the *IFRS for SMEs* as SMEs can choose the simpler option, ie the cost model.

   (b) The revaluation model is not complex and is already commonly applied by small entities in many jurisdictions. Not allowing a revaluation option may be a barrier to adoption of the *IFRS for SMEs* in some jurisdictions, eg where revaluation is compulsory or SMEs commonly revalue their PPE.

   (c) Allowing the revaluation model for PPE may improve access to loan financing and enable entities to better comply with debt-equity ratios in loan covenants. If entities are currently applying a revaluation model under local GAAP, a change to a cost model on adoption of the *IFRS for SMEs* may affect borrowing arrangements.

   (d) Measuring property at fair value presents a more accurate reflection of financial position. SMEs should not be prohibited from providing users of financial statements with the most up to date and relevant information.

   (e) It is important that entities with significant PPE operating in high inflationary economies or in countries with restrictions relating to foreign currency exchange can revalue those items. In high inflationary economies historic cost will be much lower than current cost. Plus, whilst income increases by inflation, depreciation does not unless the PPE is revalued.

   (f) Although allowing a revaluation option would reduce comparability between SMEs, the option is currently permitted under full IFRSs. It could be argued comparability between listed companies is more important than SMEs. Also allowing a revaluation option would improve comparability of SMEs with companies applying full IFRSs. Many entities want to revalue PPE to be comparable with entities applying full IFRSs. Plus, banks and lenders want to be able to compare entities across industry segments.

(g) Allowing full IFRS accounting policy options in the *IFRS for SMEs* would enable subsidiaries that need to prepare information for consolidation purposes under full IFRSs to align their accounting policies with those of the group. Options also facilitate entities transitioning from the *IFRS for SMEs* to full IFRSs.

7. Approximately 5% of comment letters responding to Question S9 chose (c) "other". Other suggestions made by comment letters include:

(a) Companies could provide revaluation disclosures in the notes to the financial statements.

(b) More complex options, eg the revaluation model, could be included in an appendix to the *IFRS for SMEs* or included within a separate box within the sections. This would allow SMEs that do not want to use complex options to easily ignore the additional requirements. The IASB could also signal which is the simpler option by having a default option (eg cost model) and a permitted alternative (eg revaluation model) to ensure entities do not have to spend resources finding the less costly alternative.

(c) If options are inserted in separate boxed sections (or in an appendix), jurisdictions could easily choose to include or exclude them as appropriate when adopting the *IFRS for SMEs*. This would be better than each jurisdiction adapting the *IFRS for SMEs* themselves by writing their own options (eg as has been done in the UK). The IASB could also publish a core *IFRS for SMEs* (ie excluding all the boxed sections) for jurisdictions where complex options are considered not to be required.

Staff analysis

8. Paragraphs BC89-94 in the Basis for Conclusions accompanying the *IFRS for SMEs* contain the IASB's reasoning for whether accounting policy options in full IFRSs should be allowed in the *IFRS for SMEs*:

> BC89 Full IFRSs include some accounting policy options (choices). Generally, for a given transaction, event or condition, one of the options is simpler to implement than the other(s). Some believe that the *IFRS for SMEs* should eliminate all accounting policy options and, therefore, require all SMEs to follow a single accounting policy for a given transaction, event or condition. Those who hold this view argue that the benefits would be simplification of the *IFRS for SMEs* and greater comparability of the resulting financial information among SMEs using the *IFRS for SMEs*. Others argue that prohibiting SMEs from using an accounting policy option that is available to entities using full IFRSs could hinder comparability between SMEs and entities applying full IFRSs.
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> BC90 In developing the exposure draft, the Board considered both points of view and, on balance, had concluded that all options in full IFRSs should be available to SMEs. At the same time, the Board recognised that most SMEs are likely to prefer the simpler option in full IFRSs. Therefore, the exposure draft proposed that when full IFRSs allow accounting policy options, the *IFRS for SMEs* should include only the simpler option, and the other (more complex) option(s) should be available to SMEs by cross-reference to the full IFRS.
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> BC91 Respondents to the exposure draft were divided on whether the more complex options should be available to SMEs. Their comments reflected both of the points of view described in paragraph BC89. Many respondents argued that allowing the complex accounting policy options is not consistent with the Board's objective of a simplified standard for smaller entities and would hinder comparability. For example, while supporting the Board's tentative decision to make the *IFRS for SMEs* a stand-alone standard, the European Financial Reporting Advisory Group (EFRAG) and the European Federation of Accountants (FEE) and some national professional accountancy bodies and standard-setters wrote to the Board disagreeing with the tentative decision during redeliberations to retain all or most of the complex options. This issue was discussed at the Standards Advisory Council (SAC) meeting in November 2008, and all SAC members supported allowing in the *IFRS for SMEs* only the simpler options. They noted that most SMEs will choose to follow the simpler options as they will generally be less costly, require less expertise and achieve greater comparability with their peers. They also pointed out that if a private entity feels strongly about using one or more of the complex options, it could elect to follow full IFRSs rather than the *IFRS for SMEs*.
>
> BC92 Many who supported not permitting the complex accounting policy options felt that this would benefit users of financial statements who need to make comparisons between smaller entities. Users of SMEs' financial statements are often less sophisticated than users of financial statements of publicly accountable entities and so would benefit from less variation in accounting requirements between entities. Moreover, reducing options does not hinder comparability with entities using full IFRSs since, in many cases under full IFRSs, entities may apply different accounting policies from each other for the same transactions.

BC93 Virtually all who favoured keeping at least some of the options also favoured making the *IFRS for SMEs* a stand-alone document, which would mean that the options would be addressed directly in the *IFRS for SMEs* rather than by cross-reference to full IFRSs. They acknowledged that this could cause a significant increase in the size of the *IFRS for SMEs*.

BC94 After considering the alternatives, the Board concluded that some of the options should not be available to SMEs while others should be available to SMEs. Furthermore, to make the *IFRS for SMEs* a stand-alone document, the Board concluded that those options available to SMEs should be addressed directly, appropriately simplified from full IFRSs. Paragraph BC84 explains the Board's decisions on individual options.

SMEIG recommendation

The majority of SMEIG members recommend adding a revaluation option for PPE. SMEIG members supporting this option emphasised the business requirements of SMEs, especially access to loan financing, and a view that entities should not be prohibited from providing more relevant information.

A significant minority of SMEIG members recommend not permitting a revaluation option. These members emphasised concerns with users of SME financial statements being less able to deal with different options, and the added complexity options introduce in the Standard.

Staff recommendation

9. The staff agree with the significant minority of SMEIG members that recommend that the *IFRS for SMEs* is not revised to permit a revaluation model for PPE. As explained in Agenda Paper 8B and 8C the staff and the SMEIG believe the primary aim when developing the *IFRS for SMEs* was to provide a standalone, simplified, set of accounting principles for entities that do not have public accountability, have less complex transactions, have limited resources to apply full IFRSs and operate in circumstances where comparability with their listed peers is not a key consideration. Such entities generally prioritise simplified accounting and do not require complex accounting policy options. The staff think that any updates to the *IFRS for SMEs* should be considered based on this primary aim.

10. The staff further note that it is not possible for the *IFRS for SMEs* to cater for local laws/preferred accounting treatments in individual jurisdictions. Some jurisdictions strongly support having a revaluation option for property, plant and equipment. However, other jurisdictions strongly support adding other accounting policy options. Consequently, it would be difficult to introduce a revaluation option for PPE into the *IFRS for SMEs*, without also including other complex options.

11. Introducing options increases complexity and reduces comparability. Options increase costs for both preparers, in deciding which option to use, and users that have to examine the policy chosen and assess its effects. In some jurisdictions SMEs may be able to apply the revaluation option without significant problems because they have used it for many years under their local GAAP and reliable fair values may be readily available. However, permitting the option may encourage SMEs in other jurisdictions where fair values are less readily available to choose an accounting policy that is too complex for them, eg to increase their net assets. Furthermore, the revaluation model for PPE would add complexity in other areas, eg impairment and deferred tax calculations.

12. Staff acknowledge if entities are currently applying the revaluation model under local GAAP, a change to the cost model may have potential implications for borrowing arrangements. Certain jurisdictions have said this is a barrier to adoption. However, staff think there are other ways of reporting this information to lenders without adding complexity to the *IFRS for SMEs*, eg through additional disclosures in the financial statements or separate third party valuations. The *IFRS for SMEs* prescribes the minimum required disclosures. An SME may disclose additional information, eg the fair value of their PPE, if it is considered relevant to users of their financial statements. Similarly entities experiencing high inflation may provide additional disclosures in their financial statements explaining its effects.

Question for the IASB

1) **Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?**

Capitalisation of borrowing costs/development costs (Issue 6: Questions S10 and S14)

Question S10 in the RFI: Capitalisation of development costs (Section 18)

The *IFRS for SMEs* currently requires that all research and development costs be charged to expense when incurred unless they form part of the cost of another asset that meets the recognition criteria in the *IFRS for SMEs* (paragraph 18.14). The IASB reached that decision because many preparers and auditors of SME financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.

In full IFRSs, IAS 38 *Intangible Assets* requires that all research and some development costs must be charged to expense, but development costs incurred after the entity is able to demonstrate that the development has produced an asset with future economic benefits should be capitalised. IAS 38.57 lists certain criteria that must be met for this to be the case.

Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?

(a) No—do not change the current requirements. Continue to charge all development costs to expense.

(b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

(c) Other—please explain.

Please provide reasoning to support your choice of (a), (b) or (c).

Question S14 in the RFI: Capitalisation of borrowing costs on qualifying assets (Section 25)

The *IFRS for SMEs* currently requires all borrowing costs to be recognised as an expense when incurred (paragraph 25.2). The IASB decided not to require capitalisation of any borrowing costs for cost-benefit reasons, particularly because of the complexity of identifying qualifying assets and calculating the amount of borrowing costs eligible for capitalisation.

IAS 23 *Borrowing Costs* requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (ie an asset that necessarily takes a substantial period of time to get ready for use or sale) must be capitalised as part of the cost of that asset, and all other borrowing costs must be recognised as an expense when incurred.

Should Section 25 of the *IFRS for SMEs* be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?

(a)	No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred.
(b)	Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).
(c)	Other—please explain.
Please provide reasoning to support your choice of (a), (b) or (c).	

Responses from comment letters

13. Staff have categorised Questions S10 and S14 as questions relating to accounting policy options because many comment letters suggested allowing SMEs an option to follow the full IFRSs requirements. The staff have summarised comments on Questions S10 and S14 together due to similarities in responses received.

14. Approximately 40% of comment letters responding to Question S10 (Question S14: 35%) would not change the current requirements (choice (a)). The following points cover the main reasons given:

    (a) Requirements to capitalise borrowing/development costs under full IFRSs are too complex for SMEs. For example, the judgments and estimates necessary to distinguishing the research phase from the development phase and determine when the criteria for capitalisation of development costs are met are onerous for SMEs. Similarly the judgement and calculations required in determining which borrowing costs to capitalise, and over what period, are complex. Many SMEs do not have sufficient expertise or the systems in place to apply these requirements properly and this would result in poor quality financial information.

    (b) Requiring smaller entities to capitalise certain development/borrowing costs would increase costs without adding significant benefits to users of their financial statements. For example capitalising borrowing costs does not provide lenders with information about whether the SME can pay back the related debt.

(c) It is not clear why the IASB is reconsidering its decision to simplify the approach in full IFRSs for SMEs which was made because of concerns over the cost-benefit implications of requiring capitalisation. The RFI does not provide any evidence suggesting these concerns are no longer valid.

(d) Requiring or allowing capitalisation of development/borrowing costs will increase complexity in other areas, for example deferred taxation. Expensing development costs is in line with the income tax treatment in many jurisdictions which adds to its simplicity.

(e) SMEs can disclose additional information about borrowing/development costs expensed in the notes to the financial statements if they believe it would be useful.

(f) If SMEs wish to apply complex accounting requirements, and have the expertise to do so properly, they can apply full IFRSs.

15. Approximately 25% of the comment letters responding to Question S10 (Question S14: 25%) would revise the *IFRS for SMEs* to require capitalisation of borrowing and development costs meeting criteria for capitalisation in IAS 38/23 (choice (b)). Many of the reasons given are similar to those in support of aligning the *IFRS for SMEs* with new and revised IFRSs (see Appendix B in Agenda Paper 8C). Additional reasons given include:

(a) Development and borrowing costs are significant costs for some SMEs, eg start-up companies. Requiring them to be expensed can have a major impact on profits and net assets. This may reduce access to loan financing. It also makes these SMEs appear less profitable than other SMEs and puts them at a disadvantage with entities applying full IFRSs. If the *IFRS for SMEs* continues to require these expenditures to be expensed immediately it may discourage further investment needed to grow the business—for example on research and development or using borrowings to build assets, such as manufacturing plants.

16. Approximately 35% of comment letters responding to Question S10 (Question S14: 40%) chose (c) “other”. The vast majority of these comment letters

suggested adding an accounting policy option for SMEs, rather than a requirement, to capitalise borrowing and development costs meeting criteria for capitalisation in IAS 38/23. Therefore SMEs would still be able to follow the current expense approach under the *IFRS for SMEs*. This would have most of the benefits and few of the drawbacks listed in paragraph 14 and 15. The following points cover additional reasoning given:

(a) The option would not add significant complexity to the *IFRS for SMEs* as SMEs can choose the simpler option, ie the cost model.

(b) Although allowing options to capitalise borrowing and development costs meeting criteria for capitalisation in IAS 38/23 would reduce comparability between SMEs, it would improve comparability of SMEs with companies applying full IFRSs.

(c) Including options in the *IFRS for SMEs* provides flexibility and makes it easier for jurisdictions to adopt the *IFRS for SMEs*. Many jurisdictions either require or permit a capitalisation approach for borrowing costs/development costs that is similar to full IFRSs. The current expense approach in the IFRS for SME is a deterrent to adoption in those jurisdictions.

(d) If SMEs have the expertise to capitalise development/costs in accordance with IAS 23/38, they should be allowed to capitalise. SMEs should not be prohibited from providing users of financial statements with the most up to date and relevant information.

17. Paragraph 5 (Issue 5—Revaluation of PPE) covers the mains reasons provided by respondents for not permitting complex options. In particular, that they generally increase complexity and costs for both preparers and users.

18. Other suggestions made by comment letters include:

(a) Require capitalisation of borrowing and development costs meeting criteria for capitalisation in IAS 38/23 if it would not result in undue cost or effort.

(b) Simplify the criteria in IAS 38/23 for SMEs. Examples given include simplify criteria for when development costs should be capitalised and only capitalise specific borrowing costs, ie not those from a general pool of borrowings.

(c) A number of other suggestions made by comment letters are similar to those summarised in paragraph 7 (Issue 5), ie they cover ways of including accounting policy options within the Standard, eg use of separate boxed sections/appendix.

Staff analysis

19. Question S10 and S14 differ from Question S9 (under Issue 5) because the *IFRS for SMEs* currently requires a treatment not permitted under full IFRSs. Under Question S9 permitting an accounting policy option to use the revaluation method would be aligning the requirements of the *IFRS for SMEs* with full IFRSs (full IFRSs allows both the revaluation and cost model). Under Question S10 and S14 permitting accounting policy options to capitalise borrowing and development costs meeting criteria for capitalisation in IAS 38/23 (as well as the current expense approach) would result in more accounting policy options than full IFRSs because full IFRSs does not permit an expense-only option.

20. Paragraphs BC113-114 and B120 in the Basis for Conclusions accompanying the *IFRS for SMEs* contain the IASB reasoning for requiring all borrowing and development costs to be recognised as expenses when incurred:

> BC113 IAS 38 requires all research costs to be charged to expense when incurred, but development costs incurred after the project is deemed to be commercially viable are to be capitalised. Many preparers and auditors of SMEs' financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis and, furthermore, capitalisation of only a portion of the development costs does not provide useful information. Bank lending officers told the Board that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.
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> BC114 The Board accepted those views, and the *IFRS for SMEs* requires all research and development costs to be recognised as expenses when incurred.
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> BC120 IAS 23 requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the

cost of the asset. For cost-benefit reasons, the *IFRS for SMEs* requires such costs to be charged to expense.

SMEIG recommendation

A slight majority of SMEIG members recommend allowing SMEs an option to either expense (current treatment) or capitalise development/borrowing costs based on similar criteria to full IFRSs. SMEIG members note that this issue is similar to Issue 5, but that it would only affect relatively few SMEs.

A significant minority of SME members recommend no change to current requirements for cost-benefit reasons.

A smaller minority recommend requiring capitalisation of development costs/borrowing costs based on similar criteria to full IFRSs, but adding an undue cost or effort exemption. These members emphasise the importance of aligning the *IFRS for SMEs* with full IFRSs.

Staff recommendation

21. The staff agree with the significant minority of SMEIG members that recommend that the *IFRS for SMEs* is not revised. The primary aim of the *IFRS for SMEs* (described in paragraph 9) should not be undermined by trying to align the recognition and measurement principles with full IFRSs to cater for other entities, eg subsidiaries that need to prepare information for consolidation purposes under full IFRSs.

22. The staff continue to support the IASB's decision and reasoning for not requiring SMEs to capitalise borrowing and development costs. Most of the respondents that support capitalisation want full alignment with full IFRSs. Therefore, staff do not support trying to simplify the criteria for capitalisation for SMEs as it would not align requirements with full IFRSs. A simplified approach would still result in additional complexity for preparers with limited benefits for users (as explained in BC113—see paragraph 20).

23. Furthermore, the staff do not support adding an accounting policy option for SMEs to capitalise borrowing and development costs meeting criteria for

capitalisation in IAS 38/23. The staff reasoning is the same as provided in paragraphs 9 to 12 for not permitting a revaluation option for PPE (Issue 5).

24. The *IFRS for SMEs* requires disclosure of finance costs (paragraph 5.5(b)), total interest expense (paragraph 11.48(b)) and the aggregate amount of research and development expenditure (paragraph 18.29). The *IFRS for SMEs* prescribes the minimum required disclosures. An SME may disclose additional information, eg amount of development costs expensed, if it is considered relevant to users of their financial statements.

Questions for the IASB
2) Should the IFRS for SMEs be changed to permit or require capitalisation of development costs meeting criteria for capitalisation on a similar basis to IAS 38?   **3) Should the *IFRS for SMEs* be changed to permit or require capitalisation of borrowing costs on a similar basis to IAS 23?**

Appendix A: Extract from near final draft of the SMEIG (Issues 5-6)

Issue 5) Revaluation of property, plant and equipment (PPE)

A1. Should an option to use the revaluation model for PPE be added to the IFRS for SMEs?

The majority of SMEIG members recommend adding a revaluation option for PPE. SMEIG members supporting this option emphasised the business requirements of SMEs, especially access to loan financing, and a view that entities should not be prohibited from providing more relevant information.

A significant minority of SMEIG members recommend not permitting a revaluation option. These members emphasised concerns with users of SME financial statements being less able to deal with different options, and the added complexity options introduce in the Standard.

SMEIG discussion

A2. SMEIG members were divided on this issue. Those who supported adding the option noted that in certain jurisdictions, the valuations of PPE could change significantly between periods. Additionally, they noted that in certain industries, it is common for PPE to form a significant part of the reported value of an entity. Those SMEIG members further argued that this information is useful for making credit decision relating to the entity. In the view of those supporting the change, under in particular these circumstances, the revaluation of PPE would constitute more relevant information.

A3. Other SMEIG members did not support an option. These members felt that an option would add complexity to the Standard. They noted that complexity comes in multiple forms – the additional complexity relates to the actual form of the Standard which would have to incorporate the option, the judgement required from the preparers in deciding which option to pursue and the care necessary from users who would have to determine which option had been chosen. These members also noted that entities are free to disclose the fair value of PPE in their financial statements, and that this disclosure should suffice for credit decision making.

A4. SMEIG members also noted a concern that once one additional option was introduced into the standard, it may prove difficult not to introduce other options.

Issue 6) Capitalisation of borrowing costs/development costs

A5. Should Section 18 be changed to permit or require capitalisation of development costs on a similar basis to IAS 38?

A slight majority of SMEIG members recommend allowing SMEs an option to either expense (current treatment) or capitalise development costs. SMEIG members note that this issue is similar to Issue 5, but that it would only affect relatively few SMEs.

A strong minority of SME members recommend no change to current requirements for cost-benefit reasons.

A smaller minority recommend requiring capitalisation of development costs based on similar criteria to IAS 38.57, but adding an undue cost or effort exemption. These members emphasise the importance of aligning the *IFRS for SMEs* with full IFRSs.

A6. Should Section 25 be changed to permit or require capitalisation of borrowing costs on a similar basis to IAS 23?

SMEIG members have the same views as for accounting for development costs.

SMEIG discussion

A7. SMEIG members discussed these two issues at the same time. They noted some similarity between these issues and Issue 5, and acknowledged the concern expressed in paragraph A4 above.

A8. Those SMEIG members who supported introducing an option noted the significance to certain industries of development and interest costs. They also stressed their concern that the accounting required under full IFRSs is not permitted under the *IFRS for SMEs*. They noted their view that based on the

IASB's decisions under full IFRSs, it is apparent that the capitalisation approach produces more relevant information. However, they also conceded that these changes would apply to relatively few SMEs, and that the accounting approach would be onerous for many SMEs to apply. Consequently, they supported an option.

A9. Those SMEIG members who supported no change to the current requirements did so for many of the same reasons set out in paragraph A3.

A10. The small minority of SMEIG members who supported changing the Standard to introduce a requirement for the capitalisation of development costs supported most of the arguments put forward by the majority (set out in paragraph A8 above). However, these SMEIG members also agreed that adding an option created complexity. Consequently they felt that the issues described could be dealt with by making the capitalisation approach a requirement, with an 'undue cost or effort' qualifier to alleviate the potentially onerous nature of the requirement.

Appendix B: Summarising responses in the comment letters

B1. For each issue in this agenda paper (and in Agenda Papers 8E to 8G) the staff have provided a detailed summary of the responses from comment letters on the related question(s) in the RFI (comment letter analysis). This summary was also presented in the agenda papers for the SMEIG meeting.

B2. Each question in the RFI provided respondents with several options (eg (a),(b),(c) etc) for answering the question. Respondents were asked to choose the one option for each question that most closely matched their view and give their reasoning. For each of the issues in this agenda paper, the staff have provided a summary of the most common comments received for each of the options. However, in some cases, staff also felt it was important to highlight a comment raised by only one or two comment letters because of the nature of the comment. Staff will consider comments that highlight minor wording or guidance concerns separately during drafting the proposed amendments to the *IFRS for SMEs*.

B3. Staff have provided information about the number of comment letters choosing a particular option. However, in developing the staff recommendation staff have focussed more on the comments raised than on the popularity of the options for two reasons:

(a) Firstly jurisdictions and types of organisations are not evenly represented by the comment letters received. For example, some countries have issued more than ten comment letters. Other countries are only represented in a combined letter issued by an organisation covering several jurisdictions.

(b) Secondly the approach by different respondents to selecting options is inconsistent. Comment letters frequently elect different options, but explain it with a similar narrative. This is because responses often do not closely match any of the options provided in the question. For analysis purposes, staff have changed the options chosen by some letters to try to adopt a consistency process between letters. However, this has not been possible in all cases due to the wide spectrum of comments received.