

## STAFF PAPER

March 2013

## IASB Meeting

Project	IAS 41 <i>Agriculture: Bearer Biological Assets (BBAs)</i>		
Paper topic	Due process steps and permission for balloting		
CONTACT(S)	Michelle Fisher	<a href="mailto:mfisher@ifrs.org">mfisher@ifrs.org</a>	+44 (0)20 7246 6918

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Objective of this meeting**

1. The purpose of this meeting is for the International Accounting Standards Board (IASB) to review the due process steps taken in the limited-scope project on bearer biological assets (BBAs) and decide whether the staff can begin the balloting process for an Exposure Draft of proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*.

**Structure of this paper**

2. This Agenda Paper 10 is set out as follows:
  - (a) Reasons for undertaking the project
  - (b) Work performed so far
  - (c) Effect analysis
  - (d) Questions for the IASB:
    - (i) Permission to begin the balloting process
    - (ii) Comment period

- (e) Appendices:
  - (i) Appendix A: Summary of the IASB's decisions under the project
  - (ii) Appendix B: Action taken to meet the due process requirements
  - (iii) Appendix C: Draft project plan

## **Reasons for undertaking the project**

### ***Aim of the project***

3. The aim of this limited-scope project is to respond to concerns about the application of the IAS 41 fair value model for a subset of biological assets, known as BBAs. The project will not revisit the fair value model in IAS 41 for other biological assets.

### ***Criticism of IAS 41 for BBAs***

4. IAS 41 measures all biological assets related to agricultural activity at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. Some commentators have told the IASB that fair value measurement is not appropriate for mature BBAs because they are no longer undergoing biological transformation. Once mature, instead of being growing assets, these assets are now productive assets. These commentators say BBAs are similar to property plant or equipment (PPE) and should be accounted for under IAS 16.

### ***Feedback on the IASB's agenda consultation***

5. Most respondents who mentioned agriculture in their responses to the IASB's agenda consultation, especially those in the plantation industry, favoured a limited-scope project for BBAs to address the criticism in paragraph 4. In particular, preparers expressed concern about volatility from recognising changes

in the fair value of BBAs in profit or loss (when only the produce of the BBAs is being grown for sale, and not the bare BBAs themselves), as well as concerns about the cost and complexity of valuing BBAs in the absence of markets for those assets. In their responses plantation companies have asserted that shareholders, analysts, and other users of their financial statements disregard the fair value changes in their analyses of these assets.

6. A potential project on BBAs has been discussed several times by national standard-setters and feedback from these forums, and from the IASB's Agenda Consultation, indicates that support for the project is widespread and strong.

### **Work performed so far**

#### ***Work performed by other standard-setters to date***

7. Before the project was added to its work programme the IASB was monitoring work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal to amend IAS 41 for BBAs. The MASB's proposals and analysis have been discussed several times by national standard-setters and the IFRS Advisory Council.
8. As part of their analysis the MASB surveyed analysts specialising in plantation companies. The MASB survey was also circulated to the IASB's Analysts Representative Group (now the Capital Markets Advisory Committee) by the IASB staff. The majority of the analysts told the MASB they do not find the fair value information for BBAs useful, particularly the presentation of changes in fair value within profit or loss.

#### ***Work performed by the IASB***

9. At the September 2012 IASB meeting, the staff presented a proposal to add a limited-scope project on BBAs to the IASB's agenda. The staff proposal provided details of the research performed by the MASB and explained that this should provide the IASB with sufficient information to make a decision about

adding the project to its agenda without the need for a Discussion Paper. All IASB members supported undertaking the project.

10. The project proposal was discussed at the October 2012 meeting of the IFRS Advisory Council. There was strong support at that meeting for the IASB to commence the project with the initial objective of developing an Exposure Draft.
11. During September to November 2012 the staff extended the MASB survey to provide more global user outreach. Staff asked investors and analysts who study companies with BBAs how they use the fair value information for BBAs. This outreach consisted of written correspondence and conference calls. The staff findings were presented to the IASB in December 2012 (see Agenda Paper 8C for that meeting) and generally supported the conclusions from the MASB survey.
12. During its December 2012 and February 2013 meetings the IASB discussed all the issues under the project. The decisions made during these two meetings were included in IASB Updates for those meetings.
13. The IASB's progress on the project was reported to the Trustees and the Trustees' Due Process Oversight Committee (DPOC) at their October 2012 and January 2013 meetings as part of the update on the IASB's technical activities.

### **Effect analysis**

14. The IASB's proposals under the limited-scope project (see Appendix A) are expected to reduce compliance costs, complexity and profit volatility for preparers without a significant loss of information for users of their financial statements.

### ***Preparers of financial statements***

15. The majority of the IASB's decisions in the project are expected to be well received as they are consistent with the AOSSG/MASB proposals, feedback from national standard setters and responses to the IASB's Agenda Proposal. We anticipate that preparers are likely to be less supportive of two decisions:

- (a) **Limiting the amendments to BBAs and retaining the current requirement to measure produce at fair value less costs to sell through profit and loss.** Several plantation companies have told the staff this would be difficult to apply in practice to certain types of produce. However, the reasons for accounting for BBAs like PPE (see paragraph 4) do not extend to the produce. The produce is undergoing biological transformation whilst attached to the BBAs and fair value changes have a direct relationship to expectations of future benefits. Furthermore, it would be inconsistent to have different accounting treatments for produce growing on a tree and produce growing in the ground.
- (b) **Including a question in the Exposure Draft asking for feedback on whether any additional disclosures (besides those in IAS 16) are important for investors if BBAs are accounted for under a cost model.** Whilst this is only a question, not a current proposal, preparers are unlikely to be supportive of singling out the BBAs from the rest of agricultural PPE for disclosures beyond those in IAS 16.

### ***Users of financial statements***

16. There is an assumption inherent in the Conceptual Framework that accounting for similar assets in similar ways enhances the decision usefulness of the reported information. Although BBAs are dissimilar in form to PPE, similarities in their use in the business provides support for accounting for them in the same way.
17. Under the proposal users of the financial statements will receive cost information about BBAs (if the cost model is chosen under IAS 16), rather than fair value information. This is not expected to result in less relevant information for users because nearly all investors and analysts in our outreach told us that the IAS 41 fair value information about BBAs has either limited or no use to them. The main reasons given include:

- (a) Information about operating performance and cash flows are more relevant to their forecasting and analysis. Therefore changes in the fair value of BBAs are eliminated from the figures used for their analysis.
  - (b) There are concerns about the reliability of fair value measurements.
  - (c) Fair value information about BBAs is not very useful without fair value information about the related land, agricultural machinery, etc.
18. Many investors and analysts in the outreach sample told the staff that instead of using the fair value information they use other information, eg about yield, acreage, age of BBAs etc. This information is usually obtained via analyst presentations, the front of the annual report (eg in management commentary) or otherwise received directly from the companies. The Exposure Draft will ask for more feedback on whether additional disclosures, such as these, are important to users of the financial statements. The IASB will use the feedback to consider if the information provided to users can be improved in comparison to IAS 41.

### Permission to begin the balloting process

19. The IASB finalised its technical discussions at its February 2013 meeting. The staff believe that sufficient due process has been carried out (see Appendix B). If the IASB is satisfied that it has been provided with sufficient analysis, and undertaken appropriate consultation, to support the publication of an Exposure Draft of proposed amendments to IAS 16 and IAS 41 for BBAs, the staff requests permission to start the balloting process for the Exposure Draft.

#### Question for the IASB

- 1) Are there any further due process steps that the IASB think are necessary before beginning the balloting process?
- 2) Does the IASB grant the staff permission to begin the balloting process?
- 3) Do any IASB members intend to dissent from the proposal?

## Comment period

20. The IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. Although the amendments are narrow in scope the staff do not suggest shortening the comment period. Agricultural activity plays a significant role in the economy in many non-English speaking countries. Interested parties will need time to translate and understand the changes, and coordinate their responses. Accordingly, the staff recommend a comment period of 120 days for the Exposure Draft.

### Question for the IASB

- 4) Does the IASB agree that the comment period should be 120 days?

## **Appendix A: Summary of the IASB's decisions under the project**

21. Appendix A lists the IASB's decisions under the project and therefore the proposals for the Exposure Draft of proposed amendments to IAS 16 and IAS 41.

### **Scope**

22. The scope of the amendment to IAS 41 should be restricted to bearer biological assets that are plants. Plants should be defined as bearer biological assets if they have no consumable attributes. This means they can only be used in the production or supply of agricultural produce (no alternative use other than use as bearer assets).

### ***Accounting for the bare BBAs (ie excluding the produce)***

23. **Application of a cost model:**
- (a) Before being placed into production, BBAs should be measured at accumulated cost. This approach is similar to the accounting treatment for a self-constructed item of machinery before it is placed into production.
  - (b) The recognition requirements of IAS 16 (unit of measure, initial costs and subsequent costs) can be applied to BBAs without modification.
  - (c) The disclosure requirements of IAS 16 can be applied to BBAs without modification. The Exposure Draft should also ask for feedback on whether the following disclosures are important to investors:
    - (i) disclosures about the fair values of the BBAs (including assumptions and inputs used);
    - (ii) disclosures about the significant inputs that would be required to determine the fair value of BBAs (but without the need to disclose the fair value of the BBAs); and



- (iii) other disclosures about productivity, for example age profile, estimates of the physical quantities of BBAs and output of agricultural produce etc.

24. **Other issues**

- (a) The revaluation model should be permitted for BBAs.
- (b) BBAs should be included within the scope of IAS 16, rather than adding requirements to IAS 41.

***Accounting for the produce***

- 25. The produce growing on BBAs should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows.
- 26. The reliability exception in paragraph 30 of IAS 41 should not be modified for produce growing on BBAs.
- 27. The produce should remain in the scope of IAS 41.

***Transition requirements***

- 28. The amendments to IAS 16 should permit use of fair value as deemed cost for items of BBAs at the start of the earliest comparative period presented in the financial statements to avoid the need to reconstruct cost information.
- 29. The amendments to IAS 16 and IAS 41 should be available for early adoption.
- 30. The deemed cost exemptions provided for PPE in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should also be available for items of BBAs.

## Appendix B: Action taken to meet the due process requirements

31. Appendix B shows how the IASB has complied with the due process requirements for development of an Exposure Draft as set out in the *Due Process Handbook* published in February 2013.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Board meetings held in public, with papers available for observers. All decisions are made in public session.</b>	Required	Meetings held to discuss topic  Project Website contains a full description with up-to-date information on the project  Meeting papers posted in a timely fashion	The IASB discussed the issues under the project at its December 2012 and February 2013 meetings  The project website contains a full description of the project with up-to-date information on progress, including meeting papers, decision summaries and IASB meeting webcasts (all posted on a timely basis)
<b>Consultation with the Trustees and the IFRS Advisory Council</b>	Required	Discussions with the IFRS Advisory Council on topic	The project proposal was discussed at the October 2012 meeting of the IFRS Advisory Council  The IASB's progress on the project was reported to the Trustees and the DPOC at their October 2012 and January 2013 meetings
<b>Consultative groups utilised, if formed</b>	Optional	Extent of consultative group meetings, and evidence of substantive involvement in issues  Consultative group review of draft exposure draft	Not considered necessary because this is a limited-scope project with limited changes affecting a narrow industry
<b>Fieldwork undertaken in analysing proposals</b>	Optional	IASB describes approach taken on fieldwork  IASB explains why it does not believe fieldwork is warranted, if that is the preferred path  Extent of field tests	Not considered necessary due to the research performed by the MASB and also the high response rate from plantation companies on the IASB's Agenda Consultation and throughout the project

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Outreach meetings with a broad range of stakeholders, with special effort for investors</b>	Optional	Extent of meetings held and location  Evidence of specific targeted efforts for investors	Sufficient information has been received via work performed by the MASB, meetings of national standard setters, feedback from plantation companies on the IASB's Agenda Consultation and throughout the project, and also user outreach
<b>Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.</b>	Optional	Extent of and participation in Webcasts	Not considered necessary as this is a short-term limited-scope project and changes proposed are relatively straight-forward
<b>Public discussions with representative groups.</b>	Optional	Extent of discussions held	The project has been discussed several times by national standard setters and the IASB's Emerging Economies Group. We have had significant feedback from plantation companies on the IASB's Agenda Consultation and throughout the project. Therefore it is considered unnecessary to hold public discussions with representative groups for this limited-scope project
<b>Online survey to generate evidence in support of or against a particular approach.</b>	Optional	Extent and results of surveys	Not considered necessary because only one approach is being considered under this limited scope project
<b>IASB hosts regional discussion forums, where possible, organised with national standard-setters.</b>	Optional	Schedule of meetings held in these forums	The project has been discussed several times by national standard setters
<b>Round-tables between external participants and members of the IASB.</b>	Optional	Extent of meetings held	Not considered necessary because this is a limited-scope project with limited changes affecting a narrow industry

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or ongoing associated costs.</b>	Required	Publication of effect analysis as part of basis for conclusions	The IASB has paid particular attention to the effect the proposals would have on preparers and users of the financial statements. The IASB plans to include an analysis of likely effects in the Basis for Conclusions to the forthcoming revised Exposure Draft. A preliminary effect analysis is provided in paragraphs 14 to 18 of this paper
Finalisation			
<b>Due process steps reviewed by IASB</b>	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	This Agenda Paper 10 provides a summary of all due process steps for the IASB's review  The staff will provide the DPOC with a copy of this Agenda Paper 10
<b>Exposure draft has appropriate comment period.</b>	Required	IASB sets comment period for response  Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval	We plan to ask the IASB for permission to ballot and to set the appropriate comment period at this meeting
Drafting			
<b>Drafting quality assurance steps are adequate</b>	Required	Translations team included in review process	To be done in due course
<b>Drafting quality assurance steps are adequate</b>	Required	XBRL team included in review process	To be done in due course
<b>Drafting quality assurance steps are adequate</b>	Optional	External reviewers used to review drafts for editorial review and comments collected and considered by the IASB	Not considered necessary because this is a limited-scope project with limited changes
<b>Drafting quality assurance steps are adequate</b>	Optional	Drafts for editorial review made available to members of IFASS and comments collected and considered by the IASB	Not considered necessary because this is a limited-scope project with limited changes. The project has been discussed several times by national standard setters

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Drafting quality assurance steps are adequate</b>	Optional	Review draft posted on project website	Not considered necessary because this is a limited-scope project with limited changes
Publication			
<b>Exposure draft published</b>	Required	Exposure draft posted on IASB website	To be done in due course
<b>Press release to announce publication of exposure draft.</b>	Required	Press release published Media coverage	To be done in due course
<b>Snapshot document to explain the rationale and basic concepts included in the exposure draft.</b>	Optional	Snapshot posted on IASB Website	To be considered in due course

## Appendix C: Draft project plan

32. The estimated timetable for the project is set out below:

<i>Timing</i>	<i>Activity</i>
<b>September 2012</b>	IASB staff presented agenda proposal
<b>December 2012-February 2013</b>	The IASB deliberated main issues
<b>Second quarter 2013</b>	The IASB develops and approves an Exposure Draft of proposals. Comment period 120 days
<b>Third quarter 2013</b>	The staff analyse responses to the Exposure Draft and prepare recommendations to the IASB on possible amendments
<b>Fourth quarter 2013</b>	The IASB deliberates amendments to proposals in the Exposure Draft and agrees on final revisions (expected to need two meetings, eg November and December 2013)
<b>First quarter 2014</b>	The IASB publishes final revisions to IAS 16 and IAS 41
<b>2015</b>	Effective date of revisions (and available for early adoption)