

STAFF PAPER

June 2017

IFRS[®] Interpretations Committee Meeting

Project	Biological assets growing on bearer plants		
Paper topic	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (the Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (the Board) can make such a determination. Decisions made by the Committee are reported in IFRIC[®] Update. The approval of a final Interpretation by the Board is reported in IASB[®] Update.

Objective

1. This paper considers the feedback on the IFRS Interpretations Committee's (the Committee) tentative agenda decision IAS 41—*Biological assets growing on bearer plants*. The paper:
 - (a) analyses the comments received on the tentative agenda decision; and
 - (b) asks the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Introduction

2. The Committee received a request to clarify whether, in applying IAS 41 *Agriculture*, there are circumstances in which an entity cannot reliably measure the fair value of growing produce. More specifically, the request asked whether the Committee considers fruit growing on oil palms to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41.
3. At its meeting in March 2017 the Committee decided that its role is not to conclude upon very specific application questions, particularly when the question relates to the application of the judgements required in applying IFRS Standards. That said, the Committee set out a number of matters an entity considers when determining whether

it can measure a biological asset (in this case, produce growing on bearer plants) reliably:

- (a) the reference to ‘clearly unreliable’ in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable;
 - (b) paragraph BC4C of IAS 41 suggests that, when developing the amendments to IAS 41 on bearer plants, the Board’s expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable only when an entity encounters significant practical difficulties;
 - (c) if an entity encounters significant practical difficulties, this does not necessarily mean that any fair value measurement of produce is clearly unreliable; and
 - (d) possible differences in supportable assumptions (which might result in significantly different valuations) is not evidence of significant practical difficulties. Such differences would not, in and of itself, result in fair value measurements that are clearly unreliable.
4. In the tentative agenda decision, the Committee also referred to particular disclosure requirements in IAS 1 *Presentation of Financial Statements* and IFRS 13 *Fair Value Measurement*.

Comment letter summary and staff analysis

5. We received four comment letters, which are included in Appendix B to this paper. All four respondents (Deloitte, AcSB, KPMG and Mazars) agree with the Committee’s decision not to add this matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. However:
- (a) Deloitte asked the Committee to recommend that the Board consider some areas related to fair value measurement as part of its Post-implementation Review (PIR) of IFRS 13; and
 - (b) KPMG expressed concerns about particular aspects of the tentative agenda decision.

PIR of IFRS 13

Concern raised by respondent

6. Deloitte highlighted three areas related to the valuation of biological assets growing on bearer plants that cause difficulty in practice. It requests that the Board consider these areas as part of the PIR of IFRS 13.
7. The AcSB also support the Board exploring the need for education material on measuring the fair value of biological assets as part of the PIR of IFRS 13.

Staff analysis

8. The Board has recently published a [Request for Information](#) (RFI) as part of the PIR of IFRS 13, which is open for comment until 22 September 2017. In the RFI, the Board asks whether additional guidance on the valuation of biological assets is required. Deloitte therefore has an opportunity to respond to the RFI, setting out the three areas of concern. We will also inform the Board of the suggestions in Deloitte's comment letter on this agenda decision.
9. We think that appropriate action has been taken to address this concern (ie the inclusion of a question in the RFI on IFRS 13) and no further action is required by the Committee in finalising the agenda decision.

Significant practical difficulties

Concern raised by respondent

10. KPMG says the wording of the tentative agenda decision implies that the fair value measurement of biological assets growing on bearer plants might be clearly unreliable *only* when an entity encounters significant practical difficulties. In KPMG's opinion paragraph BC4C does not say that significant practical difficulties are the *only* situation in which an entity can conclude that the fair value of biological assets is clearly unreliable. They consider that BC4C states simply that if an entity encounters significant practical difficulties in determining the fair value of biological assets growing on bearer plants, it should consider whether the fair value is reliable.

Staff analysis

11. We agree with KPMG’s comment that BC4C does not say that significant practical difficulties are the *only* reason that entities might conclude that fair value measurements are clearly unreliable.
12. To address this comment, we recommend deleting ‘only’ from the agenda decision (see Appendix A to this paper).

Conceptual Framework

Concern raised by respondent

13. KPMG notes that paragraphs 4.41–4.43 of the *Conceptual Framework* address reliability of measurement in the context of an entity’s ability to make a reasonable estimate. In its view, these paragraphs indicate a measurement that is ‘clearly unreliable’ can be interpreted as a measurement for which the level of estimation uncertainty is too high.
14. They also say, in their view, ‘reliability of measurement’ and ‘significant practical difficulties’ are very different and should not be linked to one another.

Staff analysis

15. Paragraphs 4.41–4.43 of the *Conceptual Framework* do not refer explicitly to measurement uncertainty. They say that an entity should recognise an item only if it possesses a cost or value that can be measured reliably. They also say that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
16. Paragraphs 42–43 of [Agenda Paper 7](#) to the March 2017 Committee meeting discussed the areas of the *Conceptual Framework* pertinent to this matter—in particular, paragraph QC16 of the *Conceptual Framework* discusses the link between measurement uncertainty and faithful representation.

17. In addition, we note the following:
- (a) Paragraph BC4C of IAS 41 says if an entity encounters significant practical difficulties on initial measurement of produce, it should consider whether it meets the requirements of paragraphs 10(c) and 30 of IAS 41.
 - (b) Paragraph 10(c) of IAS 41 says an entity recognises a biological asset or agricultural produce when, and only when, the fair value or cost of the asset can be measured reliably.
 - (c) Paragraph 30 of IAS 41 explains that there is a presumption that an entity can measure fair value reliably for a biological asset. An entity can rebut the presumption only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable.
18. Accordingly, in our view paragraph BC4C links significant practical difficulties and the reliability of measurement in the context of measuring produce. We think the agenda decision does not create or enhance that link beyond the Board’s explanation in paragraph BC4C.
19. For this reason, we think no further action is required in relation to this concern in finalising the agenda decision.

Staff recommendation

20. On the basis of our analysis, we recommend confirming the tentative agenda decision as published in [IFRIC Update](#) in March 2017, subject to the change noted in paragraph 12 above. Appendix A to this paper outlines the draft wording for the final agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper?

Appendix A—Proposed wording for final agenda decision

- A1. We propose the following wording for the final agenda decision (deleted text is struck through).

IAS 41 *Agriculture*—Biological assets growing on bearer plants

The Committee received a request about the fair value measurement of produce growing on bearer plants. More specifically, the request asked whether the Committee considers fruit growing on oil palms to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41.

The Committee observed that:

- a. paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for fruit growing on oil palms applying IAS 41;
- b. the recognition requirements in paragraph 10 of IAS 41 specify when an entity recognises the fruit growing on oil palms separately from the oil palms themselves, which the entity accounts for applying IAS 16 *Property, Plant and Equipment*. An entity recognises a biological asset when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably;
- c. an entity measures a biological asset on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when fair value cannot be measured reliably on initial recognition (paragraph 12 of IAS 41); and
- d. paragraph 30 of IAS 41 contains a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. Paragraph 30 of IAS

41 says that once the fair value of such a biological asset becomes reliably measurable, an entity measures it at its fair value less costs to sell.

The Committee concluded that the reference to ‘clearly unreliable’ in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable. Paragraph BC4C of IAS 41 suggests that, when developing the amendments to IAS 41 on bearer plants, the Board’s expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable ~~only~~ when an entity encounters significant practical difficulties. However, the Committee observed that the converse is not necessarily true—ie if an entity encounters significant practical difficulties, this does not necessarily mean that any fair value measurement of produce is clearly unreliable. In paragraph BC4C, the Board observed that, in this situation, an entity should consider whether it is clearly unreliable.

The Committee also observed that the submission appears to ask whether possible differences in supportable assumptions (which might result in significantly different valuations) constitutes ‘significant practical difficulties’ as referred to in paragraph BC4C of IAS 41. The Committee concluded that this is not evidence of significant practical difficulties, and that it would not, in and of itself, result in fair value measurements that are clearly unreliable.

The Committee noted that paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose information about assumptions and estimates for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, paragraph 91 of IFRS 13 *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

The Committee observed that the submission asks the Committee to conclude whether fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable. The Committee determined that its role is not to conclude upon very specific application questions, particularly when they relate

to the application of the judgements required in applying IFRS Standards.
Consequently, the Committee {decided} not to add this matter to its standard-setting agenda.

Appendix B—Copies of comment letters



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Ms Sue Lloyd
International Accounting Standards Board
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Our ref MV/288

16 May 2017

Dear Ms Lloyd

Tentative agenda decision: IAS 41 Agriculture – Biological assets growing on bearer plants

We appreciate the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision, IAS 41 *Agriculture – Biological assets growing on bearer plants*, issued in the IFRIC Update March 2017. We have consulted with, and this letter represents the views of, the KPMG network.

We have concerns that the wording in this tentative agenda decision could be interpreted in a manner not consistent with the concept of “reliability of measurement”.

In addressing the issue of when fair value measurement of agricultural produce is ‘clearly unreliable’, the tentative agenda decision refers to paragraph BC4C of IAS 41, stating that “this paragraph suggests that the Board’s expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable *only* when an entity encounters significant practical difficulties”. BC4C indicates the following: “The Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemption in paragraphs 10(c) and 30 of IAS 41”. Paragraph BC4C of IAS 41 does not clearly describe what constitutes “significant practical difficulties”. Furthermore, this paragraph does not indicate that fair value measurement is “clearly unreliable” *only* when significant practical difficulties exist.

In paragraphs 4.41-43 of the Conceptual Framework, reliability of measurement is addressed in the context of the ability to make a reasonable estimate. In light of the guidance above, the reference in paragraph 30 of IAS 41 to fair value measurement that is “clearly unreliable” can be interpreted as a measurement in which the level of uncertainty in the estimate is too high. We believe that the concepts of “reliability of measurement” and “significant practical difficulties” are very different and should not be linked to one another.



KPMG IFRG Limited

16 May 2017

We are proposing some amendments to the tentative agenda decision in the Appendix to this letter. We urge the Committee to amend the wording of the agenda decision in this respect

Please contact Mark Vaessen +44 (0)20 7694 8871 or Wolfgang Laubach +49 30 2068 4663 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Cc: Reinhard Dotzlaw

Appendix

Proposed changes

1.1 IAS 41 *Agriculture*—Biological assets growing on bearer plants (Agenda Paper 7)

The Committee received a request about the fair value measurement of produce growing on bearer plants. More specifically, the request asked whether the Committee considers fruit growing on oil palms to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41.

The Committee observed that:

- a. paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for fruit growing on oil palms applying IAS 41;
- b. the recognition requirements in paragraph 10 of IAS 41 specify when an entity recognises the fruit growing on oil palms separately from the oil palms themselves, which the entity accounts for applying IAS 16 *Property, Plant and Equipment*. An entity recognises a biological asset when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably;
- c. an entity measures a biological asset on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when fair value cannot be measured reliably on initial recognition (paragraph 12 of IAS 41); and
- d. paragraph 30 of IAS 41 contains a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. Paragraph 30 of IAS 41 says that once the fair value of such a biological asset becomes reliably measurable, an entity measures it at its fair value less costs to sell.

The Committee concluded that the reference to 'clearly unreliable' in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable.

Paragraph BC4C of IAS 41 indicates the following: **“the Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemption in paragraphs 10(c) and 30 of IAS 41”**. However paragraph BC4C of IAS 41 does not clearly describe what constitutes **“significant practical difficulties”**. Furthermore, this paragraph does not indicate that fair value measurement is **“clearly unreliable”** *only* when significant practical difficulties exist.

The Committee also observed that the submission appears to ask whether possible differences in supportable assumptions (which might result in significantly different valuations) constitutes ‘significant practical difficulties’ as referred to in paragraph BC4C of IAS 41. The Committee concluded that this is not evidence of significant practical difficulties, and that it would not, in and of itself, result in fair value measurements that are clearly unreliable.

The Committee noted that paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose information about assumptions and estimates for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, paragraph 91 of IFRS 13 *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

The Committee observed that the submission asks the Committee to conclude whether fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable. The Committee determined that its role is not to conclude upon very specific application questions, particularly when they relate to the application of the judgements required in applying IFRS Standards. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda

May 22, 2017

By e-mail to ifric@ifrs.org

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Tentative agenda decision on IAS 41 *Agriculture* — Biological assets growing on bearer plants

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision regarding whether the fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable.

The views expressed in this letter take into account comments from individual members of the AcSB staff.

We agree with the Committee's decision not to add this item to its agenda for the reasons set out in the tentative agenda decision. Specifically, we agree that it is not the Committee's role to conclude upon very specific application questions. However, we are supportive of the IASB's intent to explore the need for education material on measuring the fair value of biological assets as part of the post-implementation review of IFRS 13 *Fair Value Measurement*.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at +1 416 204-3464 (e-mail rvillmann@cpacanada.ca), or, alternatively, Michelle Thomas, Principal, Accounting Standards (+1 416 204-2979 or email mthomas@cpacanada.ca).

Yours truly,



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22 May 2017

Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
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United Kingdom
EC4M 6XH

Dear Ms Lloyd

Tentative agenda decision – IAS 41 Agriculture: Biological assets growing on bearer plants

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification on the fair value measurement of produce growing on bearer plants.

We agree with the IFRS Interpretations Committee's decision not to add the item onto its agenda for the reasons set out in the tentative agenda decision. However, we note that there exist a number of conceptual issues (not specific to palm oil and not addressed by IFRS 13 *Fair Value Measurement*) arising from the requirement of IAS 41 to split a single living organism into two units of account (one of which is measured at cost, the other at fair value), including:

- At what point in the growth cycle (which for some crops can be an extended period including a number of distinct stages of development) a 'fruit' is considered to exist separately from the bearer plant.
- Whether the capacity for transformation of an immature fruit to a fruit ready for harvest is a feature of the fruit (and, therefore, to be included in the valuation) or of the bearer plant (and, therefore, not to be included). For example, a palm oil blossom has (absent the plant on which it grows) no ability to perform the biological processes for development into a mature fruit.
- If an income approach to valuation is applied, whether or how the costs included in the valuation of a growing fruit should reflect the use of the bearer plant's productive capacity (i.e. should there be a 'contributory asset charge' for use of the plant consistent with a 'rental' cost for use of an item of property, plant and equipment applied in valuing other assets in the course of production and, if so, how would such a cost be calculated) and how general costs such as fertilizer and pest control should be allocated between care of the plant and of the growing produce.

We recognise that addressing such issues is outside the scope of the Interpretation Committee's activities, but in the absence of clarity the valuation of growing produce on bearer plants will continue to be problematic and diversity in practice will continue. As such, we recommend that the Board consider these issues, as part of the Post-implementation Review of IFRS 13.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader

Mrs Sue Lloyd

IFRS Interpretations Committee
30 Cannon Street
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Paris, May 23, 2017

Tentative Agenda Decisions – IFRIC Update March 2017

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2017 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to Appendix 2 on modified financial liabilities. We strongly believe that this issue, which could lead to a significant change to widespread accounting practices despite the absence of any clear change in IFRS 9 compared to IAS 39, cannot be dealt with through a simple agenda decision.

We consider that such a change deserves to be introduced through an authoritative pronouncement, being an Interpretation or an Amendment to IFRS 9, including appropriate transition relief, and following a sufficient due process that would allow the Board, the Interpretations Committee and all interested stakeholders to question the economic relevance of the outcome.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



Michel Barbet-Massin



Edouard Fossat

Financial Reporting Technical Support

Appendix 7

IAS 41 *Agriculture* — Biological assets growing on bearer plants (Agenda Paper 7)

We agree with the Interpretations Committee's tentative agenda decision as it is currently drafted.