IFRS

STAFF PAPER

September 2019

IFRS® Interpretations Committee meeting

Project	**Subsequent Expenditure on Biological Assets (IAS 41)**		
Paper topic	Agenda decision to finalise		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the accounting for costs related to the biological transformation (subsequent expenditure) of biological assets applying IAS 41 *Agriculture*. The submitter asked whether an entity capitalises subsequent expenditure (ie adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred. The biological asset is measured at fair value less costs to sell.

2. In June 2019 the Committee published a tentative agenda decision. In that tentative agenda decision, the Committee concluded that, applying IAS 41, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred (hereafter, expense subsequent expenditure). The Committee noted in the tentative agenda decision that it had not yet obtained evidence to suggest that standard-setting on this matter at this time would result in an improvement to financial reporting that would be sufficient to outweigh the costs. Accordingly, it tentatively decided not to add the matter to its standard-setting agenda.

3. The objective of this paper is to:

   (a) analyse comments on the tentative agenda decision; and

(b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure of the paper

4. This paper includes the following:

   (a) comment letter summary;

   (b) staff analysis; and

   (c) staff recommendations.

5. There are two appendices to this paper:

   (a) Appendix A—proposed wording of the agenda decision; and

   (b) Appendix B—comment letters.

Comment letter summary

6. We received nine comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website. This agenda paper includes analysis of only the comment letters received by the comment letter deadline. These are reproduced in Appendix B to this paper.

7. Seven respondents (the Accounting Standards Committee of Germany, Deloitte, the Institute of Chartered Accountants of Nigeria, the Institute of Indonesia Chartered Accountants, the Malaysian Accounting Standards Board, Mazars and the Organismo Italiano de Contabilità) agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision.

8. The Canadian Securities Administrators (CSA) does not explicitly disagree with the Committee's decision to publish an agenda decision. However, it says the tentative agenda decision is 'not helpful, incomplete and could have unintended consequences, such as condoning certain accounting practices that are causing difficulties for investors.' To avoid unintended consequences, the respondent suggests the agenda decision direct entities to consider particular requirements in IAS 1 *Presentation of*

Financial Statements and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when accounting for subsequent expenditure.

9. The Canadian Accounting Standards Board (AcSB) disagrees with the Committee's decision not to add the matter to its standard-setting agenda. It suggests amending IAS 41 to explicitly provide entities with a choice of either capitalising or expensing subsequent expenditure.

10. Respondents' comments, together with our analysis, are presented below.

Staff analysis

Requirements in IAS 1 and IAS 8

Respondents' comments

Requirements in IAS 8

11. Paragraphs 10–11 of IAS 8 state:

> 10. In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
>
> (a) relevant to the economic decision-making needs of users; and
>
> (b) reliable…
>
> 11. In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:
>
> (a) the requirements in IFRSs dealing with similar and related issues; and
>
> (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework for Financial Reporting (*Conceptual Framework*).

12. The CSA says the tentative agenda decision acknowledges that IAS 41 does not specify requirements on the accounting for subsequent expenditure. Accordingly, it says an entity should apply the requirements in paragraphs 10–11 of IAS 8 when determining:

   (a) whether to capitalise or expense subsequent expenditure; and

   (b) which costs to capitalise if it capitalises subsequent expenditure.

13. The CSA suggests amending the tentative agenda decision to refer to paragraphs 10–11 of IAS 8 to help entities determine the accounting for subsequent expenditure. It notes that investors following the cannabis sector say it is important that financial statements provide transparency about the costs of producing cannabis—accordingly, the agenda decision should explicitly state that a relevant accounting policy in the cannabis sector is to capitalise subsequent expenditure.

14. The CSA also says referring to paragraph 11 of IAS 8 would direct an entity that capitalises subsequent expenditure to consider the requirements in IFRS Standards dealing with similar and related issues, such as IAS 2 *Inventories* or IAS 16 *Property Plant and Equipment*, when determining which costs to capitalise. This would reduce diversity in reporting methods applied and support better comparability between financial statements.

Requirements in IAS 1

15. Paragraph 85 of IAS 1 states:

> An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

16. The CSA suggests amending the agenda decision to refer to paragraph 85 of IAS 1. In its view, this would help ensure users of financial statements receive relevant information. Applying this paragraph, an entity would consider the need to present additional line items, such as the cost of production excluding fair value adjustments,

when such presentation is relevant to an understanding of the entity's financial performance.

Staff analysis

17. Paragraphs 10–11 of IAS 8 apply in the absence of an IFRS Standard that specifically applies to a transaction, event or condition. We agree that IAS 41 does not explicitly specify whether an entity capitalises or expenses subsequent expenditure. However, when a biological asset is measured at fair value less costs to sell, capitalising or expensing subsequent expenditure has no effect on the measurement of that biological asset nor does it have any effect on profit or loss—it affects the presentation of amounts within the statement of profit or loss. IAS 1 includes requirements that apply to the presentation of amounts in the statement of profit or loss. Accordingly, when assessing how to present subsequent expenditure in the statement of profit or loss, we think an entity considers the relevant requirements in IAS 1 and not paragraphs 10–11 of IAS 8.

18. Paragraphs 81–105 of IAS 1 apply to the presentation of amounts in the statement of profit or loss. While there is no requirement to separately present subsequent expenditure in the statement of profit or loss, an entity would consider the requirements in paragraph 85 (see paragraph 15 of this paper) in assessing whether to present additional line items, headings and subtotals in that statement.

19. Paragraphs 99–105 require an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. Paragraph 104 requires an entity that classifies expenses by function to disclose additional information about the nature of expenses. Paragraph 105 states that 'the choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity…'. We think an entity would consider these requirements in assessing how to present subsequent expenditure.

20. We think it would be helpful to highlight these requirements in the agenda decision and recommend that the Committee amend the tentative agenda decision to do so. Appendix A to this paper sets out our recommendations in this respect.

Standard-setting

Respondents' comments

21. The AcSB says if the Committee affirms its tentative conclusion that an entity can either capitalise or expense subsequent expenditure, the Committee should amend IAS 41 to reflect this conclusion. It says the Committee's rationale for this conclusion relies on paragraph B62 of the Basis for Conclusions on IAS 41[1]. In the AcSB's view, amending IAS 41 to explicitly allow an accounting policy choice in respect of subsequent expenditure would then require an entity to apply the requirements in paragraph 119 of IAS 1[2] and disclose the selected accounting policy for subsequent expenditure. This would provide useful information to users of financial statements.

22. The AcSB also suggests amending IAS 41 to:

    (a) include requirements to help an entity determine which costs to capitalise if it chooses to capitalise subsequent expenditure—it says, without such requirements, investors will continue to have difficulties in comparing the financial statements of entities with biological assets, even when those entities choose to capitalise subsequent expenditure; and

    (b) require an entity that capitalises subsequent expenditure to disclose additions to the carrying amount of a biological asset.

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[1] This paragraph explains that '…the [IASC] Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach'.

[2] Paragraph 119 of IAS 1 states: 'In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*)…'

23. The respondent says other IFRS Standards that permit or require the use of fair value (such as IAS 40) already contain requirements similar to those noted in paragraph 22 above, and these suggested amendments would help achieve consistency with those Standards.

24. Notwithstanding the above, the AcSB continues to hold the view articulated in its submission[3] that a single approach (ie requiring capitalisation or, instead, requiring expensing of subsequent expenditure) would help reduce diversity in reporting methods applied and improve investors' understanding of financial performance. The AcSB encourages the Committee to undertake further research to assess the benefits of amending IAS 41 to require a single approach.

Staff analysis

25. We continue to agree with the Committee's conclusion that, applying IAS 41, an entity either capitalises or expenses subsequent expenditure.

26. We see no particular benefit in amending IAS 41 to explicitly allow entities a choice of either capitalising or expensing subsequent expenditure—in our view, applying IAS 41 an entity already has that choice. In particular:

    (a) we disagree with the AcSB that the Committee's tentative conclusion relies on paragraph B62 of the Basis for Conclusions on IAS 41. Rather, the Committee's tentative conclusion is based on the requirements in IAS 41. The requirements in IAS 41 specify that an entity (i) measures biological assets on initial recognition and at the end of each reporting period at fair value less costs to sell; and (ii) includes changes in fair value less costs to sell in profit or loss for the period in which they arise. IAS 41 specifies nothing further regarding subsequent expenditure. Accordingly, in complying with the requirements in (i) and (ii) above, an entity can either capitalise or expense the subsequent expenditure. Consequently, the Committee's tentative conclusion is based on the requirements in IAS 41.

[3] Appendix B to Agenda Paper 9 of the Committee's June 2019 meeting (June agenda paper) reproduces the submission.

The tentative agenda decision refers to paragraph B62 of the Basis for Conclusions only as helpful context.

(b) we agree that an entity should disclose its accounting policy for subsequent expenditure if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance. The tentative agenda decision already directs entities to consider the requirements in paragraphs 117–124 in this respect. The requirements in these paragraphs (including paragraph 119 of IAS 1) apply not only to accounting policies selected from alternatives explicitly permitted in an IFRS Standard but, rather, to all significant accounting policies.

27. For reasons similar to those considered by the Committee at its June meeting, we also suggest not amending IAS 41 to include requirements to help an entity determine which costs to capitalise if it chooses to capitalise subsequent expenditure. Although doing so is likely to improve consistency in application, it would do so only for entities that *choose* to capitalise subsequent expenditure. Any such standard-setting would require quite some time and effort (of both the Board/ Committee and, importantly, stakeholders) to research, for example:

(a) whether all subsequent expenditure should be capitalised or only expenditure that meets particular criteria or is of a particular type;

(b) if only some subsequent expenditure should be capitalised, what the criteria or types of costs should be; and

(c) whether any criteria or other requirements developed would work across the diverse range of biological assets[4].

28. We do not have evidence at this stage to suggest that this would result in an improvement to financial reporting that would be sufficient to outweigh the costs.

[4] Paragraph 6 of IAS 41 states: 'Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perineal cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming)…'

29. We also do not recommend standard-setting to require the capitalisation or expensing of subsequent expenditure at this stage, as discussed at the June 2019 meeting. In particular, we note that this alone would not provide investors following the cannabis industry with the information they seek, ie the cost of production. We also note that undertaking research on the topic would take quite some effort because of the diverse range of biological assets. We would suggest that a decision on whether to undertake such research is a decision for the Board as part of its agenda consultation process, considering comments received as part of that process.

Staff recommendation

30. On the basis of our analysis, we recommend finalising the agenda decision as published in IFRIC Update in June 2019, subject to the changes discussed in paragraph 20 of this paper and some editorial changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee
Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—proposed wording of the final agenda decision

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

Subsequent Expenditure on Biological Assets (IAS 41 *Agriculture*)

The Committee received a request about the accounting for costs related to the biological transformation (subsequent expenditure) of biological assets measured at fair value less costs to sell applying IAS 41. The request asked whether an entity capitalises subsequent expenditure (ie adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred.

~~The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss.~~

IAS 41 does not specify requirements on the accounting for subsequent expenditure for biological assets measured at fair value less costs to sell. Paragraph B62 of the Basis for Conclusions on IAS 41 explains that '…the [IASC] Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach'.

Accordingly, the Committee concluded that, applying IAS 41, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred. The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity would apply the requirements in paragraphs 81–105 of IAS 1 *Presentation of Financial Statements*. In particular, the Committee observed that the entity would:

a. applying paragraph 85, 'present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance'; and

b. applying paragraph 99, 'present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.'

Applying paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets. An entity would also disclose the selected accounting policy applying paragraphs 117–124 of IAS 1 ~~*Presentation of Financial Statements*~~ if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance.

In the light of its analysis, the Committee considered whether to add a project to its standard-setting agenda on the accounting for subsequent expenditure on biological assets. The Committee has not ~~[yet]~~ obtained evidence to suggest that standard-setting on this matter at this time would result in an improvement to financial reporting that would be sufficient to outweigh the costs. The Committee therefore ~~[~~decided~~]~~ not to add the matter to its standard-setting agenda.

Appendix B––comment letters

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August 20, 2019

Submitted electronically via ifric@ifrs.org

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Dear Sirs:

Re: Tentative Agenda Decision – Subsequent Expenditure on Biological Assets (IAS 41 *Agriculture*)

The Canadian Accounting Standards Board (AcSB) appreciates the IFRS Interpretations Committee's (Committee) efforts and its process to consider the issue we submitted on the accounting for costs incurred related to the biological transformation (i.e., subsequent expenditure) of biological assets. Our decision to submit the issue resulted from a very thorough process. Our IFRS® Discussion Group discussed this issue at its June 21, 2018 meeting, given the media had been reporting user concerns with assessing the financial performance of agricultural producers in our jurisdiction that apply IAS 41. The Group recommended the issue to the AcSB given the diversity of views expressed and the effect on the Statement of Comprehensive Income.

We carefully followed the Committee's deliberations on this issue and discussed the tentative agenda decision with members of our User Advisory Council and CPA Canada's Cannabis Industry Task Force[1]. We disagree with the Committee's decision to not add this item to its agenda. We note that the rationale for concluding that an entity can either capitalize subsequent expenditure or recognize it as an expense when incurred relies on paragraph B62 of the Basis for Conclusions on IAS 41 *Agriculture*. However, the Basis for Conclusions on IAS 41 is not an integral part of the standard. If the intent of IAS 41 is that

[1] CPA Canada's Cannabis Industry Task Force consists of members from small to large accounting firms who have experience working with entities in the cannabis industry.

entities have a choice to either capitalize or expense subsequent expenditure, we think this requirement to make a policy choice should be explicit in the standard.[2]

We also think that IAS 41 needs to include guidance for entities to determine which types of subsequent expenditure should be capitalized if such approach is selected for biological assets measured at fair value less costs to sell. If not, it will be difficult for financial statement users to compare the amount reported as the gain or loss arising from changes in fair value less costs to sell of a biological asset even if two entities applied the same approach. This point was noted in the Committee's staff agenda paper, which indicated that based on the research performed, it was difficult to assess which costs were capitalized. Currently IAS 41 only contains guidance for determining cost when fair value measurement is unreliable, which is not applicable to the fact pattern considered in the tentative agenda decision.

In addition, the related disclosure requirement in paragraph 50 of IAS 41 should be updated to include a reconciling item that reflects additions to the carrying amount if the capitalization approach is applied. This additional disclosure will improve transparency to financial statement users about the amount of subsequent expenditure capitalized to the carrying amount of the asset.

Both the above suggestions aim to achieve consistency with other IFRS Standards that have a fair value model, such as IAS 40 *Investment Property*. We note that IAS 40 contains guidance that the cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. This standard also contains disclosure guidance for its fair value model. For example, entities are required to disclose a reconciliation between the carrying amounts of investment property at the beginning and the end of the period, including for additions, separate disclosure of additions resulting from acquisitions and those resulting from subsequent expenditure.

If the Committee affirms its decision that IAS 41 permits both approaches, we suggest that it recommend to the International Accounting Standards Board that standard-setting action, such as an annual improvement, be undertaken to explicitly state in IAS 41 that a policy choice is permitted. This way, entities would disclose the accounting policy selected from alternatives allowed in IFRS Standards pursuant to paragraph 119 of IAS 1 *Presentation of Financial Statements*. In addition, IAS 41's measurement and disclosure requirements should also be amended to provide guidance similar to other IFRS Standards, such as IAS 40, that require the capitalization of subsequent expenditure since IAS 41 would permit the same approach.

Notwithstanding the above, we still hold the view that IAS 41 should be amended to require a single approach to accounting for subsequent expenditure. As articulated in our submission, a single approach will help reduce presentation diversity in the Statement of Comprehensive Income and aid in users' assessment of performance and comparability between entities. Members of our User Advisory Council

[2] Paragraph 9 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states "IFRSs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of IFRSs. Guidance that is an integral part of the IFRSs is mandatory. Guidance that is not an integral part of the IFRSs does not contain requirements for financial statements."

also noted that it is important financial statements provide transparency to the cost of biological assets. Users said that information about the costs of producing biological assets assists their decision-making process in predicting future cash flows, like information about the costs of producing inventories.

Although the Committee noted it has not yet obtained the evidence to suggest standard-setting on this matter at this time would result in an improvement to financial reporting, we strongly urge the Committee to conduct user outreach in other jurisdictions. In our submission, we provided the Committee with evidence that diversity exists outside Canada and in industries beyond cannabis. The outreach and research performed by the Committee's staff also points to mixed practice, sometimes within the same industry. Furthermore, in our submission, we stressed that financial statement users in Canada have reported significant difficulties understanding and comparing the financial statements of agricultural producers in a new industry (i.e., cannabis[3]). Accordingly, our securities regulators intervened to publish guidance on disclosure expectations to ensure transparent information about the entities' financial performance is provided. Permitting a capitalization versus expense choice to account for subsequent expenditure in IAS 41 continues to create diversity in practice and reduce comparability, particularly as new agricultural industries enter the marketplace around the world.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or email kkhalilieh@acsbcanada.ca) or Davina Tam, Principal, Accounting Standards (+1 416 204-3514 or email dtam@acsbcanada.ca).

Yours truly,

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[3] Although this is a burgeoning industry in Canada, we are aware that many other countries have legalized the use of cannabis for medical and/or recreational use, and it is expected that legalization will continue to advance.

About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

About the IFRS® Discussion Group

The IFRS Discussion Group (the Group) is an advisory committee of the Canadian Accounting Standards Board (AcSB) that provides a regular public forum to discuss issues arising in Canada from the application of IFRS Standards. The Group is made aware of such issues through its members, who have an in-depth knowledge of IFRS Standards, and our stakeholders, who can submit issues for consideration by the Group. Potential agenda items are assessed against a set of criteria including whether the issue is widespread (either within an industry or across various industries) in Canada, and whether there is divergent practice or the potential for divergent practice. The Group's discussion generally acts to raise awareness in order to help stakeholders understand the principles and requirements in IFRS Standards. However, at times, the Group may make a recommendation to the AcSB to refer a particular issue to the IASB or IFRS Interpretations Committee. The AcSB discusses the recommendation and decides on next steps.

CSA ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

July 29, 2019

Submitted electronically via ifric@ifrs.org

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
London, E14 4HD

Subject: Tentative Agenda Decision – Subsequent Expenditures on Biological Assets

Dear members of the IFRS Interpretations Committee (Committee),

The Canadian Securities Administrators (the CSA or we) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Alberta, British Columbia, Ontario and Quebec.

In Canada, many of the public companies applying IAS 41 *Agriculture* (IAS 41) are in the cannabis sector – a new and emerging part of the Canadian capital market. In 2018, we published (CSA) Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry* (CSA Staff Notice) that outlines our review of the disclosures of 70 reporting issuers operating in the cannabis industry. Among other things, our review identified diversity in accounting practices that are causing difficulties for investors to understand and compare the financial performance of such companies. With this context we submit this letter in response to the June 2019 Tentative Agenda Decision – *Subsequent Expenditures on Biological Assets* (Agenda Decision).

We appreciate the Committee's consideration of the accounting for costs related to the biological transformation (i.e., subsequent expenditure) of biological assets in the context of IAS 41 *Agriculture* (IAS 41). Overall, we believe the Agenda Decision is not helpful, incomplete and could have unintended consequences, such as condoning certain accounting practices that are causing difficulties for investors[1].

To avoid such unintended consequences, we recommend the Agenda Decision direct entities to paragraph 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), and paragraph 85 of IAS 1 *Presentation of Financial Statements* (IAS 1). Further analysis, including the basis for our recommendation is included below.

[1] As stated in the original submission to you by the Canadian Accounting Standard Board (AcSB), "stakeholders in our jurisdiction are reporting significant difficulties understanding and comparing the components of financial performance reported in the financial statements of agricultural producers".

Developing an Accounting Policy

Accounting Policy that Results in Relevant Information

The Agenda Decision acknowledges that "IAS 41 does not specify requirements on the accounting for subsequent expenditure" and an "entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets". However, the Agenda Decision does not discuss the relevant guidance that an entity should consider in developing an accounting policy for subsequent expenditures. We recommend the Agenda Decision direct entities to consider IAS 8.10.

In listening to the June 2019 IFRIC discussion of Staff Agenda Paper 9, we note IFRIC Staff shared the view that IAS 8.10 does not apply because of the existence of IAS 41. We disagree with this view. The view shared by IFRIC Staff was not addressed in Staff Agenda Paper 9 and therefore lacks the supporting analysis as to why IAS 8.10 does not apply.

IAS 8.10 states that "in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users…". In our view, IAS 41 does not negate the relevance of IAS 8.10 because IAS 41 does not specifically address a particular transaction (i.e., subsequent expenditure). As such, consistent with IAS 8.10, when a particular transaction is not specifically addressed by IFRS, IAS 8.10 provides relevant guidance to be considered in the selection of an accounting policy.

Considering the feedback received from investors in the cannabis industry, we question the relevance of an accounting policy that expenses subsequent expenditures.[2] Staff Agenda Paper 9 echos this point by stating "we also think users of financial statements might find it more useful if entities were to capitalise subsequent expenditure, rather than expense it." Since agenda decisions are meant to improve the consistency of application of IFRS Standards and provide explanatory material, in our view, the Agenda Decision should explicitly discuss that a relevant accounting policy in the cannabis sector is to capitalise subsequent expenditures.

Capitalization Accounting Policy

Staff Agenda Paper 9 acknowledges some of the diverse accounting practices for subsequent expenditures, including diversity of accounting practices among entities that capitalize subsequent expenditures.

To reduce diversity in practice, we recommend the Agenda Decision direct entities to consider IAS 8.11 when developing a capitalization policy for subsequent expenditures. In the context of IAS 8.11, entities would consider the requirements in IFRSs dealing with similar and related issues, such as IAS 2 *Inventories* (IAS 2) or IAS *16 Property Plant and Equipment* (IAS 16), as a basis for developing their capitalization policy. Narrowing the range of capitalization practices would reduce diversity in practice and support better comparability.

[2] Our CSA Staff Notice states that "issuers who expense biological asset costs as incurred should consider whether this accounting policy results in information that is relevant to the decision-making needs of investors".

Additional Line Items

We agree with the Committee's observation that "capitalising subsequent expenditure or recognising it as an expense has no effect on the measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss".

To help ensure investors receive relevant information, particularly regarding costs of production, we recommend the Agenda Decision direct entities to consider IAS 1.85.[3] In the context of IAS 1.85, entities would consider the need to present additional line items, such as cost of production excluding fair value adjustments, when such presentation is relevant to an understanding of the entity's financial performance.

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We appreciate your thoughtful consideration of the views and recommendations provided in this letter. If you have any questions or need additional information, please do not hesitate to contact us.

Yours sincerely,

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[3] (CSA) Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry* found that "that 71% of LPs [licensed producers] did not separately disclose all fair value amounts included in the P&L. In these cases, fair value adjustments were often embedded in cost of goods sold. It is critical for investors to be able to understand how much it costs a company to produce its product. Since fair value amounts in the P&L of an LP are not costs that have been incurred related to cannabis sold, it is important for all fair value amounts to be separately disclosed, so that investors can understand a company's cost of sales excluding any fair value amounts."

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18 July 2019

Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2019 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decisions included in the June 2019 IFRIC Update.

Our comments refer to the following issues:

- *IFRS 16 Lease Term and Useful Life of Leasehold Improvements*
- *IAS 1 Presentation of Liabilities or Assets Related to Uncertain Tax Treatments*
- *IAS 41 Subsequent Expenditure on Biological Assets*

Lease Term and Useful Life of Leasehold Improvements

The Committee concluded in its Tentative Agenda Decision that principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases.

We disagree with the conclusion of the agenda decision. We believe that for this issue a standard setting activity is needed for the following reasons.

We are convinced that there are not enough element in the IFRS 16 to conclude on the submission with an agenda decision. The concept of penalty is not defined in the IFRS 16 so we do not think that there can be only one possible interpretation of it.

Moreover, we note that in determining the lease term the IFRS 16 requires two different assessments:

- A first assessment in paragraph B34 to determine the enforceable period; and
- A second assessment in paragraph B37 to evaluate whether the lessee is reasonable certain to exercise an option to extend or not exercise an option to terminate the lease.

In our view, considering the term penalty of paragraph B34 in a broader sense including, for example, the cost of abandoning or dismantling the non-removable leasehold improvements, seems to assimilate the assessment in paragraph B34 to the assessment required by paragraph B37. This could contradict the current thought process implicit in the Standard.

In addition, we note that such an interpretation of the term penalty would require the lessee to make an assessment that is almost impossible and easily challenged. Indeed, following the Committee's interpretation of the term "penalty" in determining the enforceable period of the lease term according to paragraph B34 a lessee will be required to:

- assess the possible lessor's economic disincentives;
- update yearly this assessment to reflect any changes in the economic disincentives of the lessor.

We find this assessment very costly complex and arbitrary, because it requires the lessee to guess the intention of the lessor regarding any kind of advantages and disadvantages that he can obtain by exercising or not the contractual options.

Finally, we believe that, in any case, the concept of penalty equally applies to all kinds of lease contracts that are within the scope of paragraph 18 of IFRS 16.

In summary we assume that in the light of the number of comments some more thoughts on the issue are needed and a clarification taking the form of an amendment to the standard is highly recommended.

Presentation of Liabilities or Assets Related to Uncertain Tax Treatments
The Committee concluded in its Tentative Agenda Decision that the requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets.

We have some concern about this conclusion. Indeed, we have been informed that there is mixed practice on this issue and that many entities have usually presented liabilities related to uncertain tax treatments as provisions. In their view, paragraph 5 of IAS 37 says that liabilities related to uncertain tax positions are provisions that are recognized and measured according to IAS 12. IAS 12 does not address the presentation of these liabilities and thus they may be classified as provisions

These entities also note that IFRIC 23 does not address the presentation of uncertain tax liabilities and believe that it is more relevant to separate the liabilities related to uncertain tax positions from other tax liabilities that are more certain.

Consequently, we believe that the Committee should clarify this issue with an amendment.

Subsequent Expenditure on Biological Assets

We agree with the Committee's decision of not adding this issue to its standard-setting agenda, because we agree that a standard-setting activity on this matter would not result in an improvement to financial reporting that would be sufficient to outweigh the costs.

However, we believe that, from a theoretical point of view, the concept of capitalisation is more closely related to the cost measurement model and not to the fair value one. Indeed, in our view, fair value measurement reflects current selling prices and it may not reflect incurred expenditure.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)

Deloitte.

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20 August 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
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Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Subsequent expenditure on biological assets (IAS 41 *Agriculture*)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on subsequent expenditure on biological assets.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

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

Yours sincerely

Veronica Poole
Global IFRS Leader

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building,
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Paris, 1 August 2019

Tentative Agenda Decisions – IFRIC Update November 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the June 2019 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 three issues that we think are worth considering:

- The Tentative Agenda Decision on the Lessee's Incremental Borrowing Rate is not conclusive as to whether IBR should reflect the payment profile of the lease. We believe that sufficient guidance exists in the standard and the basis for conclusions for the Committee to reach the conclusion that IBR should be consistent with the payment profile of the lease.

- The assessment of the lease term is the most important area of judgement in applying IFRS 16, and we observe that significant diversity exists in practice on that matter. This is a strong indicator that the standard needs clarifications, and we believe these clarifications cannot be provided through a simple agenda decision considering the interactions of the different paragraphs of the standard and inconsistencies between the standard itself and the corresponding basis for conclusions. That is why we urge the Committee and/or the Board to undertake a narrow-scope standard-setting project on the lease term. In the meantime, we believe the Committee should not issue any agenda decision because its conclusions would preempt the outcome of the debate to be held during the standard-setting process.

- By not considering the question of whether the amount of airline compensation for delays or cancellations recognised as a reduction of revenue should be limited to reducing the transaction price to nil, the Committee fails to address an area of significant diversity in practice. A conclusion on that issue would be of great help.

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

Financial Reporting Advisory

Edouard Fossat

MAZARS

Appendix 7

Subsequent Expenditure on Biological Assets (IAS 41 Agriculture) — Agenda Paper 9

We agree with the Committee that the only issue around whether to capitalise subsequent expenditure relating to biological assets measured at fair value is a presentation impact on the P&L.

We also agree that IAS 41 does not prescribe the accounting treatment for those subsequent expenditures, and that this is an area for an accounting policy choice that should be dealt with through relevant disclosures.

20 August 2019

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Tentative Agenda Decisions published in IFRIC Update June 2019.

Our detailed responses are enclosed in the Appendix to this letter.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

Appendix

Compensation for Delays or Cancellations (IFRS 15 *Revenue from Contracts with Customers*) - Agenda Paper 8

We agree with the Interpretations Committee's conclusion that compensation for delays or cancellations, as described in the request, is a variable consideration and an entity applies IFRS 15 paragraphs 50-59 accordingly.

However, we would like to request the Interpretations Committee to clarify whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil. Without such clarification an accounting policy would have to be developed for compensation exceeding the consideration received, either as reduction of revenue or separate expense. In this regard, the clarification would improve financial reporting as entities would be applying the requirement consistently and therefore comparable financial results are provided to users of financial statements.

- **Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9 *Financial Instruments*) - Agenda Paper 4**
- **Lessee's Incremental Borrowing Rate (IFRS 16 *Leases*) - Agenda Paper 2**
- **Lease Term and Useful Life of Leasehold Improvements (IFRS 16 *Leases* and IAS 16 *Property, Plant and Equipment*) - Agenda Paper 3**
- **Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1 *Presentation of Financial Statements*) - Agenda Paper 7**
- **Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 *Statement of Cash Flows*) - Agenda Paper 5-5A**
- **Subsequent Expenditure on Biological Assets (IAS 41 *Agriculture*) - Agenda Paper 9**

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decision for not adding these items onto its agenda.

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IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Jakarta, 8th August 2019

Ref.: 1220/DSAK/IAI/VIII/2019

Ms. Sue Lloyd, Chair,
IFRS Interpretations Committee,
IFRS Foundation,
London, UK

DSAK IAI Comments on the Tentative Agenda Decision – Subsequent Expenditure on Biological Assets (IAS 41)

Dear Ms. Sue Lloyd,

The Indonesian Financial Accounting Standards Board (DSAK IAI), as part of the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to comment on the tentative agenda decision – subsequent expenditure on biological assets (IAS 41).

Our detailed responses to the questions are attached in the Appendix to this letter below.

We hope that our comments could contribute to the IFRS Interpretations Committee's future deliberations. Should you have further concerns regarding our comments, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Thank you.

Best Regards,

IKATAN AKUNTAN INDONESIA
(Institute of Indonesia Chartered Accountants)

Djohan Pinnarwan
Chairman
The Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants

APPENDIX

We agree with the IFRIC's tentative agenda decision – subsequent expenditure on biological assets (IAS 41 *Agriculture*). With the requirements in IAS 41 that currently exist, the entity can capitalize or recognises the subsequent expenditure as an expense relating to the biological assets measured at fair value less costs to sell.

We also support for each option chosen by entity, the entity makes necessary disclosures of selected accounting policies to assist users understand of financial statements and applies the accounting policies consistently for each group of biological assets.

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ICAN

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Registrar/Chief Executive
JOHN I. EVBODAGHE, MBA, FCA

19 August 2019

ICAN/ED/R&T/AUG/2019

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
London E14 4HD
United Kingdom

Dear Sir,

RE: IFRS INTERPRETATIONS COMMITTEE TANTATIVE AGENDA DECISION

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above requests for comments on the Tentative Agenda Decisions and hereby submit comments as follows:

Presentation of Liabilities or Assets related to Uncertain Tax Treatments (IAS 1)

We agree with the position of the Committee not to make the presentation of liabilities or assets related to uncertain tax treatments a standard-setting agenda. The provisions of par. 54 (n) and 54 (o) as considered, are adequate guidance on their presentation. However, the committee may need to emphasize that entities clarify their presentation in their accounting policy.

Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)

Adequate Provisions are already made in the standards and the Committee's decision not to add the matter to its standard-setting agenda is supported but to include more illustrative examples on the determination of lease term of cancellable and renewable leases.

Disclosure of Changes in Liabilities arising from Financing Activities (IAS 7)

We agree with the decision of the Committee that the disclosure requirements in Par. 44B-44E of IAS 7, together with the requirements in IAS 1 are adequate to meet the information needs of investors.

Subsequent Expenditure on Biological Assets (IAS 41)

We agree with the Committee's decision not to make subsequent expenditure on biological assets a matter to its standard-setting agenda. As relied upon by the Committee, Par. B62 of IAS 41 and the clarity in applying Par. 117-124 of IAS 1 are adequate on the reporting to by an entity.

Compensation for Delays or Cancellations (IFRS 15)

We agree with the position of the Committee that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations. However, we believe that the Committee should provide necessary guidance where the variable compensation (example- penalty imposed by legislation with respect to the contract) is higher than the purchase consideration or price.

Lessee's Incremental Borrowing Rate (IFRS 16)

~~*We agree with the position of the Committee not to include the determination of incremental borrowing rate to its standard-setting agenda because the principles and requirements for this item are adequately spelt out in IFRS 16.*~~

Yours faithfully,

for: Registrar/Chief Executive

Ben Ukaegbu, PhD, ACA
Deputy Registrar, Technical Services

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Berlin, 19 August 2019

Dear Sue,

IFRS IC's tentative agenda decisions in its June 2019 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2019 *IFRIC Update*.

We agree with most of the tentative agenda decisions. However, we do not agree with the conclusion and/or the reasons behind three of these.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Detailed Comments

Tentative decision on IFRS 9 – Fair value hedge of FX risk on non-financial assets

We are not convinced that the IFRS IC's discussion and its findings help appropriately addressing the questions raised.

We have concerns with the IFRS IC's description where the FX volatility arises from in the different fact patterns (PPE, inventory, etc.). As per the tentative agenda decision, the (potentially designated) FX risk arises from pricing a non-financial asset "in one particular currency at a global level". In contrast, as per the Agenda Paper the non-financial assets are "routinely [be] denominated in a particular currency" or "purchased in an established market". As these are different, nonetheless precise, descriptions of FX market circumstances under which assets are to be translated into the functional currency, it remains unclear whether the condition in IFRS 9.6.5.2(a) is considered met under any of these circumstances. Depending on this, the wording might inadvertently narrow the fact patterns to which the IFRS IC's tentative decision would apply.

Tentative decision on IFRS 15 –Compensation for delays or cancellations

We do not fully agree with the tentative decision and conclusion in respect of the submitted fact pattern. Specifically, we would have appreciated a more holistic discussion that included variations of the fact pattern submitted or modified circumstances in order to better distinguish between situations where something is indeed a reduction of the selling price per IFRS 15 or separate obligations provided for under IAS 37. Without this, the tentative decision is not as helpful as it could be, as it does not illustrate potential legal or contractual rights and obligations that could distinguish between (a) compensations "still" being a variable consideration of the very same performance obligation and (b) those being a separate obligation, thus in the scope of IAS 37. Examples are distinguishing primary services vs. collateral services/obligations, low or non-performance vs. (penalty for) harm/damage, legal warranties vs. contractual guarantees, service-type warranties, product liabilities, etc. This said, we suggest the IFRS IC extend its discussion in this regard. This is of particular interest, as an agenda decision by the IFRS IC could affect service contracts in many different industries and not merely affect the airline sector concerned in the specific agenda item request.

Further, we question the appropriateness of not addressing the very important question of how to account for compensations that exceed the transaction price as we do believe this to be important in the fact patterns concerned, which is why it should not be ignored. Therefore, we request the IFRS IC to continue its discussion by considering and answering this follow-up question.

Given the broad relevance and complexity of this issue, we also suggest the IFRS IC re-consider whether clarifying IFRS 15 by way of an agenda decision is appropriate, esp. against the proposals in the revised Due Process Handbook.

Tentative decision on IFRS 16 – Lessee's incremental borrowing rate

We believe that the tentative decision and the explanation should be clarified. As the IFRS IC only states that "IFRS 16 does not **explicitly** require…" to determine the implicit borrowing rate based on a loan with a similar payment profile, it remains unclear whether, or under which circumstances, this is still implicitly required or not.

Since we understand IFRS 16 not to require an entity to revert to a loan with a similar payment profile, and in this respect agree with the tentative decision, we suggest that the word "explicitly" in the agenda's wording be deleted.