IFRS

STAFF PAPER

November 2019

IASB® meeting

Project	**Annual Improvements to IFRS Standards 2018–2020**
Paper topic	Taxation in Fair Value Measurements (Amendment to IAS 41): Analysis of feedback

CONTACT(S) Kensuke Okabe kokabe@ifrs.org +44 (0) 20 7246 6439

Introduction

1. As discussed in Agenda Paper 12E, this paper analyses feedback on *Taxation in Fair Value Measurements* (Proposed amendment to IAS 41 *Agriculture*) included in the Exposure Draft *Annual Improvements to IFRS Standards 2018–2020*. The proposed amendment would remove the requirement in paragraph 22 of IAS 41 for entities to exclude cash flows for taxation when measuring the fair value of biological assets.

2. We recommend that the International Accounting Standards Board (Board) finalise the proposed amendment to IAS 41 with no changes.

Structure

3. This paper is structured as follows:

   (a) background, summary of feedback and staff analysis:

      (i) proposed amendment to IAS 41; and

      (ii) proposed transition requirements.

   (b) staff recommendation.

Background, summary of feedback and staff analysis

Proposed amendment to IAS 41

Background

4. Paragraph 22 of IAS 41 states (emphasis added):

> An entity does not include any cash flows for financing the assets, *taxation*, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

5. In May 2008 the Board amended IAS 41 to remove the requirement for entities to use a pre-tax rate to discount cash flows when measuring fair value. Paragraph BC6 of IAS 41 explains that the Board did so on the grounds that a willing buyer would factor into the amount that it would be willing to pay to acquire an asset all incremental cash flows that would benefit the buyer, including expected income tax payments. Nonetheless, at that time the Board did not amend paragraph 22 of IAS 41 to delete the reference to cash flows for taxation. Consequently, when measuring fair value IAS 41 requires an entity to use pre-tax cash flows but does not require the use of a pre-tax rate to discount those cash flows.

6. The Exposure Draft proposed to delete the reference to cash flows for taxation in paragraph 22 of IAS 41. Paragraph BC2 of the proposed amendment explains the Board's reasons for the amendment:

> … This is because:
>
> (a) such an amendment would align the requirements in IAS 41 on fair value measurement with those in IFRS 13 *Fair Value Measurement*. IFRS 13 neither prescribes the use of a single present value technique nor limits the use of present value techniques to measure fair value to only those discussed in that Standard. However, when using a present value technique paragraph B14 of IFRS 13 requires assumptions about cash flows and discount rates to be internally consistent. Depending on the

particular facts and circumstances, applying IFRS 13, an entity applying a present value technique might measure fair value by discounting after-tax cash flows (using an after-tax discount rate) or pre-tax cash flows (at a rate consistent with those cash flows).

(b) it would appear the Board's intention in amending IAS 41 in 2008 was to permit entities to include tax cash flows in measuring fair value. Removing 'taxation' from paragraph 22 would be consistent with that intent.

Summary of feedback

7. Forty-three respondents comment on the proposed amendment to IAS 41, of which 42 explicitly agree with the proposed amendment for the reasons explained in paragraph BC2 (see paragraph 6 above). The Arista Global Group says in some jurisdictions it is important to use after-tax cash flows in measuring fair value—the amendment, if finalised, would allow entities to do so. Ernst & Young says the explanation of the Board's rationale in paragraphs BC1–BC2 of the proposed amendment is helpful—it recommends including these paragraphs in the Basis for Conclusions on the final amendment.

8. The Dutch Accounting Standards Board (DASB) suggests reviewing more broadly the requirements in IAS 41 on fair value measurements (paragraphs 16–25 of IAS 41). The DASB says these requirements could be confusing or contradictory in the light of the requirements in IFRS 13.

9. The South African Institute of Chartered Accountants, while agreeing with the proposed amendment, says the Board should also consider removing the requirement to exclude cash flows from taxation when measuring fair value in other IFRS Standards. However, it has not identified examples of such a requirement.

Staff analysis

10. When the Board published IFRS 13, it reviewed the requirements in IAS 41 relating to fair value measurement and made any necessary amendments to IAS 41. Other than the matter being addressed through this proposed amendment, we are unaware of

any other requirements in IAS 41 and IFRS 13 that might cause confusion or be considered contradictory.

11. We are also unaware of any other IFRS Standard that requires an entity to exclude cash flows from taxation when measuring fair value.

12. Accordingly, we recommend no change to the proposed amendment in this respect.

Proposed transition requirements

Background

13. The Board proposed that an entity apply the amendment to fair value measurements on or after the date it first applies the amendment because the expected benefits of retrospective application would not outweigh the potential costs. In particular, the Board saw little benefit in entities determining fair value measurements retrospectively; making such determinations, even if possible without hindsight, might be difficult and costly.

Summary of feedback

14. Seven respondents comment on the proposed transition requirements. All seven respondents agree with the proposed transition requirements for the reasons discussed in paragraph 13 of this paper. The Accounting Standards Board of Canada says restating comparative information would be unlikely to provide users of financial statements with useful trend information.

Staff analysis

15. We continue to agree with the proposed transition requirements for the reasons explained in paragraph 13 of this paper. Accordingly, we recommend requiring entities to apply the amendment to fair value measurements on or after the date an entity first applies the amendment.

Staff recommendation

16. We recommend that the Board finalise the proposed amendment to IAS 41 with no changes.

Question 1 for the Board
Does the Board agree with our recommendation to finalise the proposed amendment to IAS 41 with no changes?