

IAS 41 – Agriculture (May 2009)

Discount rate assumptions used in fair value calculations

The IFRIC received a request for guidance on how an entity should determine an appropriate discount rate when the fair value of biological assets is estimated as the present value of expected net cash flows. The request noted that IAS 41 provides only limited guidance in these circumstances. The IFRIC noted that the objective of fair value measurement in IAS 41 is consistent with that in other standards, and paragraph 21 was amended in May 2008 to clarify that in determining the present value of net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate. When an entity incurs an initial cost with respect to a biological asset, paragraph 24 of IAS 41 notes that that cost may approximate fair value when little biological transformation has taken place since the cost was incurred. In these situations the IFRIC noted that the discount rate selected would be expected to result in a value that approximates that cost. The IFRIC also noted that IAS 39 and other material recently published by the Board provide extensive guidance on estimating fair values for assets that do not have readily observable prices in active markets that would also be relevant for biological assets.

The IFRIC noted that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. The IFRIC also noted that given the guidance already available in IFRSs it did not expect significant diversity in practice and decided not to add this issue to its agenda.