



Project **Agenda decision**

Topic **IAS 41 *Agriculture*—Discount rate assumption used in fair value calculations**

Introduction

1. In March 2009, the IFRIC published a tentative agenda decision not to add to its agenda an issue to provide 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.
2. Two comment letters were received that agreed with the IFRIC's tentative agenda decision not to add the issue to its agenda.
3. However, one of the letters asked that the reference to IAS 39 be expanded to include specific references to AG 76, AG 76A, AG77 and BC 104 which discuss the recognition of day one gains. In contrast, the other letter objected to a specific reference to IAS 39 on the grounds that analogy to other standards should not be emphasised. This second letter also points out that reference to paragraph 24 of IAS 41 is not relevant to the issue and recommends that it be deleted from the agenda decision.

Staff analysis

4. The staff notes that the issue of recognising inappropriate upfront gains was one of the key motivations for the original submission. Therefore, the staff believes that it is useful to refer to paragraph 21 of IAS 41 to remind constituents of the guidance on the measurement of biological assets when little biological transformation has taken place since the cost was incurred. The staff

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

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recommends adding a sentence to the agenda decision linking this reference to the discount rate issue.

5. The staff believes it is not appropriate to include references to specific paragraphs of IAS 39. Indeed, the staff believes paragraph 24 of IAS 41 on its own should be sufficient to ensure that inappropriate upfront gains are not recognised. However, the staff also believes that a general reference to “material published by the Board” is not particularly helpful to constituents. IAS 39 and its related guidance are the most current and comprehensive sources constituents can refer to for assistance in estimating fair values. The staff does not believe that is applying the standard by analogy. Consequently the staff recommends that the reference to IAS 39 be included in the final decision.
6. Proposed wording for the agenda decision is set out in Appendix A, marked up from the tentative decision that was published in the March *IFRIC Update*.

Recommendation and question – wording of the agenda decision

The staff recommends that:

1. the IFRIC confirm its tentative decision not to add the issue to its agenda
2. a sentence be added to link the reference to paragraph 41.24 to the discount rate and the recognition of upfront gains
3. the reference to IAS 39 and related guidance be retained.

Does the IFRIC agree with the staff recommendations? If not, what changes would the IFRIC recommend? Does the IFRIC have any comments on the proposed wording in Appendix A?

Appendix A

A1. The staff proposes the following wording for the final agenda decision (addition to the tentative agenda decision is underlined).

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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 cases 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.