STAFF PAPER

IFRS Interpretations Committee Meeting

November 2011

Project	IFRS Interpretations Committee Work In Progress		
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Introduction

Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee (the Committee) on the current status of issues that are in progress but not to be discussed by the Committee in the November 2011 meeting.

2. The following submissions have been received by the staff and will be discussed at a future meeting:

Ref.	Topic	Brief description	Progress
IAS 16-5	*Property, Plant and Equipment:* Contingent pricing of PPE and intangible assets	Request for clarification on how to account for contingent pricing for the outright purchase of a single item of property, plant and equipment (PPE) or an intangible asset. The issue includes: (i) when to record the liability for such contingent prices; and (ii) whether subsequent changes to the contingent price, when recognised, should be recognised in profit or loss or as an adjustment to the cost of the asset purchased.	The Committee decided in its May 2011 meeting to defer further work on this project until the Board concludes its discussions on the accounting for the liability for variable payments as part of the leases project.

IAS 27-14; SIC13-1	*Consolidated and Separate Financial Statements; Jointly controlled entities – Non-monetary Contributions by Venturers:* Contributions of non-monetary assets by venturers and related gain recognition	Request for clarification on whether a business is a non-monetary asset within the scope of SIC 13. This is related to a previous submission highlighting an apparent contradiction between IAS 27 and SIC 13. If a business is a non-monetary asset, then there is uncertainty as to whether to recognise the full gain on disposal (IAS 27) or only the gain attributable to the equity interests of the other venturers (SIC 13). However if a business is a monetary asset, then there is a follow up question of whether only IAS 27 would apply to contributions of a business if SIC 13 only applies to non-monetary contributions?	We plan to present this issue (Appendix A) to the Committee for the first time at the January 2012 meeting.
IAS 39-26	*Financial Instruments: Recognition and Measurement:* Embedded derivatives	Request for clarification on whether a feature, in a host debt instrument with a fixed interest rate, that gives the holder the option to extend the original term of the instrument results in an embedded derivative that would require bifurcation	We plan to present this issue (Appendix B) to the Committee for the first time at the January 2012 meeting.
IAS 41-4	*Agriculture:* Fair value disclosure and impact on valuation methodology	Request for clarification on whether the disclosure requirements in paragraph 51 of IAS 41 should impact the valuation methodology used for certain biological assets.	We plan to present this issue (Appendix C) to the Committee for the first time at the January 2012 meeting.

3. This paper does not include requests on issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or other parties, to define more clearly the issue.

Question
Does the Committee have any questions or comments on the Committee Outstanding Issues List?

Appendix A

Consolidated and Separate Financial Statements and Jointly controlled entities – Non-monetary Contributions by Venturers: Contributions of non-monetary assets by venturers and related gain recognition

Issue:

In its May 2011 meeting the Interpretations Committee discussed the accounting for a loss of control over a subsidiary through a contribution of the subsidiary to a jointly controlled entity (JCE) or an associate. One of the issues in the agenda request was whether it makes a difference if the subsidiary is a business (as defined in IFRS 3), or is a single-asset entity. The Committee concluded that the issues would be best resolved by the Board as part of a broader project on equity accounting. We believe the Committee could eliminate some diversity in practice before any broader project if the Committee were to provide clarification on the definition of the term 'non-monetary asset' used in SIC-13 and IAS 28 (2011)'.

SIC-13 and IAS 28.30 (2011) require that gains and losses resulting from a contribution of a non-monetary asset to an associate or a joint venture in exchange for equity interest in an associate or a joint venture only be recognised to the extent of unrelated investors' interests in the associate or joint venture. IAS 28.22 requires that profits and losses resulting from sales of assets between an investor and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate.

IAS 27.34 is clear that if a parent loses control of a subsidiary, the parent recognises any investment retained in the former subsidiary at its fair value through profit and loss. Diversity in practice has emerged on the accounting for a loss of control over a business when that business is contributed to a JCE or an associate in exchange for an equity interest in that JCE or associate. The consequence is that some companies would recognise a higher gain/loss and investment in JCE or associate at the contribution date (see appendix C for example). This diversity in practice could be reduced if there was a clarification as to whether a business qualifies as a non-monetary asset under SIC-13 and IAS 28 (2011).

Current practice:

There are two views currently as to whether a business meets the definition of a non-monetary asset and therefore an entity can apply SIC-13 or IAS 28.30 (2011) for a contribution of a business to a JCE or associate.

View 1: SIC-13 concepts should not be applied to contributions of a 'business', as defined in IFRS 3 (2008), to associates or joint ventures. References to non-monetary assets in IFRS refer to items such as land, intangibles, plant and machinery. IFRS 3.38 differentiates nonmonetary assets from a business (Refer to appendix A). US GAAP defines non-monetary assets and liabilities as assets and liabilities other than monetary ones and provides examples such as inventories; investments in common stocks;

property, plant, and equipment; and liabilities for rent collected in advance. [APB 29, paragraph 3].

A subsidiary is defined in IAS 27.4 as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). In its July meeting the IFRS IC discussed that an acquirer in a reverse acquisition does not need to be a ‘legal entity’ because the notion of an ‘entity’ in IFRS 3 refers to the concept of the ‘reporting entity’ as defined in the exposure draft Conceptual Framework for Financial Reporting. Therefore, it seems to follow that IAS 27.34 requires a parent to recognise any investment retained in the former ‘reporting entity’ at its fair value through profit and loss if a parent loses control of a
‘reporting entity’.

The guidance in SIC-13 and IAS 28.30 (2011) should be used for non-monetary assets. The guidance in IAS 28.22 should be used for sales of assets between an investor and an associate. The guidance in IAS 27 should be used for loss of control of a subsidiary and gains/losses recognised on the loss of control are not restricted to the amount attributable to the other investors’ interests in the JCE or associate.

View 2: Non-monetary asset is defined in IAS 21.16 and may include the concept of a business. Under IAS 21.16, a non-monetary asset is an asset that does not carry the right to receive a fixed or determinable number of units of currency. Non-monetary asset includes PPE, prepaid for goods/services, intangible assets and inventories.

IAS 39 indicates that equity instruments that are held as available for sale financial assets are non-monetary assets (IAS 39.AG83). This suggests that equity investments in subsidiaries, associates or JCEs are non-monetary items. In addition, non-monetary items are defined as opposed to monetary items. Thus, a business could meet the definition of a non-monetary asset. Therefore, it should be possible to apply SIC-13 and IAS 28.30 (2011) to contribution of a business to a JCE.

<u>Reasons for the IFRS IC / IASB to address the issue:</u>

The issue occurs frequently and we believe it is resulting in divergent treatment in practice. At least one large accounting firm has published guidance that there is a policy choice on the accounting for a loss of control over a business when that business is contributed to an associate in exchange for an equity interest in that associate. View 1 is followed under US GAAP based on the amendments to Subtopic 810-10 issued in January 2010 (see Appendix A).

The incorporation of SIC-13 into IAS 28 (2011) may introduce further diversity of practice as currently all but one large accounting firm considers that a policy choice applies to contributions to a JCE but not an associate. Therefore the proposed amendment could avoid further divergence in the accounting for contribution(s) to associate(s). We believe that a minor clarification on the definition of non-monetary assets through an improvement of IAS 28 (2011) could assist entities in making consistent judgements about the accounting for gains and losses resulting from a contribution of a business to an associate or a joint venture in exchange for an equity interest in an associate or a joint venture. See appendix B for suggested improvements to IAS 28.30 (2011).

Appendix AA - Non-monetary asset references

IFRS 3.38 The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a business of the acquirer).

IAS 21.16 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

IAS 39.AG83 [AMD 109]An entity applies IAS 21 to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. Under IAS 21, any foreign exchange gains and losses on monetary assets and monetary liabilities are recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge (see paragraphs 95–101) or a hedge of a net investment (see paragraph 102). For the purpose of recognising foreign exchange gains and losses under IAS 21, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in accordance with paragraph 55(b). For available for-sale financial assets that are not monetary items under IAS 21 (for example, equity instruments), the gain or loss that is recognised in other comprehensive income under paragraph 55(b) includes any related foreign exchange component. If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are recognised in profit or loss.[AMD 109]

IAS 20.23 A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity....

IAS 38.8 An intangible asset is an identifiable non-monetary asset without physical substance. Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

IFRS 2.BC42 ... If a non-monetary asset, such as plant and machinery, is received for those shares instead of cash, an entity is required to recognise the asset received. If the entity acquires another business or entity by issuing shares in a business combination, the entity recognises the net assets acquired.

FASB Codification > Master Glossary

Nonmonetary Assets and Liabilities
[Nonmonetary assets and liabilities are assets and liabilities other than monetary ones. Examples are inventories; investments in common stocks; property, plant, and equipment; and liabilities for rent collected in advance. [APB 29, paragraph 3]

FASB Accounting Standards Update No. 2010-02
This Update provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:
1. A subsidiary or group of assets that is a business or nonprofit activity
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
3. An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture).

BC4. ... U.S. GAAP on consolidation requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for as equity transactions. U.S. GAAP on consolidation also requires a parent to deconsolidate a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation, the parent accounts for the deconsolidation of the subsidiary by recognizing any retained investment in the subsidiary at fair value and a gain or loss in net income attributable to the parent. U.S. GAAP on consolidation provides no exceptions to this treatment other than for a deconsolidation through a nonreciprocal transfer to owners, such as a spinoff, for which Topic 845 (Nonmonetary Transactions) applies. Accordingly, the deconsolidation model within Subtopic 810-10 does not include an evaluation of continuing involvement or gain realizability before recognizing the transaction as a divestiture with full gain recognition.

Appendix AB – Proposed improvement

View 1: IAS 28.30 (2011) The contribution of a non-monetary asset that is not a business as defined in IFRS 3 to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method. IAS 28.3 (2011) The following terms are used in this Standard with the meanings specified:

View 2: IAS 28.30 (2011) The contribution of a non-monetary asset or a business as defined in IFRS 3 to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

[Submitter]

Appendix B

Financial Instruments: Recognition and Measurement: Embedded derivatives

Suggested agenda item: Separation of term-extending options in a host debt instrument according to International Accounting Standard 39 *Financial Instruments−Recognition and Measurement* ("IAS 39") or International Financial Reporting Standard 9 *Financial Instruments*.

It has come to our attention that diversity exists in practice in the application of IAS 39 to certain types of term-extending options embedded in fixed-rate debt instruments. Entities commonly issue debt with an embedded option that permits one of the parties to unilaterally extend the maturity date, for instance, by a set term or series of set terms (e.g., one year). In many situations, if the option is exercised, the other terms of the debt, such as the interest rate, remain the same as before the option was exercised. In other words, upon exercise of the term-extending option the interest rate does not reset to a rate equivalent to the then-current market interest rate for debt obligations of similar credit quality. Note that in these situations the debt does not contain any other terms which could result, in a non-default situation, in the investor not recovering substantially all of its recognised investment absent the term extension option. That is, the term extension option is not used to circumvent the guidance regarding situations in which the contractual terms may result in the investor not recovering substantially all of its recognised investment.

Some entities account for these types of embedded term-extending options as derivatives separately from the debt hosts as they are considered not closely related to the debt host contract, while others view the option as an embedded loan commitment that is not accounted for separately. This diversity in the accounting is the result of differing views in practice of whether entities are permitted to analogise to, or are required to apply, the scope exception for loan commitments in IAS 39 or IFRS 9 when they evaluate whether a separate instrument that has the same terms as the embedded term-extending option would meet the definition of a derivative.[1] For further details about the issue, including an analysis of the views encountered in practice, please see Appendix A.

Note that while this issue is written in the context of the debt issuer a similar issue may exist for the debt holder applying the guidance within IAS 39[2].

It would be beneficial for preparers, auditors and users of financial statements if the IFRS Interpretations Committee provided guidance on this issue particularly since the practice of writing these types of term-extending options is prevalent and the difference in accounting treatment and resulting impact on entities' financial statements can be significant. We have provided an analysis of the due process criteria for adding an item to the Committee's agenda in Appendix B.

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[1] IAS 39:11 (and IFRS 9:4.3.3) lists three criteria that, if all were met, would require an entity to account for an embedded derivative separately from its host contract. One of these criteria is that the embedded derivative, if evaluated as a freestanding item, would be a derivative as defined in the Standard.

[2] Note that the same issue does not exist for the debt holder applying IFRS 9 as that guidance does not require or permit bifurcation of embedded derivatives from financial assets. Further, the term extension option, if it meets specified criteria within IFRS 9, does not preclude the entire instrument from being measured at amortised cost

Yours sincerely,

[Submitter]

APPENDIX BA

Subject

Separation of term-extending options in a host debt instrument in accordance with International Accounting Standard 39 *Financial Instruments−Recognition and Measurement* (“IAS 39”) or International Financial Reporting Standard 9 *Financial Instruments* (“IFRS 9”)

Example

On 31 December 2011 Entity A issues $100 million of five percent per annum debt with an original two-year maturity of 31 December 2013. Interest is due monthly and the $100 million principal amount is due at maturity. At its sole option, Entity A may extend the maturity date by up to three one-year terms (the “Term-Extending Options”), with a maximum maturity of 31 December 2016. If Entity A exercises a Term Extension Option, the interest rate on the debt will remain the same five percent as at issuance; in other words, the interest rate does not reset to the then-current market rate of interest. The interest rate at issuance is a market rate that considers the effect of the Term-Extending Options. Other than the term extension option, there are no other terms that affect the amount or timing of the contractual cash flows.

Entity A measures the debt at amortised cost in accordance with IAS 39.[3]

Entity A must evaluate IAS 39 to determine whether the Term-Extending Options qualify as embedded derivatives that require separate accounting from the debt host.[4]

Accounting Question

Must all term extension options be considered embedded derivatives requiring bifurcation by the debt issuer (and by the debt holder under IAS 39 if the entire instrument is not accounted for at fair value through profit or loss) or could, or must, specific types of options to extend the maturity of debt be regarded as loan commitments when evaluating whether the scope exceptions for loan commitments (IAS 39:2(h) and 4) apply?

View A – All term extension options are embedded derivatives.

[3] The issue of this submission would equally apply if Entity A measured the debt at amortised cost in accordance with IFRS 9 *Financial Instruments* if Entity A had adopted it early; however, for purpose of this example, Entity A applies IAS 39.

[4] Note that the following accounting questions focus on the Term-Extending Options described in the example. An analysis of other embedded features, including an analysis of other types of options to extend the term of a debt instrument, is not in the scope of this analysis.

An option to extend the maturity of debt is different from a loan commitment in important aspects. For example, in the case of term-extending options the debt is already outstanding and no more cash will be advanced upon exercise of the option, whereas in the case of loan commitments, the debt has not been issued yet and cash will be advanced upon exercise of the loan commitment. Additionally, the fee for a term-extending option (the option's premium) is typically included in the interest rate of the debt in which the option is embedded, and thus absent a default by the borrower, the lender will collect that fee when the borrower makes the interest payments (alternatively, the fee may be included in the loans proceeds and thus collected by the lender upfront). On the other hand, if a borrower does not go through with a loan commitment, the lender typically will never collect its commitment fee.

Proponents of View A further note that in developing IAS 39, the IASB did not intend for entities to be able to avoid bifurcation of non-closely related term-extending options by applying the scope exceptions for certain loan commitments in IAS 39:2(h) and 4. They believe that, if the IASB had intended for entities to be able to apply the guidance for loan commitments to term-extending options, it would have stated so (e.g., by specifying that the term loan commitment as used in paragraphs 2(h) and 4 of IAS 39 encompasses term-extending options). As support for their argument, proponents of View A further note that IAS 39 and IFRS 9 provide specific guidance about how to apply the closely-related criterion to term-extending options, and this guidance would be less relevant if entities could apply the scope exceptions in IAS 39:2(h) and 4.

View B – Term extension options may be loan commitments and not embedded derivatives requiring bifurcation.

Supporters of View B acknowledge that term-extending options embedded in debt instruments are different in some aspects to loan commitments; however, they believe specific-types of term-extending options are sufficiently similar to loan commitments for purpose of evaluating the scope exceptions for loan commitments in IAS 39:2(h) and 4.

The Term-Extending Options in the example provide Entity A (the borrower) with the unilateral right to exchange the existing debt with new debt that has the same (fixed) interest rate and principal amount as the existing debt. Similarly, a (typical) loan commitment provides a borrower with the right to obtain a (new) loan from a lender at some defined point or range of time in the future. Under the offered terms, while the lender is contractually obligated to issue the loan to the borrower, the borrower is not required to draw down at the interest rate specified in the term extending option, or even borrow from that lender altogether. Proponents of this view note that the two parties could have achieved the same economics by structuring the transaction as a term loan with a separate loan commitment. Proponents of this view believe that the accounting for similar economics should be accounted for consistently irrespective whether the arrangement is one or two contractual arrangements.

Although the question is in the context of specifically applying the criterion in IAS 39:11(b), supporters of View B note that the economics of debt with a two-year maturity and three one-year fixed-rate term extending options (i.e., the debt in the example) is also substantially similar to debt with a five-year maturity and a par call options at years two, three and four, and that these types of call options would likely be considered closely related to the debt host in accordance with IAS 39:AG30(g).

View C

Either View A or View B is acceptable. Entity A must select one of the views as an accounting policy and apply it consistently to all embedded term-extending options that are similar to the Term-Extending Options in the example.

Separate Note

The guidance in U.S. GAAP on evaluating term-extending options in debt instruments for accounting as derivatives separately from the debt host is very similar to the guidance in IAS 39 and IFRS 9 on this topic.[5]

Furthermore, U.S. GAAP has a similar scope exception for loan commitments as IAS 39.[6] We note that View B for Accounting Questions 1 and 2 is consistent with how U.S. GAAP is applied in practice in this area.

APPENDIX BB

Assessment of the IFRS Interpretations Committee Agenda Criteria

Paragraph 24 of the *IFRS Interpretations Committee Handbook* identifies the necessary criteria that the IFRIC uses to assess whether it should add an item to its agenda. Such criteria are indicated below in italics, with an assessment of how this topic would, or would not, be met for that individual criterion directly below. The *IFRS Interpretations Committee Handbook* does not require that all criteria be met in order for a proposed topic to be added to the agenda.

(a) *The issue is widespread and has practical relevance.*

This criterion is met. Fixed-rate debt providing the borrower with an option to extend the maturity is common practice (e.g., in large commercial real estate borrowings).

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The* IFRS Interpretations Committee *will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

This criterion is met. As discussed in Appendix A, different views exist in practice on the relevance of the scope exceptions in IAS 39 (which will continue to apply when IFRS 9 is effective) for the evaluation of embedded derivatives for separate accounting and on the economic similarity between loan commitments and specific types of term-extending options, such as those that are the subject of this submission. As a result, some account for these types of options separately from the debt in which they are embedded, while others do not.

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[5] See Accounting Standards Codification (ASC) 815-15-25-1 and 815-15-25-44.

[6] See ASC 815-10-15-69 to 71.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

This criterion is met. Two entities that have identical contractual rights (i.e., rights to extend the maturity of existing debt at the same fixed rate), and thus are in an identical position economically, could account for those rights differently because they have applied IAS 39:11 (or IFRS 9:4.3.3) differently.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process. The issue should be sufficiently narrow in scope to be capable of interpretation, but not so narrow that it is not cost-effective for the IFRS Interpretations Committee and its constituents to undertake the due process associated with an Interpretation.*

This criterion is met. The issues that are the subject of this submission stem from the perceived lack of clarity on whether the scope provisions in IAS 39:2-7 must be considered when applying the embedded derivative guidance in IAS 39:1, and on whether specific types of options to extend the maturity of debt can, or must, be regarded as loan commitments when assessing whether the scope exceptions for loan commitments (IAS 39:2(h) and 4) apply.

(e) *It is probable that the IFRS Interpretations Committee will be able to reach a consensus on the issue on a timely basis.*

This criterion is met. The issue is narrow and the fact pattern specific; therefore, the IFRS Interpretations Committee should be able to reach a consensus on a timely basis.

(f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The IFRS Interpretations Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRS Interpretations Committee requires completing its due process.*

This criterion is met. It is unclear whether the IASB will address the scope of IAS 39 as part of the financial instruments project. Further, this issue is relevant both under IAS 39 and IFRS 9. When the IASB incorporated embedded derivative guidance in IFRS 9, it did not address the issue. The IASB appears to have no plans to revisit the topic of embedded derivatives as part of the financial instruments project. Even if the IASB were to decide to address the scope of IAS 39, there is still an issue of whether a term extension option should be considered similar to a loan commitment when applying either IAS 39 or IFRS 9.

Appendix C

Agriculture: Fair value disclosure and impact on valuation methodology

Australian Government

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6 June 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
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UNITED KINGDOM

Dear David

IAS 41 *Agriculture*

The AASB is writing to recommend an improvement to paragraph 51 of IAS 41 *Agriculture*. Paragraph 51 encourages separate disclosure of the components of the change in the fair value less costs to sell of biological assets due to physical changes and due to price changes. The AASB recommends limiting this encouraged disclosure to biological assets with fair value determined through current volume/price multiples. Its reasons are set out below.

Under the AASB's recommendation, the current encouraged disclosure would not apply to fair value estimates based on the present value of future cash flows. In present value based estimates of the fair value of biological assets (referred to in paragraph 20 of IAS 41), current physical quantities are not multiplied by a price to determine present fair value and, therefore, separating physical change and price change components would be infeasible.

The AASB is concerned that the unrestricted nature of the encouraged disclosure in paragraph 51 of IAS 41 may contribute to misinterpretation of how fair value should be determined under that Standard. The AASB understands that, in respect of biological assets without observable market prices in their present condition, some entities have inappropriately estimated fair value (and changes therein) on the basis of an assumed linear relationship with physical growth. This assumption is a problem because the pattern of physical growth may differ from the pattern of change in fair value due to factors that affect fair value differently, including the time value of money, the pattern of risk over the period to the biological asset becoming marketable, and market participants' expectations regarding the future prices that will be obtained for the biological asset.

The AASB's recommendation would reinforce the IASB's removal from IAS 41 (in May 2008) of a potential source of confusion regarding the treatment of physical growth. In that amendment, the IASB removed the prohibition on an entity taking into account the cash flows resulting from 'additional biological transformation' when estimating the fair value of a biological asset using discounted cash flows.

If you have any questions about the AASB's recommended amendment of IAS 41, please do not hesitate to contact Jim Paul (jpaul@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson
Chairman and CEO