

STAFF PAPER

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IASB Meeting

Project	IAS 41 <i>Agriculture</i> : Bearer Biological Assets (BBAs)		
Paper topic	Feedback from users of financial statements of companies with bearer biological assets		
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Purpose of this paper

1. This Agenda Paper 8C summarises the feedback received from users of financial statements of bearer biological assets (BBAs).

Feedback from the agenda consultation (this was included in the Agenda Proposal presented at the September 2012 IASB meeting—Agenda Paper 13A)

2. Most respondents who mentioned agriculture in their responses to the IASB's agenda consultation, especially those in the plantation industry, raised concerns about accounting for BBAs under the fair value model in IAS 41 *Agriculture*. National standard-setters, the IFRS Advisory Council and the IASB's Emerging Economies Group (EEG) have discussed these concerns. Feedback from these forums shows widespread and strong support for a limited-scope project to reconsider the accounting treatment for BBAs.
3. In their responses plantation companies have asserted that shareholders, analysts, and other users of their financial statements disregard the fair value changes in their analyses. Several listed plantation companies provide additional disclosures on the face of their statement of comprehensive income that exclude changes in the fair value of BBAs from profit or loss. They also do this for internal reporting.

4. Few users of financial statements that responded to the IASB's agenda consultation or participated in the IASB's online investor survey had specific comments on IAS 41 or perceived a project on IAS 41 to be important/urgent. However, it is not clear whether those users follow companies with BBAs.

Additional outreach performed by IASB staff

Process for getting input from users

5. Because of the concerns raised about the decision-usefulness of financial information provided in accordance with IAS 41, the staff have taken additional steps to seek the views of users of financial statements of companies with BBAs. This section describes the feedback we received.
6. The staff have contacted investors and analysts who follow companies with BBAs. The staff asked the following questions:
- (a) How do you use fair value information about BBAs in your analysis?
 - (b) How would your analysis be affected if BBAs were accounted for like property, plant and equipment, and would you need fair value or other disclosures as well?
 - (c) What information is missing today that would help your analysis?
7. The investors and analysts either responded by email or participated in a short phone call with the staff. We had responses from the following investors and analysts who all follow companies with BBAs.

User type	Number
Analysts:	
Buy-side (equity)	5
Sell-side (equity)	6
Credit ratings	1
Independent (equity)	1
Portfolio managers	3
Total	16

8. The investors and analysts are based in the United Kingdom, the Netherlands, Belgium, Singapore, Australia, South Africa and the United States. The companies they follow are generally listed in the same countries as the investors and analysts.

Main comments received

9. The following is a summary of the main comments received from these investors and analysts:
- (a) Nearly all investors and analysts would prefer BBAs to be accounted for in a similar way to property, plant and equipment, rather than at fair value with changes in fair value recognised in profit or loss. The main reasons for this include:
 - (i) Information about operating performance and cash flows are more relevant to their forecasting and analysis. Therefore changes in the fair value of BBAs are eliminated from the figures used for their analysis.
 - (ii) There are concerns about the reliability of fair value measurements of BBAs.
 - (iii) Fair value information about BBAs is not very useful without fair value information about the related land, agricultural machinery, etc.

These reasons are expanded on below.

Assessments of operating performance and cash flows

10. The change in the fair value of BBAs is often a significant amount and can cause significant volatility in profit or loss. Many investors and analysts have told us that recognising changes in the fair value in profit or loss obscures the underlying operating performance. Therefore, they eliminate the change in fair value of BBAs from profit or loss for their analysis.

11. Approximately half of plantation companies prepare financial statements showing both pre- and post-IAS 41 amounts. The investors and analysts say they find this information very useful because without it they would have to estimate some of the IAS 41 adjustments in order to eliminate the change in fair value in their analysis, eg because the impact on line items like taxation and minority interests (non-controlling interests) is unknown.
12. Many of the investors and analysts say they focus on cash flows. Therefore, they do not think the fair value changes are relevant to their analysis as they do not influence the entity's prospects for future net cash flows (except for the fair value of the produce growing on the BBAs). BBAs are normally held by an entity for the whole of their useful life and then scrapped and so changes in fair value will never be realised as cash flows.

Concerns about reliability of fair value information

13. In many jurisdictions there are no active markets for BBAs. Several investors and analysts say that the subjectivity, potential for manipulation and lack of comparability of valuations of BBAs between entities reduces the reliability and usefulness of fair value information. Valuations require subjective judgements because of the long life cycles of the BBAs (eg 25 years for palm oil trees and 30 years for rubber trees), the volatility of prices of agricultural produce (eg palm oil) and the variety of significant assumptions involved (eg price to use for agricultural produce, costs, expected growth rates and yields, risks etc). Assumptions can vary significantly between companies, and small changes in assumptions, eg discount rates and prices of agricultural produce, can lead to significant changes in fair value.

Other concerns about fair value information

14. Most investors and analysts do not see the merit in requiring fair value information for BBAs in the statement of financial position. However, some would like to have fair value information in the notes to the financial statements. Nevertheless, they think that it has limited use, eg in valuing the business, unless the other assets, eg land upon which the BBAs are growing, agricultural machinery etc are also revalued. Fair value information about BBAs on their own

is not useful because the BBAs cannot be separated meaningfully from the assets necessary to support them.

Other useful information

15. Many of the investors and analysts do not use the fair value information in their analysis. Instead they use other information about BBAs for their forecasting, comparisons etc, eg information about yield, acreage, age of BBAs etc. This information is not in the financial statements. However, it is usually provided in analyst presentations, included towards the front of the annual report (eg in management commentary) or otherwise received directly from the companies.
16. The following are some examples of information that investors and analysts told us would be useful if it was included in the notes to financial statements (as noted in paragraph 15 some of this information is currently located in management commentary or other information provided by the company):
 - (a) recent transaction values of agricultural land, including BBAs, in the same region.
 - (b) age profile of the trees.
 - (c) yield of the BBAs.
 - (d) breakdown of major cost items for BBAs.
 - (e) acreage under cultivation/ready for cultivation/owned.
 - (f) more detailed information on any impairment of the BBAs (eg what led to the impairment, how it was determined, etc.).
 - (g) if fair value information for BBAs is provided:
 - (i) more information about price and cost assumptions used in the valuation under IAS 41, eg used in the discounted cash flow calculation.
 - (ii) the effect of the change in the fair value of BBAs on the different line items in the statement of comprehensive income (eg effect on cost of sales, tax, non-controlling interests, etc).

Outreach performed by other parties

MASB 2010 survey responses

17. Our recent discussions with investors and analysts are consistent with the results of a survey performed by the Malaysian Accounting Standards Board (MASB) in 2010. That survey asked a group of analysts (mainly based in Malaysia) specialising in plantation companies whether they find the fair value information reported in the income statement and balance sheet for the plantations useful. The majority of the analysts in the sample did not find that information useful, particularly the presentation of changes in fair value within profit or loss.
18. The MASB survey was also circulated to the IASB's Analysts Representative Group (now the Capital Markets Advisory Committee) by the IASB staff and responses are included in the MASB survey results.
19. The results of the survey were included in the Issues Paper produced by the Asian-Oceanian Standard-Setters Group (AOSSG Issues Paper—this paper was Agenda Paper 13B at the September 2012 IASB meeting).