Annexure `A'

Issues Paper on
IAS 41 *Agriculture*

WORKING GROUP ON AGRICULTURE

This Issues Paper ("Paper") presents discussions of issues identified by working group members up to November 2011. The issues may not be exhaustive, and may not have taken into account developments since November 2011.

The AOSSG Working Group on Agriculture consists of the following organisations.

LEAD MEMBER

The Institute of Chartered Accountants of India (ICAI)

CO-LEAD MEMBER

Malaysian Accounting Standards Board (MASB)

MEMBERS

Accounting Standards Board of Japan (ASBJ)

China Accounting Standards Committee (CASC)

Indonesian Institute of Accountants (IAI)

Korea Accounting Standards Board (KASB)

Hong Kong Institute of Certified Public Accountants (HKICPA)

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Australian Accounting Standards Board (AASB)

New Zealand Financial Reporting Standards Board (FRSB)

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Executive summary

- This Paper proposes limited amendments to improve IAS 41 *Agriculture*. The AOSSG WG understands that many concerns have been raised by investors、 as well as preparers on the relevance and usefulness of information in financial statements provided to users with respect to certain biological assets accounted for under IAS 41 requirements.

- To address these concerns the AOSSG WG recommends providing a definition for bearer biological assets and consumable biological assets. By defining these two groups of biological assets, the AOSSG WG believes the IASB will then be able to prescribe distinct accounting treatment with the aim of providing information that will serve investors and other market participants in their economic and resource allocation decisions.

Bearer Biological Assets (BBA)

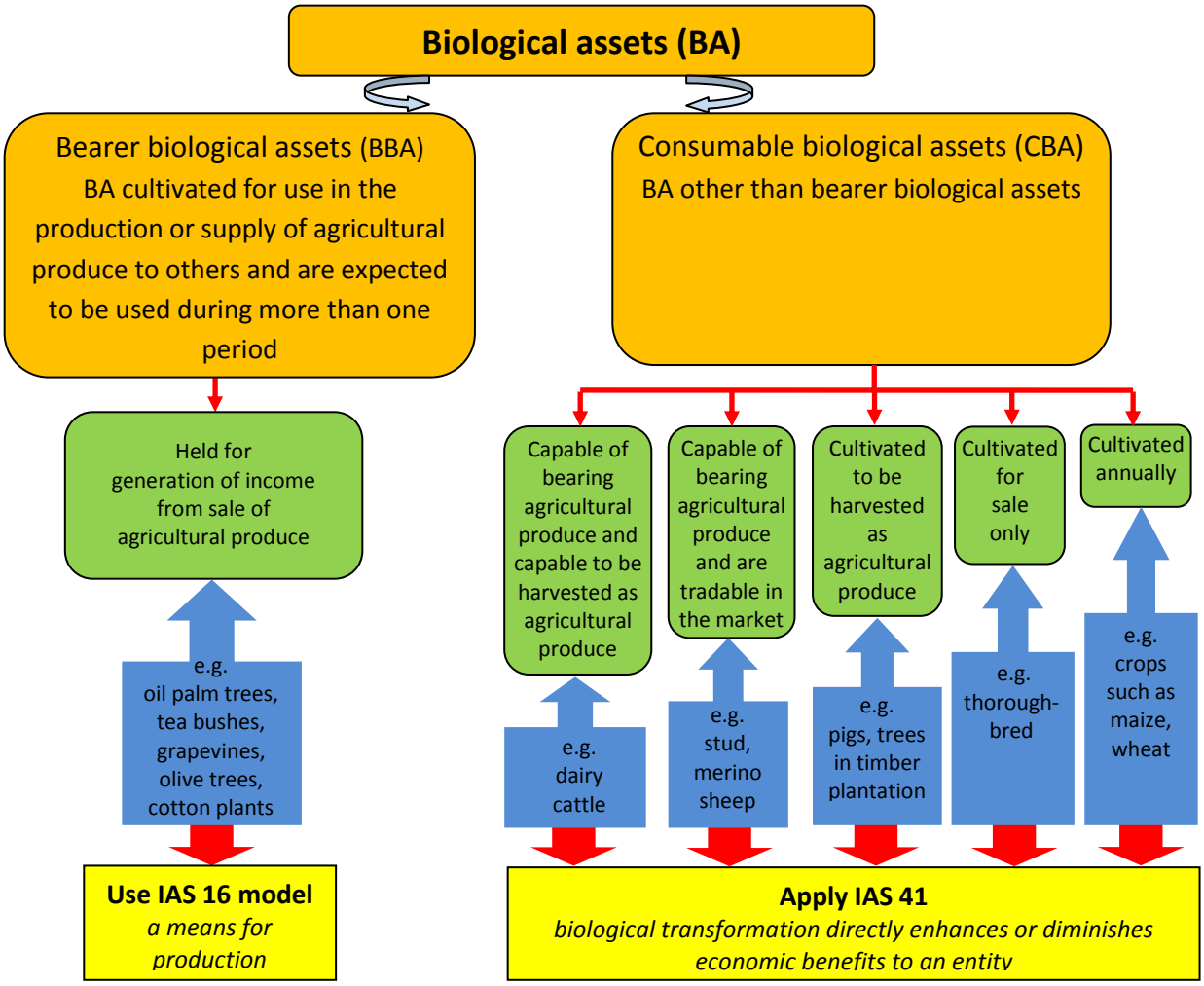
- This Paper defines BBA as biological assets that are cultivated for use in the production or supply of agricultural produce to others and are expected to be used for more than one period. BBA are not agricultural produce themselves. When an entity is engaged in the operation of BBA, those assets become a means for the production of agricultural produce to be harvested for sale, and hence, making the operation of BBA similar to that of a manufacturing operation. Therefore, the principle enshrined in IAS 41 that focused on biological transformation for BBA is inappropriate as biological transformation in BBA is a concept of growth toward maturity.

  Consequently, this Paper recommends that BBA be scoped out from IAS 41 and measured using the model as prescribed in IAS 16 *Property, Plant and Equipment*.

Consumable Biological Assets (CBA)

- This Paper defines CBA as biological assets other than bearer biological assets and does not recommend any changes to the accounting for CBA. As biological transformation of CBA directly enhances or diminishes the economic benefits to an entity, this Paper takes the view that the most appropriate measurement basis would be fair value as prescribed in IAS 41.

- The recommendation in this Paper can be summarised in the following diagram:



Bearer biological assets are biological assets that:

(a) are cultivated for use in the production or supply of agricultural produce to others; and

(b) are expected to be used during more than one period.[1]

Bearer biological assets are held for the generation of income from sale of agricultural produce but are not agricultural produce themselves. Examples of bearer biological assets are bushes cultivated for tea leaf, plants cultivated for cotton fibres, fruit trees cultivated for fruits such as olives,apples and oil palm fruit bunches and vines cultivated for grapes.

Consumable biological assets are biological assets other than bearer biological assets. These include:

(a) biological assets that are capable of bearing agricultural produce and capable to be harvested as agricultural produce (for example livestock raised for bearing agricultural produce and production of meat such as dairy cattle);

(b) biological assets that are capable of bearing agricultural produce and are tradable in the market (for example livestock raised for bearing agricultural produce such as studs and merino sheep);

[1] The proposed definition of BBA is drafted to closely align to the definition of property, plant and equipment. IAS 16 defines property, plant and equipment as tangible items that are (a) held for use in the production or supply of goods or services, for rental to others, or for administration purposes; and (b) are expected to be used during more than one period.

(c) biological assets that are cultivated to be harvested as agricultural produce (for example trees being grown for lumber, fish in farms, and livestock raised for the production of meat such as pigs);

(d) biological assets that are cultivated annually for bearing agricultural produce (for example crops such as maize and wheat); and

(e) biological assets that are cultivated for sale (for example livestock raised for sale such as thoroughbred).

Objective of this Paper

1. The objective of this Paper is to request the International Accounting Standards Board (IASB) to consider amending IAS 41 *Agriculture* by adding a definition for *bearer biological asset* (BBA) and including BBA within the scope of IAS 16 *Property, Plant and Equipment*. The proposals in this Paper are premised on the idea that consumable biological assets (CBA) would continue to be within the scope of IAS 41 whilst BBA are biological assets that are used in a manner that is analogous to property, plant and equipment. This would be treated in a manner consistent with property, plant and equipment prescribed in IAS 16.

   This Paper provides:

   (a) background information that outlines the reasons for submitting the request for IASB's consideration;

   (b) an analysis of the issues identified by the AOSSG Working Group on Agriculture (AOSSG WG); and

   (c) AOSSG WG recommendation for the IASB's consideration.

2. Accounting for biological assets and agricultural activity is important for many emerging economies, such as Indonesia, Brazil, China, India and Malaysia. For example, Indonesia and Malaysia are the top producers of palm oil and natural rubber, Brazil is the world's leading producer of coffee, India is the largest producer of tea and China's agricultural output is the largest in the world. The statistics of Malaysia's conglomerate Sime Darby oil palm plantation operations are attached in *Appendix A* for further information.

3. In April 2009, at the meeting of the Regional Standard Setters in Kuala Lumpur, Malaysia, the a member of the AOSSG WG explored a number of IAS 41 application issues and reaffirmed their commitment to consider how these issues could be better addressed.

4. In December 2009, at the IASB fair value measurement roundtable meeting in Kuala Lumpur, Malaysia, participants questioned whether fair value measurement is the appropriate measurement basis for bearer biological assets. Participants were of the view that BBAs are comparable to a factory with its associated plant and equipment. In the case of factories, plant and equipment are carried at cost less depreciation and impairment and entities have a choice of cost or fair value. Participants found it hard to see why a different principle should be applied to bearer biological assets.

5. In January 2010, a member of the AOSSG WG submitted a letter to the IASB highlighting the implementation issues surrounding the valuation of plantations with regards to the inconsistent application of some of IAS 41 requirements, particularly regarding price assumptions used by entities in their valuations. A copy of the letter is appended in *Appendix B* for reference.

6. In April 2010, at the National Standard Setters meeting in Seoul, Korea, a member of the AOSSG WG raised a number of application issues of IAS 41 and members of the NSS agreed to discuss further in its meeting in September.

7. In September 2010, at the NSS meeting in Rome, Italy, a member of the AOSSG WG presented the application issues of IAS 41 and representatives from Brazil, Canada, France, India, South Africa, Taiwan and Sudan expressed their support for IASB to consider IAS 41 for review. Also, in September 2010, at the 2nd Meeting of AOSSG in Tokyo, Japan, the Group agreed to set up an AOSSG Working Group on Agriculture with China, Hong Kong, India, Indonesia, Korea and Malaysia, all expressed enthusiastic support.

   At that meeting, a member of the AOSSG WG recommended that BBA be scoped out from IAS 41 and that these assets be measured under IAS 16. In addition, for immature BBA, they should be allowed either at fair value under IAS 41 up to maturity of BBA or at cost under IAS 16. The two options were recommended because the fair value approach would be suitable for biological assets that embody both consumable and bearer attributes, such as dairy cows. Whereas the cost approach would be suitable for biological assets with single bearer attributes, such as oil palm plantation. For CBA, the member of the AOSSG WG recommended that these assets to be measured under IAS 41. At that meeting, some delegates noted that the recommendation might work for specific BBA, such as trees and vines, but would be more challenging for livestock. In addition, the Paper presented then did not address classification and bifurcation issues of biological assets (i.e., assets with both the BBA and CBA attributes), for example sheep exhibit attributes of BBA in production of wool, an agricultural produce, but the sheep itself may also be consumed; a CBA attribute.

   In view of the feedback at the NSS, the AOSSG WG has revised the definitions for BBA and CBA.

Background of IAS 41

8. The IASB's predecessor organisation, the International Accounting Standards Committee (IASC) issued IAS 41 in 2001. The reason for issuing IAS 41 was the diversity in accounting for agricultural activity as a result of:

   (a) agricultural activity being excluded from the scope of IASs;

   (b) accounting guidelines being developed by national standards setters on piecemeal basis to resolve specific issues; and

   (c) nature of agricultural activity creates uncertainty or conflicts when applying traditional accounting models.

9. Agricultural activity is the *management by an entity of the biological transformation* of biological assets and harvest of biological assets for sale or conversion into (1) agricultural produce or into (2) additional biological assets. A biological asset is a living animal or plant and biological transformation comprises the processes of

growth, degeneration, production and procreation that cause qualitative or quantitative changes in biological assets.

10. The existing IAS 41 distinguishes between two types of biological assets. Biological assets harvested as agricultural produce are known as consumable biological assets (CBA). Biological assets other than CBA are known as bearer biological assets (BBA). BBA are not agricultural produce but, rather, produce agricultural produce, for example, an oil palm.

11. In developing IAS 41, the IASC was persuaded by the view that in agricultural activity, a change in physical attributes, that is the biological transformation, of a living animal or plant directly enhances or diminishes economic benefits of an entity.[2]

12. In finalising IAS 41, the IASC then considered whether cost or fair value would be the appropriate measurement basis to capture the biological transformation. The IASC was in favour of the argument that the effects of changes brought about by biological transformation are best reflected by reference to fair value changes in biological assets. This is because fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to an entity.[3]

13. The IASC rejected the historical cost accounting model because transactions entered into to effect biological transformation often have only a weak relationship with the biological transformation itself and thus a more distant relationship to expected future economic benefits.[4]

14. For example, patterns of growth in a plantation forest directly affect expectations of future economic benefits but differ markedly in timing from patterns of cost incurrence. No income may have been reported until first harvest and sale (perhaps 30 years later) in a plantation forestry entity using a historical cost accounting model. On the other hand, income is measured and reported throughout the period until initial harvest when the biological assets are measured using fair values.

15. Therefore, the IASC believed fair value had greater relevance, reliability, comparability and understandability as a measurement of future economic benefits expected from biological assets over historical cost given the unique nature and characteristics of agricultural activity. Hence it is mandatory in IAS 41 that all biological assets (regardless of purpose such as being farmed for their meat, hides, milk, hair, wool, logs, fruits, latex, leaf, or if they will be used for breeding purposes) be measured at fair value (unless the fair value presumption is rebutted on initial recognition).

16. However, this conclusion seems to neglect the point that biological transformation is no longer a key element in the realisation of economic benefits from BBA. Those assets have already undergone biological transformation and are now at a mature point in their asset cycle to produce agricultural produce. The AOSSG WG agrees that agricultural produce of BBA should be accounted for in the same manner as

[2] IAS 41 paragraph IN4.
[3] IAS 41 paragraph B14.
[4] IAS 41 paragraph B15.

other CBA. Thus the fruits produced on a tree at point of harvest, say apples, would be an agriculture produce and would fall within the IAS 41 accounting model.

Analysis

Entities engaged in cultivation of consumable biological assets

17. When an entity is engaged in the cultivation of CBA, the CBA are cultivated for sale or to be harvested for sale in a future date in the ordinary course of business. The entity receives the profit through the realisation of changes in the CBA brought about by biological transformation.

18. In this regard, the requirement of IAS 41 which focuses on providing users information about biological transformation is appropriate as it reflects the maturity stage of the CBA which is useful for users in predicting the likely cash flows the CBA is able to generate.

19. In order to capture the changes brought about by biological transformation, measurement based on fair value as prescribed in IAS 41 would be appropriate for CBA because it provides information about the cash flows the entity expects to realise if the asset is sold. In addition, as most CBA are traded in active markets with observable market prices, fair value would provide a reliable measure of market expectations of future economic benefits of CBA. Therefore fair value information would provide decision-useful information to users of financial statements in predicting the likely cash flows to be generated by the CBA at the reporting date or an estimate of future cash flows at future dates.

20. Some biological assets, particularly agriculture livestock, may embody both consumable and bearer attributes depending on: (a) the stage of their life, for example, a dairy cow is cultivated to produce milk up until it is culled; or (b) the management's intentions, for example, a sheep reared for its wool may be sold for its meat.

    This Paper takes the view that the fair value approach as prescribed in IAS 41 is the most appropriate measurement basis for biological assets that embody both consumable and bearer attributes. Although they may be used to produce agriculture produce in a given period, in many cases, these biological assets eventually become agricultural produce themselves as they will ultimately be realised through sale in view of the significant residual value or harvested at an appropriate stage when the residual value is at its prime[5]. Hence, the realisation of profits brought about by the biological transformation which directly enhances or diminishes their economic benefits is best reflected by reference to the fair value changes in these biological assets.

[5] This is consistent with the views put forth in the Paper *"Towards A Measurement Framework for Financial Reporting by Business Entities - An Alternative View (by Andreas Bezold)"* presented at the NSS's September 2010 meeting in that the market prices represent a causal event for financial income reporting when their changes lead to changes in cash flows.

In addition, in a situation where the biological asset's residual value is significant, the cost amortisation basis as prescribed under IAS 16 may not be meaningful as the depreciation amount is likely to be immaterial and may not reflect the consumption of the asset's economic benefits that are expected to flow to the entity. Therefore, this Paper defines biological assets of such nature as CBA, despite its dual attributes, and recommends them to be measured under IAS41.

Apart from the cost amortisation issue as identified in the preceding paragraph, this Paper also does not recommend that biological assets that embody both consumable and bearer attributes to be given the option to apply either IAS 16 or IAS 41 so as to improve comparability of financial statements as well as to avoid inconsistency in reporting the fair value changes. In addition, if the revaluation model under IAS 16 is used, the fair value changes would be recognised in other comprehensive income whilst under IAS 41, such fair value changes would be recognised as a component of net profit.

Aside from technical reasons stated in the preceding paragraphs to limit the accounting of biological assets that embody both consumable and bearer attributes under IAS 41, it would eliminate the need to depend on management's intentions and hence, mitigate the unintended consequences of classification and reclassification to and from IAS 16 / IAS 41.

This Paper does not recommend that the value of such biological assets to be split between the consumable and bearer attributes. Splitting would not only introduce subjectivity of the fair value apportionment between the CBA and BBA but increase the administrative burden and cost without clear additional benefits. And as explained in the preceding paragraph, in many cases, these type of biological assets will ultimately be realised through sale and therefore, as a practical approach in addressing the bifurcation issue, this Paper recommends that the entire biological asset of such nature to be measured at fair value.

However, there are some who believe that biological assets that embody both consumable and bearer attributes should be accorded the alternative to apply IAS 16, depending on its predominant use. Their comments are presented in the Alternative Views at the end of this Paper.

Entities engaged in cultivation of bearer biological assets

21. Whilst CBA are either held to be sold or cultivated for harvest or both, BBA (eg oil palm trees or grape vines) are not cultivated for sale and its residual values at the end of its useful life are often insignificant. When an entity is engaged in the operation of BBA, the matured assets become a means for the production of agricultural produce to be harvested for sale.

22. In other words, the operation of BBA is similar to that of a manufacturing operation. In a manufacturing operation, time is required to prepare the property, plant and equipment for the manufacturing plant to be capable to be used for the production of goods for sale. The property, plant and equipment will then be used until the end of its useful life. The management measures the efficiency of the manufacturing plant

based on the quantity of goods produced and the resources required to produce the goods for sale.

23. Similarly, time is required for the BBA to mature in order to bear agricultural produce to be harvested for sale. This period in the life-cycle of BBA is a time of biological transformations. During the BBAs' economic life, their agricultural produce are collected, processed and sold. At the end of their economic life, the BBA, for example palm oil trees are felled and replanted. The ability of the BBA to bear agricultural produce would depend on how management would cultivate the BBA using the required resources and technology to generate the optimum yield / produce for sale. These BBA plainly bear the common features of revenue generating operations involved in property, plant and equipment.

24. As explained in paragraph 17, information about biological transformation is relevant when biological transformation is the driver of economic change, as in the case of CBA. However, as the AOSSG WG has noted before, a BBA on maturity, is no longer subject to significant biological transformation. It will wear out, as does a machine, but biological transformation is a concept of growth toward maturity. At the end of its useful life, the BBAs' residual value is often insignificant, similar to property, plant and equipment but unlike CBA whose residual value is often significantly higher than its cost.

25. Examples of bearer and consumable biological assets are set out in *Appendix C*. It can be seen that the way in which the BBA and CBA are managed and cultivated for its purpose is distinctly different.

Consequence of IAS 41 for entities engaged in cultivation of BBA

26. As the AOSSG WG has noted before, the operation of BBA is similar to that of a manufacturing entity. In our view, the accounting for the two activities should be similar, notwithstanding the fact certain elements of a BBA, i.e. growth and procreation, are not present in a manufacturing facility. This approach is consistent with existing IFRS literature in which assets that have a productive capability and contribute to the operating activities of an entity are commonly classified as property, plant and equipment and are accounted for in accordance with IAS 16 or as intangibles under IAS 38 *Intangible Assets*.

27. The AOSSG WG is of the opinion that the application of IAS 41's fair value requirement to BBA results in reporting price changes (the value of the BBA) rather than their transformation from one biological stage to another which could be misleading as BBA are not held for sale[6]. While this information might be of some relevance, it is different in kind than the information reported about CBA.

28. In addition, the requirements of IAS 41 had resulted in an inconsistent reporting of changes in fair value of land related to agricultural activity and the fair value changes

[6] This is consistent with the views put forth in the Paper *"Towards A Measurement Framework for Financial Reporting by Business Entities - An Alternative View (by Andreas Bezold)"* in that whilst the market price of an asset may change, it may not cause a change in expected future cash flows from the activity compared to prior expectations.

of biological assets that are physically attached to land (for example, trees in plantation forest, grape vines, oil palm trees, rubber trees).

29. IAS 41 does not establish any principles for land related agricultural activity. Instead an entity may want to apply IAS 16 or IAS 40 *Investment Property* as appropriate.

Under IAS 16, land is measured either at its cost less any accumulated impairment losses, or at a revalued amount. If the land is revalued, the changes in fair value are recognised in other comprehensive income and accumulated in equity as revaluation surplus and would not be reclassified to profit or loss even on disposal. On the other hand the fair value changes of the biological assets are reported in profit or loss.

Another issue is that, if the land is revalued on a basis that is not on "existing use", the carrying value of the biological asset grown on the land ought to be notionally written off against the revaluation surplus on the land.

Therefore, in our view, as the land and the associated biological assets are intertwined and the biological assets cannot exist without the land, any revaluation on the land and biological assets should be reported on a consistent basis. Consequently, the Issues Paper proposal to account for BBA consistent with property, plant, and equipment prescribed in IAS 16 will ensure the fair value changes of the land and BBA are reported consistently should the entity decides to fair value the BBA or the land or the both together.

Information for users

30. As explained in the *Conceptual Framework for Financial Reporting*, the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions in providing resources to the entity. Investors', lenders' and other creditors' expectations regarding returns depend on their assessment of the amount, timing and uncertainty of future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

31. MASB, the co-lead of the AOSSG WG conducted a limited survey on IAS 41 among a small group of regional analysts specialising in plantations. It is noted from the limited survey results, most analysts do not find the fair value information of bearer biological assets (as defined in this Issues Paper) reported in the balance sheet and profit or loss useful or important in their analysis of financial statements of entities engaged in agricultural activities.

32. In their own words, the analysts surveyed said that reporting the fair value of BBA:

(a) distorts the financial statements' ability to reflect "true & fair" view of an agriculture company's earnings; and

(b) relies on assumptions and entities use different assumptions making IAS 41 pointless.

33. The regional plantation analysts commented that it is better to report the fair value information in the notes to the financial statements than it being reported in the

balance sheet and profit or loss. In addition, they always remove the biological gains or losses when looking at earnings and that end-users also do not look at fair value as:

(a) it is not a cash item;

(b) it makes earnings more volatile in both rising and falling price environments;

(c) it is of no use when estimating the true worth of an asset as they do not know what goes into the fair value computation; and

(d) it can be used as an instrument for companies to raise or drop reported earnings.

34. For fair value information to be useful, analysts require other complimentary information such as age profile, area, specific production yield, discount rate used, selling price assumed, forward sale percentage at a specific average price, breakdown of age profile especially for perennial crops, breakdown of major cost items and average selling price.

35. Detailed analysis of the survey results are appended in *Appendix D* for further information.

36. Examples of financial statements that had applied IAS 41 are appended in *Appendices E to G* for information.

Recommendation

37. Whilst the AOSSG WG recognises and appreciates IAS 41 concept in requiring entities to report biological transformation in the financial statements, but due to the difference between CBA and BBA (whether they are an end product or a means to produce an end product), the AOSSG WG sees considerable merit in prescribing differing accounting treatment for BBA and CBA.

38. For users who might be interested to know about the fair value of the BBA to assist them in predicting the potential changes in the economic resources that the entity is likely to control in the future, information on fair value of the combined asset, for example the BBA and the land related to the agricultural activity, could be provided in the financial statements via voluntary disclosures in the notes.

39. The AOSSG WG proposes the following amendments to IAS 41:

(a) the addition of a definition for bearer biological assets, consumable biological assets and agricultural activity;

(b) to require bearer biological assets to be accounted for consistent with property, plant, and equipment prescribed in IAS 16. As noted above, the operation of BBA is similar to that of a property, plant and equipment and therefore it would be consistent to apply the provisions of IAS 16 in accounting for BBA.

40. A possible definition for agricultural activity, bearer biological assets and consumable biological assets could be:

Agricultural activity is the management by an entity of:

(a) the biological transformation and harvest of biological assets for sale, or for conversion into agricultural produce, or into additional biological assets; and/or

(b) biological assets for their agricultural produce.

Bearer biological assets are biological assets that:

(a) are cultivated for use in the production or supply of agricultural produce to others; and

(b) are expected to be used over more than one period.[7]

Bearer biological assets are held for the generation of income from sale of agricultural produce but are not agricultural produce themselves. Examples of bearer biological assets are bushes cultivated for tea leaves, plants cultivated for cotton fibres, fruit trees cultivated for fruits such as olives, apples and oil palm fruit trees and vines cultivated for grapes.

Consumable biological assets are biological assets other than bearer biological assets. These include:

(a) biological assets that are capable of bearing agricultural produce and capable to be harvested as agricultural produce (for example livestock raised for bearing agricultural produce and production of meat such as dairy cattle);

(b) biological assets that are capable of bearing agricultural produce and are tradable in the market (for example livestock raised for bearing agricultural produce such as studs and merino sheep);

(c) biological assets that are cultivated to be harvested as agricultural produce (for example trees being grown for lumber, fish in farms, and livestock raised for the production of meat such as pigs);

(d) biological assets that are cultivated annually for bearing agricultural produce (for example crops such as maize and wheat); and

(e) biological assets that are cultivated for sale (for example livestock raised for sale such as thoroughbred).

41. We urge the IASB to reconsider the accounting treatment for BBA, which are akin to property, plant and equipment of a manufacturing facility as noted in the preceding paragraphs, based on the following approach:

(a) bearer biological assets

The accounting for BBA would apply accounting principles that are consistent with property, plant and equipment prescribed in IAS 16.

[7] The proposed definition of BBA is drafted to closely align to the definition of property, plant and equipment. IAS 16 defines property, plant and equipment as tangible items that are (a) held for use in the production or supply of goods or services, for rental to others, or for administration purposes; and (b) are expected to be used during more than one period.

This approach would be consistent with the principles of IAS 16 and would be suitable for a bearer biological asset that are cultivated for use in the production or supply of agricultural produce to others and are expected to be used during more than one period, such as oil palm plantations. Some AOSSG WG members believe entities engaged in the cultivation of BBA should be accorded the choice of either the cost or revaluation model in accounting for the BBA given that IAS 16 provides the choice in accounting for property, plant and equipment.

With regard to immature BBA, typically significant costs are incurred in cultivating the immature BBA to maturity. In accordance with the provisions under IAS 16, such costs would be capitalised until commercial production comprising of direct costs (eg seedlings, cost of labour and fertilisers) and other indirect development costs (eg land clearing). For example, in the case of orchards or vineyards, substantial expenditure for labour and material to shape and train the tree or vine into an efficient form may be incurred during the period of development before they reach a maturity stage. Capitalization of such costs is inappropriate if future recovery is in doubt as in cases when there is uncertainty as to survival of the immature BBA because they may be more susceptible to pests, disease or weather effects.

Whilst significant biological transformation occurs during the period of growth towards maturity, unlike CBA, this should not be a relevant factor for immature BBA as they are not agricultural produce but are being cultivated towards maturity to be held for use in the production of agricultural produce. The stage of maturity should therefore not be a factor in the choice between the adoption of a cost or revaluation model for BBA, even when the choice is permitted.

(b) consumable biological assets

For CBA or agriculture produce borne from BBA, the accounting treatment would follow the requirements as prescribed in IAS 41, i.e. the agriculture produce borne from BBA (for example, fruits growing on a tree) would be separately recognised and valued at fair value at the point of harvest – whereby a gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss.

The AOSSG WG is conscious that an active market may not exist for certain agriculture produce, for example plucked tea leaves which are to be immediately consumed for conversion into black tea. In such cases, the AOSSG WG believes the entity shall use the guidance prescribed in IFRS 13 *Fair Value Measurement* to measure the agricultural produce at the point of harvest.

In addition the AOSSG WG members support the AASB's recommendation to IASB to improve paragraph 51 of IAS 41 and recommends the IASB to consider AASB's proposal. The AOSSG WG believes it would be impracticable to require separate disclosures of the components of the change in fair value less costs to

sell of biological assets due to physical changes and due to price changes when the fair value estimates are derived based on the present value of future cash flows instead of observable market prices. A copy of the AASB's letter is attached in *Appendix H*.

42. *Appendix I* shows a marked-up version of the proposed amendments to IAS 41, prepared by the Malaysian Accounting Standards Board (MASB) to incorporate the above recommendations, based on the presumption that the IASB takes the approach that accounting requirements regarding the BBA be incorporated into IAS16.

Alternative Views

43. *Bearer Biological Assets (BBA)*

This Paper recommends that BBA to be scoped out of IAS 41 and be measured with the model consistent of those prescribed in IAS 16 *Property, Plant and Equipment*. Yet, members have different views as to whether accounting treatment regarding BBA should be incorporated into IAS 16 or they should remain in IAS 41. Some members suggest the former approach, considering the similarities of inherent nature of property, plant and equipment and BBAs. Others, whilst agreeing their conceptual similarities, think that they are significantly dissimilar by their form, and simply incorporating IAS 16 may give rise to myriad of conforming amendments to IAS 16, which may result in complexity of the standard. Thus, they believe that IAS 41 should encompass accounting requirement regarding BBA to maintain its comprehensiveness as to issues around agriculture.

In this context, the AOSSG WG recommends that the IASB give particular considerations to issues around the placement when deliberating the project.

44. ***Classification of Biological Assets into Plants and Livestock (Flora and Fauna)***

As an alternative to the approach to amend IAS 41 as suggested in the Issues Paper, another approach is to first classify biological assets into plants (Flora) and animals (Fauna) and, thereafter, to classify only plants into bearer biological assets and consumable biological assets on the lines as suggested under the Issues Paper. Under this alternative approach, accounting for plants that are classified as bearer biological assets shall be scoped out of IAS 41 and shall be accounted for under IAS 16, Property, Plant and Equipment. Consumable biological assets and all animals would continue to be covered by IAS 41 and accounted for as presently prescribed in that Standard.

The difference between this alternative approach and that recommended in the Issues Paper is that under the former approach, no animals can be treated as bearer biological assets whereas under the Issues Paper approach, animals can also be treated as bearer biological assets and, therefore, accounted for under IAS 16. This alternative approach suggested by India as in India some of the bearer biological assets such as cows, due to religious reasons, cannot be used for meat and can only

be used as bearer biological assets for the purpose of dairy production. In India, these animals will get classified as bearer biological assets under the Issues Paper approach, and would have to be accounted for under IAS 16, which would present various problems in applying cost model to these assets. It may be mentioned that under the Issues Paper approach, such animals, where kept for the purpose of producing milk and can be used for the purpose of selling their meat, i.e., having characteristics of both bearer biological assets and consumable biological assets, will have to be considered as consumable biological assets and valued at fair value as per IAS 41. Under the alternative approach suggested by India, all animals would be valued at fair value as per IAS 41.

45. ***Consumable Bearer Biological Assets (CBBA)***

This Paper does not distinguish CBBA from CBA as we believe the fair value measurement basis is also appropriate for CBBA, such as agriculture livestock and therefore, IAS 41 should be applied to these assets as the fair value changes directly enhances or diminishes their economic benefits.

However, this alternative view consider that the fair value changes in most livestock classes are of largely 'irrelevance' to farming operation as they cannot be realised without selling the farm land and ceasing livestock farming. To this extent it is appropriate to treat livestock price revaluation the same as the revaluation of the underlying fixed assets.

Therefore, the alternative view suggests that:

(a) all livestock to be permitted as classified either under IAS 16 or IAS 41, depending on the predominant use of the livestock held at balance sheet date (another comment we received uses the phrase 'purpose of holding the biological asset' instead of 'predominant use')

(b) the classification approach on predominant use could be extended to define whether a biological asset is classified as BBA or CBA.

The alternative view believes the principle of predominant use test is consistent with the principle used in other IFRSs, i.e. IAS 12 where classification should reflect the manner in which management intend to recover the carry value of the asset, specifically with the value of the biological asset be recovered through sale / harvest (CBA) or through production (BBA). If management seek to maximise revenue through increases in value of the biological asset, this is consistent with the CBA classification. If management consider value changes incidental and manage the entity to maximise revenue based on the production, this is consistent with the BBA classification.

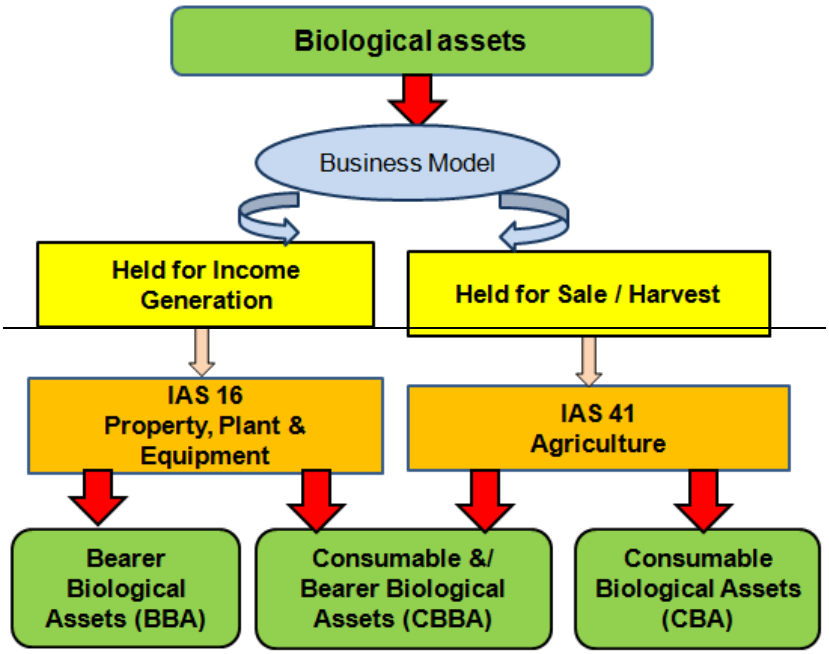
We were informed that in reality, the balance sheet date for farmers and agriculture entities is usually at the end of the agricultural or farming season (winter). At balance sheet date, many pastoral farmers hold only breeding livestock in order to generate either a lamb or calf or use for milking the following season. Most trading stock is sold before balance sheet date, including any culled animals. There is a small

exception to this regarding some sheep, deer and beef cattle, but this will be a decision dependent on the conditions at the time and will usually only be a small portion to total livestock. In the majority cases, the livestock held at balance sheet date are very similar to BBA (such as palm oil trees) in that livestock are being held to produce agricultural produce in the form of milk and lambs for slaughter. On this basis, the alternative view proposes that if the predominant use is to produce agriculture produce, then all livestock could be classified on the same basis as BBA's under IAS 16.

This Paper does not propose the notion of 'predominant use' as it would depend on management's intention. As an alternative, another workable solution is to introduce the notion of 'business model' as enshrined in IFRS 9 *Financial Instruments*. If the biological assets are held for the generation of income, such assets should apply IAS 16 whilst biological assets held for sale or to be harvested at an appropriate stage should apply IAS 41.

However, the set back is that under IFRS 9 this model has yet to be tested in practice, since it will be effective after2015[8].

The alternative solution is found in a diagram below:



[8] The effective date is based on the recent decision by the IASB.