

STAFF PAPER

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Topic	IAS 41, Agriculture		
	Issues for discussion		
CONTACT(S)	Wayne Upton	wupton@ifrs.org	+44 (0)20 7246 6449

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Introduction

1. The application of IAS 41 has been controversial since the standard was issued. IAS 41 is built on the principle that fair value is the best measurement alternative, and in some cases the only, accounting tool that can represent biological transformation. IAS 41 defines *biological transformation* as follows:

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.
2. There is a class of biological assets, however, that is mature and is no longer undergoing biological transformation. Instead of being a growing asset, the plant or animal is now a productive asset. This class, often referred to as *bearer biological assets*, now produce over several seasons. The class might include, for example, oil palms, grape vines, tea bushes, dairy herds, and sheep.
3. A number of commentators have argued that fair value is not the most relevant measurement attribute for bearer biological assets (BBAs), because those assets are no longer in a stage of biological transformation. Those who take this view maintain that BBAs are similar to property and equipment and should be accounted for using IAS 16, *Property, Plant and Equipment*.

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4. The Asian-Oceanian Standard Setters Group (AOSSG), building on earlier work by the Malaysian Accounting Standards Board, has produced an Issues Paper on this topic. At its May 2012 meeting, the IASB's Emerging Economies Group will discuss that paper and some issues raised by the IASB staff. The objective of this discussion is to assist the IASB in deciding how it might organize a project on IAS 41, subject to deliberations on the Agenda Consultation.

Issues for discussion

Issue one – What project, if any?

5. The AOSSG paper is predicated on a targeted and limited amendment of IAS 41 rather than a comprehensive reconsideration of the standard. The IASB's consultation on its future agenda described a possible project on agriculture as a limited amendment.
6. Most of those mentioned agriculture in their responses to the IASB's consultation spoke to the limited project described in the consultation document. Most, especially those in the plantation industry favoured the limited project described in the AOSSG paper. However, a small number of respondents favoured a broader reconsideration of IAS 41 or suggested a post-issuance review. Others suggested that there is no need for any amendment of IAS 41.
7. I think there are three alternatives for the EEG to consider. It could recommend that the IASB:
- (a) Not take on any project related to IAS 41;
 - (b) Take on a broad reconsideration of IAS 41, perhaps beginning with a post-issuance review; or
 - (c) Take on a project directed to limited amendments to the accounting for bearer biological assets.
8. Alternative (c) has the advantage of timeliness. It appears that the project could be taken to an Exposure Draft relatively quickly. However, limited amendments sometimes trigger demands that the scope be expanded to include more and more situations. Those situations are often unrelated to the original rationale for

amendment, and can lead the Board to question whether *any* amendment is appropriate.

9. Alternative (b) would not be a short-term exercise. We estimate that a post-issuance review of any standard would take a minimum of one year. The results of a review would then have to be turned into a project proposal and compete with other projects for space on the Board's agenda.

Issue two – scope and definition

10. The AOSSG paper defines BBA in a way that potentially simplifies other issues that might arise. While the definition is worded in terms of “cultivated for use,” many of the members of the class could be described as biological assets that, by their nature,
- (a) Have no alternative use as consumable biological assets (CBA) (Tea bushes might be an exception to this characterisation.), and
 - (b) Are no longer undergoing biological transformation.
11. The definition could be applied based on the characteristics of the asset alone, thus removing the need for judgements about business model and management intent. It also describes a group of assets for which accumulated cost can be determined and might be argued to be a relevant measurement attribute. The possible disadvantage lies in the class of assets defined, by exclusion, as CBA. As can be seen in the graphic on page 4 of the AOSSG paper, many assets characterised as CBA are held primarily for production. This is certainly true of many kinds of livestock. In the extreme case, described in paragraph 44, religious prohibitions may prevent some kinds of livestock from being consumed.
12. Expanding the scope to include livestock introduces measurement complexities, as outlined in the next section.

Issue three – measurement attribute

13. As mentioned earlier, the IASC took the view that fair value was the most relevant measurement attribute for assets that are undergoing biological transformation. Indeed, a cost accumulation model is difficult to envision for some biological

assets. What is the “historical cost” of a newborn calf or lamb? What would be the unit of account? Is it the individual plant or some larger aggregation, perhaps a field or a planting cycle? In this section, we would like the EEG to focus on the measurement attribute of biological assets at the end of biological transformation. In other words, the point at which the predominant characteristic of the asset changes from biological to productive. We take it as given that when the asset is placed in productive use it will not be remeasured, unless the entity elects the remeasurement model allowed in IAS 16.

14. The AOSSG paper proposes a cost accumulation model the same as is applied to other assets that fall in the scope of IAS 16. Given the proposed scope, this approach appears possible. We can see two alternative views on the issue.
15. ***View one. The asset should be measured at fair value until it is placed in service as a BBA.*** Those who hold this view would likely make two arguments. First, assets that are undergoing biological transformation are in a process for which accumulated cost is not a relevant measurement attribute. This is consistent with the principle underlying IAS 41 and the characteristics of the asset prior to the point at which it is placed into productive use. Second, fair value is the only obtainable measurement for livestock, should those assets be included in the scope of an amendment.
16. ***View two. The asset should be measured at accumulated cost during the period prior to being placed in service as a BBA.*** Those who hold this view would likely argue that BBA (as defined in the paper) will never be CBA. Given that, the process of biological transformation is no more relevant than the internal profit inherent in any self-manufactured asset. IAS 16 does not incorporate this internal profit in the measurement of a self-constructed manufacturing facility and, by analogy, biological transformation should not be measured either. Those who hold this view might also argue that the proposed scope is a practical, rather than a conceptual, distinction. If the scope remains as proposed, there is no need to consider the practical problems of determining a relevant cost for livestock.

Issue four – additional measurement guidance

17. IAS 16 deals with discrete things – a plant at a particular location or a vehicle with a particular serial number. Agricultural activity is often continuous. That is, older plants and animals are removed from service and replaced on a constant basis. If one accepts that some biological assets should be in the scope of IAS 16, then this continuous process must somehow be made discrete. Put more simply, what would the fixed-asset register look like? How would one determine residual value as required by IAS 16?
18. If we accept the scope as proposed by the AOSSG paper, some might argue that these questions need not be answered. IAS 16 provides limited guidance on the level of aggregation, although it does require component depreciation. We do not foresee component depreciation as an issue for BBA. If planting is managed in cycles, then a field or a particular year's planting might be an acceptable unit of account. A similar approach might be taken if the scope is expanded, perhaps looking to livestock placed in service during a particular year.

Issues for EEG discussion

19. At the May EEG meeting, we propose that the discussion follow the outline of this paper. That is, assuming a limited amendment to IAS 41:
 - (a) Should the Board proceed with a limited amendment, a comprehensive review, or not pursue any project?
 - (b) What should be the scope and definitions used in the amendment?
 - (c) What should be the measurement attribute of BBAs prior to being placed into production?
 - (d) Is there a need for additional measurement guidance?