STAFF PAPER

February 2013

IASB Meeting

Project	**IAS 41 *Agriculture*: Bearer Biological Assets (BBAs)**
Paper topic	Accounting for bearer biological assets (remaining issues)

CONTACT(S) Michelle Fisher mfisher@ifrs.org +44 (0)20 7246 6918

Purpose of this paper

1. This Agenda Paper 4A asks the International Accounting Standards Board (IASB) to discuss the remaining issues in the limited scope project on bearer biological assets (BBAs). Most of these issues were included in Appendix A to Agenda Paper 8B for the December 2012 IASB meeting.

Structure of this paper

2. This Agenda Paper 4A is set out as follows:
   - (a) Introduction
     - (i) Organisation of the issues
     - (ii) Why are we considering applying the requirements in IAS 16 *Property, Plant and Equipment* to BBAs?
   - (b) Part A: Requirements for BBAs
     - (i) Does the cost model in IAS 16 need to be modified for BBAs?
       - Issue (1) Unit of measure
       - Issue (2) Costs incurred before BBAs reach maturity (initial costs)

- Issue (3) Costs incurred after BBAs reach maturity (subsequent costs)
- Issue (4) Additional disclosure requirements

(ii) Issue (5) Whether the revaluation model should be permitted for BBAs

(iii) Issue (6) Whether BBAs should be in the scope of IAS 16 or IAS 41 *Agriculture*

(c) Part B: Requirements for the produce growing on the BBAs

(i) Do the requirements in IAS 41 need to be modified for the produce growing on the BBAs?

- Issue (7) Reliability exception for produce growing on the BBAs

(ii) Issue (8) Whether the produce growing on the BBAs should be in the scope of IAS 16 or IAS 41

(d) Part C: Transition requirements

(i) Issue (9) Transitional requirements for the amendments to IAS 16 and IAS 41

(ii) Issue (10) Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Introduction

3. At its December 2012 meeting, the IASB decided that the scope of the project should be restricted to plants used only in the production of agricultural produce (ie plants that have no alternative use other than as bearer assets). The IASB also discussed the two most significant issues on how a cost model would be applied to BBAs. These two issues were:

(a) How to account for the BBAs before they reach maturity? The IASB decided BBAs should be measured at accumulated cost.

(b) How to account for the produce growing on the BBAs? The IASB decided the produce should be measured at fair value though profit or loss.

Organisation of the issues

4. At this meeting the staff would like the IASB to discuss the remaining issues on how to apply a cost model to BBAs (Issues 1-4 in this Agenda Paper 4A). Staff suggest the IASB address these issues by first considering whether the cost model in IAS 16 would need to be modified to cater for BBAs. The staff would also like the IASB to discuss whether a revaluation model should be permitted for BBAs and, if so, whether the revaluation model in IAS 16 would need to be modified to cater for BBAs (Issue 5). Once the IASB has discussed whether the current requirements in IAS 16 would need to be modified for BBAs, it will be easier to make a decision on whether BBAs should be in the scope of IAS 16 or whether accounting requirements for BBA should be added to IAS 41 (Issue 6).

5. The staff suggest a similar approach is applied for the produce growing on the BBAs. At its December 2012 meeting the IASB decided the produce is essentially a consumable biological asset (CBA) growing on a BBA and should be measured at fair value through profit or loss. Therefore the staff suggest the IASB discuss whether the current requirements in IAS 41 would need to be modified to cater for the produce (Issue 7). After this discussion it will be easier for the IASB to make a decision on whether the produce should remain in IAS 41 or whether accounting requirements for the produce should be added to IAS 16 (Issue 8).

6. At this meeting the staff would also like the IASB to discuss transition requirements for the amendments to IAS 16 and IAS 41 (Issue 9) and also whether any amendment to IFRS 1 is appropriate (Issue 10).

7. This Agenda Paper 4A only covers the issues under this limited-scope project that staff believe have the potential to result in moderate to substantial modifications to IFRSs and, therefore, upon which the staff are seeking IASB guidance. There may be other minor consequential amendments to full IFRSs. For example staff have not included separate issues for IAS 23 *Borrowing Costs* and IAS 36

Impairment of Assets. Staff have reviewed both standards and think only minor consequential amendments are necessary to include BBAs in their scope. For example, in IAS 23, where reference is made to "physical construction" staff think it would be useful to add "or growth of a BBA before it reaches maturity". Such minor amendments can be reviewed by the IASB during drafting of the Exposure Draft.

8. Each of the ten issues in this paper is set out as follows:

   (a) Explanation of the issue.

   (b) Staff analysis, including relevant extracts from full IFRSs.

   (c) Staff recommendation.

   (d) Question seeking feedback from the IASB.

Why are we considering applying the requirements in IAS 16 to BBAs?

9. At the December 2012 IASB meeting the staff presented their recommendation and reasoning for accounting for BBAs under IAS 16 (see paragraphs 108-117 of Agenda Paper 8B for that meeting). Staff have provided a shorter summary in paragraphs 10-12 below.

10. BBAs meet the definition of property, plant and equipment (PPE). The use of mature BBAs to produce agricultural produce is similar to the use of machinery to manufacture goods. Therefore, the manner in which an entity derives economic benefits from BBA and PPE are very similar. The wearing out of the BBA is no different to plant, machinery and other wasting assets.

11. There is an assumption inherent in our Framework that accounting for similar assets in a similar way enhances the decision usefulness of the reported information (consistency helps to achieve comparability). Although BBAs are dissimilar in form to PPE, similarities in how they are used in the business provides support for accounting for them in the same way— in accordance with IAS 16.

12. The staff provided an example of a vineyard and winery. The winery building and grounds, fermentation facilities, bottling lines, crushers and barrels etc are

accounted for under IAS 16. The vines are assets used in a production process, albeit an important part of the process. However, they are no more important to that process than crushers and barrels. With that in mind, one can argue that all of the assets used in the process should be measured using the same measurement attribute. There does not seem to be a convincing reason to single out the grapevines for fair value measurement.

Part A: Requirements for BBAs

Introduction

13. Part A contains the remaining issues on how to apply a cost model to BBAs. It also covers use of a revaluation model for BBAs. In particular, the staff would like the IASB to discuss whether the current requirements in IAS 16 would need to be modified to cater for BBAs.

14. Part A only covers accounting and disclosure requirements for the bare BBAs. Part B covers accounting and disclosures requirements for the produce growing on the BBAs.

15. IAS 16 is already being applied to plants, albeit in rare cases (as explained in (a) and (b) below). Therefore staff think it is unlikely that the current requirements in IAS 16 would need to be modified significantly to cater for BBAs.

    (a) Plants that do not relate to agricultural activity are already in the scope of IAS 16. For example if a company constructs ornate gardens, recreational parks, etc, the plants that are part of those developments are currently accounted for under IAS 16. IAS 41 only covers biological assets when they relate to agricultural activity.

    (b) Furthermore if the presumption that fair value can be measured reliably for a biological asset is rebutted under IAS 41.30, entities are required to measure biological assets at cost less any accumulated depreciation and any accumulated impairment losses. If the presumption is rebutted, IAS 41.33 requires that “in determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2, IAS 16 and IAS 36 *Impairment of Assets*".

Issue 1: Unit of measure

Explanation of the issue

16. What is the unit of measure—is it the individual plant or some larger aggregation (perhaps a field or a planting cycle)?

17. Agricultural activity is often continuous, meaning that older plants are removed from service and replaced on a continual basis. If BBAs are accounted for under a cost model then this continuous process must be made discrete. Questions may arise, such as what the fixed-asset register would look like, how to assess impairment, and how to determine residual value.

Staff analysis

18. IAS 16.9 states the following about the unit of measure for PPE:

> 9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

19. IAS 16.43 and IAS 16.45 contain the main requirements for componentisation of PPE:

> 43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
>
> 45 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

20. **IAS 16.9:** IAS 16 does not prescribe the unit of measure, ie how individual items of PPE should be identified, and the extent to which such items can be aggregated and treated as a single item of PPE. Therefore, applying the recognition criteria to

BBAs would require judgement. If an entity has hundreds of fields containing thousands or millions of individual plants, the entity would need to perform some kind of aggregation. Under IAS 16.9 an entity would have flexibility to decide how to aggregate individual plants for the purpose of determining a single item of BBA (eg by field, by planting cycle, etc). No modification to IAS 16.9 seems necessary for BBAs.

21. **IAS 16.43, IAS 16.45:** IAS 16 is silent on what constitutes a part of an item of PPE. If an entity treats an aggregation of plants as a single item of BBA, management would need to apply judgement on what constitutes a part of that item in order to apply the depreciation, derecognition and impairment requirements in IAS 16. For example part of an item of BBA may be an area where all the crops are planted at the same time (in the same planting cycle) and the crops are of the same type—meaning they have the same useful lives or consumption patterns. Staff believe the requirements in IAS 16 are already sufficient to deal with an aggregation of plants as it is similar to the scenario where a company constructs a large number of moulds for use within its business (some aggregation of the moulds will be necessary). It is also similar to the scenario where a large company buys high quantities of PPE in batches, eg laptops or office chairs. Therefore, staff think IAS 16.43 and IAS 16.45 would prevent the situation where the unit of measure is an area of the plantation that is composed of plants with individually varying useful lives or consumption patterns. No modification seems necessary for BBAs.

Staff recommendation for Issue 1

22. The staff recommend that the requirements on the unit of measure in IAS 16 are applied to BBAs without modification.

Question for the IASB
1. Does the IASB agree with the staff recommendation that that the requirements on the unit of measure in IAS 16 can be applied to BBAs without modification?

Issue 2: Costs incurred before BBAs reach maturity (initial costs)

Explanation of the issue

23. At its December 2012 meeting, the IASB decided that before being placed into production (ie before they reach maturity and bear fruit), BBAs should be measured at accumulated cost in a similar way to self-constructed PPE. Is there sufficient guidance in IAS 16 on self-constructed assets to deal with accounting for the unique costs associated with planting and caring for the BBAs before they reach maturity?

24. Costs associated with planting and caring for immature BBAs include costs of land preparation, planting costs, nursing seedlings (and often running a nursery), costs of replanting in the field, thinning, pruning, weeding, fertilizing, irrigation, and costs of protecting the plants from animals, insects and other hazards, eg fire and weather.

Staff analysis

25. IAS 16.16-22 cover the requirements for the elements of the cost of PPE. The staff think the following paragraphs would be relevant to costs of planting and caring for immature BBAs:

> 16 The cost of an item of property, plant and equipment comprises:
>
> (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
>
> (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
>
> (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
>
> 17 Examples of directly attributable costs are:
>
> (a) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
>
> (b) costs of site preparation;
>
> (c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

19 Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganising part or all of an entity's operations.

22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IAS 2 *Inventories*). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IAS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment

26. The staff have not included IAS 16.18 and IAS 16.21 in paragraph 25 for the following reasons:

(a) IAS 16.18 covers obligations for dismantling, removing and restoring a site. This is equally applicable for BBAs and does not need to be considered for modification.

(b) IAS 16.21 addresses costs that are unlikely to arise for BBAs.

27. **IAS 16.16:** Most entities that use BBAs in the production of agricultural produce do not also sell BBAs in the normal course of business. Therefore, IAS 16.22 would only permit the costs in IAS 16.16 to be included in the cost of immature BBAs. Staff think that all of the costs listed in paragraph 24 are directly attributable costs. Therefore they would be capitalised until the BBA is in the location and condition necessary for it to be capable of operating in the manner intended by management (ie capable of bearing fruit). For example:

    (a) Direct material, eg seedlings and fertilizer, is covered by IAS 16.16(a).

    (b) Direct labour involved in preparing the land and planting/cultivating the immature BBAs is covered by IAS 16.16(b).

    (c) Costs of running the nursery would be covered by IAS 16.16(b) if they are unavoidable costs that are directly attributable to growing BBAs. Therefore, if the nursery is set up and only used to grow/protect BBAs, the costs of running the nursery would be directly attributable costs.

    (d) The nursery and any building structures set up to protect the BBAs are separate items of PPE.

    No modification to IAS 16.16 seems necessary for BBAs.

28. **IAS 16.22:** The following principles also apply in relation to self-constructed assets:

    (a) *Internal profits are eliminated*. This explains that biological transformation would not be reflected in the cost of the BBAs.

    (b) *Abnormal amounts of wasted material, labour or other resources are excluded.* A key difference between self-constructed PPE and immature BBAs is that there is a greater risk of failure of the BBAs before they are placed into production, ie many BBA will die before maturity. IAS 16.22 requires abnormal amounts of wasted material to be excluded. Where an aggregation of plants is considered an item of BBA, an entity would need to estimate the normal amount of wastage when determining the cost of the item (a normal mortality rate for immature BBAs).

(c) *Borrowing costs incurred during the period of production should be included if the self-constructed asset meets the definition of a qualifying asset*. BBAs meet the definition of a qualifying asset and so should be included in the scope of IAS 23.

No modification to IAS 16.22 seems necessary for BBAs.

29. **IAS 16.20:** BBAs are in the location and condition necessary to be capable of operating in the manner intended by management when they start to bear fruit. For BBAs "capable of operating in the manner intended" occurs at the same time as "is operating in the manner intended". This is different from non-living items of PPE which can be ready for use before they are actually used. Therefore application of IAS 16.20 to BBAs is straight-forward and no modification seems necessary.

30. **IAS 16.17, 16.19:** Although the examples in IAS 16.17 and IAS 16.19 are tailored towards non-living items of PPE, IAS 16.17(a),(b),(e) also directly cover costs of growing BBAs. Plus, IAS 16.6(c)(d) can be interpreted to mean planting/replanting (handling and installation) and protecting/nursing (assembly costs). Although it would be possible to add examples of the specific costs of growing BBAs, this is likely to be true of different kinds of self-constructed PPE. For example, for construction of a road "installation and assembly" would be better described as levelling, smoothing and laying of the road surface. No modification to IAS 16.17 and IAS 16.19 seems necessary for BBAs.

Staff recommendation for Issue 2

31. The staff recommend where reference is made to "self-constructed asset", this should be modified to read "self-constructed asset or bearer biological asset before it reaches maturity".

32. Apart from this minor change staff recommend that the requirements on elements of cost in IAS 16 are applied to BBAs without modification.

Question for the IASB

2. Does the IASB agree with the staff recommendation that the requirements on elements of cost in IAS 16 can be applied to BBAs without modification (except to add reference to "BBAs before it reaches maturity" as suggested in paragraph 31)?

Issue 3: Costs incurred after BBAs reach maturity (subsequent costs)

Explanation of the Issue

33. Is there sufficient guidance in IAS 16 to deal with accounting for the unique costs of caring for the mature BBAs? For example costs such as fertilizing, irrigation, protecting the plants from animals, insects and other hazards, eg fire and weather.

Staff analysis

34. IAS 16.7 and IAS 16.12-14 cover the requirements for subsequent costs incurred on PPE. The staff think the following paragraphs would be relevant to the costs of caring for the mature BBAs:

> 7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
>
> (a) it is probable that future economic benefits associated with the item will flow to the entity; and
>
> (b) the cost of the item can be measured reliably.
>
> 12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.
>
> 13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are

replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72).

35. The staff have not included IAS 16.14 in paragraph 34 as it covers requirements for regular major inspections of items of PPE for faults which are unlikely to be relevant for BBAs.

36. **IAS 16.7, IAS 16.12:** The staff think the costs listed in the last sentence of paragraph 34 would be costs of day-to-day servicing of the BBAs under IAS 16.12 and so would be recognised in profit or loss as incurred. No modification seems necessary for BBAs.

37. **IAS 16.13:** Staff does not think IAS 16.13 is likely to be relevant to BBAs. Where an aggregation of plants is considered as an item of BBA and some of the plants die (and are removed), this would be assessed under the impairment requirements. IAS 16.7 would apply to any new plants that are planted. Staff believe the impairment and derecognition requirements in IAS 16 are already sufficient to deal with an aggregation of plants because the situation is similar to a company constructing a large number of moulds for use within its business. Some of the moulds will become damaged (and may be replaced by new moulds. No modification seems necessary for BBAs.

Staff recommendation for Issue 3

38. The staff recommend that requirements on accounting for subsequent costs in IAS 16 are applied to BBAs without modification.

Question for the IASB
3. Does the IASB agree with the staff recommendation that requirements on accounting for subsequent costs in IAS 16 can be applied to BBAs without modification?

Issue 4: Additional disclosure requirements

Explanation of the issue

39. Do additional disclosures need to be added to those in IAS 16, or existing disclosures amended, for BBAs accounted for under a cost model?

Staff analysis

40. As explained in paragraph 14, Part A of this Agenda Paper 4A only considers the bare BBAs. Therefore Issue 4 only considers what disclosures should be required for the bare BBAs under a cost model. Part B of this Agenda Paper 4A considers the requirements for the produce which is measured at fair value.

41. IAS 16.73-79 cover the disclosure requirements for PPE:

> 73 The financial statements shall disclose, for each class of property, plant and equipment:
>
> (a) the measurement bases used for determining the gross carrying amount;
>
> (b) the depreciation methods used;
>
> (c) the useful lives or the depreciation rates used;
>
> (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
>
> (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
>
> (i) additions;
>
> (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
>
> (iii) acquisitions through business combinations;
>
> (iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with IAS 36;
>
> (v) impairment losses recognised in profit or loss in accordance with IAS 36;
>
> (vi) impairment losses reversed in profit or loss in accordance with IAS 36;
>
> (vii) depreciation;
>
> (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different

presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(ix) other changes.

74 The financial statements shall also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

76 In accordance with IAS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) useful lives; and

(d) depreciation methods.

78 In accordance with IAS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)–(vi).

79 Users of financial statements may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with IFRS 5; and

(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts

42. IAS 16.77 has been omitted from paragraph 41 as it is only required under the revaluation model in IAS 16. The revaluation model is covered in Issue 5 of this Agenda Paper 4A.

43. The staff have reviewed the disclosures in paragraph 41 and believe they can be applied to BBAs without modification. In paragraphs 44-46 the staff have reviewed the information currently required about BBAs which is not covered by the disclosures in paragraph 41. This will help the IASB determine whether additional disclosures are necessary.

44. IAS 41 requires fair value measurement of biological assets. Consequently, IFRS 13 *Fair Value Measurement* disclosure requirements will apply from 1 January 2013. Furthermore, there are no comparable disclosures in IAS 16 for IAS 41.40-41, IAS 41.46 and IAS 41.49(b)-(c):

40 An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.

41 An entity shall provide a description of each group of biological assets.

46 If not disclosed elsewhere in information published with the financial statements, an entity shall describe:

(a) the nature of its activities involving each group of biological assets; and

(b) non-financial measures or estimates of the physical quantities of:

(i) each group of the entity's biological assets at the end of the period; and

(ii) output of agricultural produce during the period.

49 An entity shall disclose:

(a) ….

(b) the amount of commitments for the development or acquisition of biological assets; and

(c) financial risk management strategies related to agricultural activity.

45. The staff do not think the following disclosures are relevant for BBAs:

(a) IAS 41.40 is not relevant under a cost model.

(b) IAS 41.41 and IAS 41.46(a) are unnecessary as BBAs are a narrowly defined group and their nature will be understood by the fact they are included in IAS 16.

(c) IAS 41.49(c) is relevant to the produce growing on the BBAs. Whether disclosure requirements in IAS 41 would need to be modified for the produce has been assessed in Part B this Agenda Paper 4A.

46. Based on the information currently required about BBAs under IAS 41 (see paragraph 44), the staff think the following requirements are potential candidates for additional disclosures for BBAs under the cost model:

(a) Disclosure of the fair value of the BBAs, including disclosures about valuation techniques and key assumptions used (based on IFRS 13).

(b) IAS 41.46(b) and IAS 41.49(b). IAS 41.49(b) could be incorporated in IAS 16.74(b) to make the requirements more relevant for BBAs by adding "the amount of contractual commitments for the acquisition <u>or development</u> of property, plant and equipment". Staff does not think this will make disclosures more onerous for PPE.

The IASB may also want to consider some of suggestions provided by investors and analysts in paragraph 48.

47. **Feedback from users of financial statements:** During user outreach, staff found that few analysts and investors find the current fair value information provided in accordance with IAS 41 useful. The main reasons given include:

(a) Information about operating performance and cash flows is more relevant to their forecasting and analysis. Therefore, they eliminate changes in the fair value of BBAs from the figures used for their analysis.

(b) There are concerns about the reliability of the fair value measurements of BBAs.

(c) Fair value information about BBAs on its own has limited use, eg for valuation of the business, because the land upon which the BBAs are growing, the structures used to support their growth and the agricultural machinery etc. are at cost.

48. Some analysts and investors told us they use information about yield, acreage, age of BBAs etc in their forecasting and analysis. This information is usually provided

in analyst presentations, at the front of the annual report (eg in management commentary) or otherwise received directly from the companies. The following is a more detailed list of information that investors and analysts told us would be useful under a cost model for BBAs. However, suggestions varied significantly between individuals:

(a) Recent transaction values of agricultural land, including BBAs, in the same region.

(b) Age profile and yield of the BBAs.

(c) Breakdown of major cost items for BBAs.

(d) Acreage under cultivation/ready for cultivation/owned.

(e) More detailed information on any impairment of the BBAs (eg what led to the impairment, how it was determined, etc.).

49. Agenda Paper 8C for the December 2012 IASB meeting contains more detail on the feedback received from users of financial statements of BBAs.

Staff recommendation for Issue 4

50. The staff think the same level of disclosures should be required for BBAs and PPE. The staff reasoning is the same as set out in Agenda Paper 8B for the December 2012 IASB meeting for accounting for BBAs in the same way as PPE (see paragraphs 9-12). There does not seem to be a convincing reason to single out the BBAs from the rest of the assets involved in the process of growing the produce (eg the land, soil, structures used to support the growth of the BBAs, and the machinery used to cultivate the BBAs) for fair value disclosure. Most of the users in our outreach told us they do not find the fair value information for BBAs useful in isolation from these other assets. If entities believe information about the fair value of BBAs, or other items of PPE, is useful to users of their financial statements they may do as additional disclosures. In particular, IAS 16.79(d) encourages entities applying a cost model to PPE to disclose the fair value of PPE when this is materially different from the carrying amount.

51. Although, in general, staff do not believe additional disclosures should be required for BBAs that are not required for PPE, staff suggest retaining IAS 41.46(b). It requires information similar to some of the suggestions in paragraph 48) and the information is likely to be readily available to entities. Plus it allows flexibility on what is disclosed. Therefore, staff do not think such a disclosure will be onerous for entities with BBAs.

52. To make the requirements more relevant for BBAs staff also suggest amending IAS 16.74(c) as follows "the amount of contractual commitments for the acquisition <u>or development</u> of property, plant and equipment". The staff also recommend where reference is made to "in the course of its construction", this should be modified to read "in the course of its construction <u>or period of growth before maturity</u>" (IAS 16.74(b)).

Question for the IASB
4. Does the IASB agree with the staff recommendation that the only modification to the disclosure requirements under the cost model in IAS 16 should be to add IAS 41.46(b) and modify IAS 16.74(b)-(c) as suggested in paragraph 52 (ie no disclosure of fair value information for BBAs)?

Issue 5: Whether the revaluation model should be permitted for BBAs

Explanation of the issue

53. Should the revaluation model in IAS 16 be permitted for BBAs?

54. Under IAS 16, entities are permitted to choose either the cost model or the revaluation model for each class of PPE. So far the staff have focused on measurement issues under the cost model in IAS 16, rather than under the revaluation model, for two reasons. Firstly, it is expected that the cost model will be the model preferred by most companies with BBAs. Secondly, any measurement issues under the revaluation model will already be issues under the fair value model in IAS 41.

Staff analysis

55. Staff have reviewed requirements for the revaluation model under IAS 16 and do not think the current requirements need to be modified to apply them to BBAs. The only minor change would be to add BBAs as an example of a separate class of PPE in IAS 16.37.

56. A revaluation model is only permitted for an item of PPE whose fair value can be measured reliably. In their responses to the IASB's Agenda Consultation some entities with BBAs have told us that valuations are subjective and unreliable. If this is the case, use of the revaluation model would be precluded.

57. IFRS 13 *Fair Value Measurement* is effective on 1 January 2013. The requirements in IFRS 13 are applicable to biological assets under IAS 41 and PPE under the revaluation model in IAS 16. Therefore, clearly no modification to IFRS 13 would be required if BBAs were accounted for under a revaluation model (because IFRS 13 requirements are considered appropriate for BBAs now under IAS 41).

58. The staff think entities are unlikely to choose the revaluation model for BBAs. It would only eliminate one of their concerns—namely, recognising the change in fair value in profit and loss. Entities also expressed concerns about the cost, subjectivity and complexity of measuring BBAs at fair value.

Staff recommendation for Issue 5

59. Staff think the same accounting policy options should be permitted for BBAs and PPE. The staff reasoning is the same as set out in Agenda Paper 8B for the December 2012 IASB meeting for accounting for BBAs in the same way as PPE (see paragraphs 9-12).

Question for the IASB
5. Does the IASB agree with the staff recommendation that the revaluation model should be permitted for BBAs and that the requirements under the revaluation model can be applied to BBAs without modification?

Issue 6: Whether BBAs should be in the scope of IAS 16 or IAS 41

Explanation of the issue

60. Should BBAs be in the scope of IAS 16 or IAS 41?

61. BBAs are dissimilar in form to PPE. Including BBAs in IAS 16 may require a number of conforming amendments to IAS 16, which may add complexity. An alternative is to include additional requirements for BBAs in IAS 41 and make reference to paragraphs in IAS 16 where necessary.

Staff analysis

62. Based on the staff analysis only minor modifications are necessary to the requirements for the cost model in IAS 16 to cater for BBAs. Issues 1-5 address the main areas that staff believe could result in modifications to cater for BBAs. Staff have also reviewed the parts of IAS 16 not covered by Issues 1-5, for example depreciation and derecognition, and do not think they need to be modified to cater for BBAs. Some of the examples in IAS 16 are tailored for non-living assets, eg the examples of factors to consider when determining useful life (IAS 16.56). However, staff think the principles in IAS 16 are clear and further examples specific to BBAs are unnecessary.

63. Staff think there is no need to change the title of IAS 16 as BBAs meet the current definition of PPE. Many assets currently in the scope of IAS 16 meet the definition of PPE but are not property, plant or equipment in the literal sense, eg boats and motor vehicles. Staff think the only modification required would be to change the current scope exclusion “biological assets related to agricultural activity” to “livestock and plants with consumable attributes when these assets relate to agricultural activity”.

64. An alternative approach would be to include additional requirements for BBAs in IAS 41, making reference to paragraphs in IAS 16 where necessary. However, if the IASB support the staff recommendations in Issues 1-5 virtually all of the paragraphs in IAS 16 would apply to BBAs. Furthermore, barely any of the paragraphs of IAS 41 would apply. Therefore, the staff does not think including

BBAs in IAS 41 because they are similar in form to other biological assets makes practical sense.

Staff recommendation for Issue 6

65. Based on the staff recommendations in Issues 1-5 only minor wording changes and one additional disclosure would be necessary if BBAs are included in IAS 16. Therefore staff recommend that BBAs should be in the scope of IAS 16.

Question for the IASB
6. Does the IASB agree that BBAs should be in the scope of IAS 16?

Part B: Requirements for the produce growing on the BBAs

Introduction

66. Part B covers accounting for the produce growing on the BBAs. At its December 2012 meeting the IASB decided the produce is essentially a consumable biological asset (CBA) growing on a BBA and should be measured at fair value through profit or loss. Therefore staff would like the IASB to discuss whether the current requirements in IAS 41 would need to be modified if they are applied to the produce separately. Currently the requirements in IAS 41 are applied to the total biological asset (ie the BBA plus the produce).

67. In December 2012 the IASB decided that produce growing in the ground, eg carrots and potatoes, and annual crops, eg maize and wheat, are CBAs and should remain under the fair value model in IAS 41. The requirements in IAS 41 are already applied to the produce growing in the ground. Therefore, it is unlikely those requirements would need to be modified significantly to cater for produce growing on a BBA. It would be difficult to justify different accounting requirements for apples growing on a tree and carrots growing in the ground.

Issue 7: Reliability exception for produce growing on the BBAs

Explanation of the issue

68. Is the current reliability exception in IAS 41.30 sufficient to deal with measurement of the produce growing on the BBAs or should further relief from fair value measurement be available?

69. Since the December 2012 IASB meeting, several plantation companies have told the staff that measuring the produce growing on the BBAs at fair value would be difficult to apply in practice. For example, it would require an estimation of the quantity of produce growing on the BBAs and the stages of development of the produce (which will differ across the plantation). Plus, even where active markets exist for the harvested produce (agricultural produce), it may be difficult to determine the fair value of the partially grown produce while it is still attached to the BBA. For example, the fair value measurement would need to consider the risk of failure before harvest because of disease, unfavourable climatic conditions (e.g. frosts in the case of a vineyard) and pests.

Staff discussion

70. IAS 41.30 contains a reliability exception for cases where the fair value of biological assets cannot be measured reliably on initial recognition. IAS 41.30:

> 30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* it is presumed that fair value can be measured reliably.

71. Staff think determining the cost of the produce could be more complex than determining its fair value less costs to sell. The costs of growing the produce are also the costs of the day-to-day servicing of the BBAs (see Issue 3 *Costs incurred*

after BBAs reach maturity). The day-to-day servicing costs, together with the depreciation charge on the BBAs, would need to be allocated to the produce on an inherently arbitrary basis. IAS 41.B43 states "The Board also noted that it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets". If this is true for agricultural produce, it will be true for the produce growing on the BBAs.

72. Therefore, considering the analysis in paragraph 71, IAS 41.10(c) may provide a further exemption for the produce (and is likely to be lower hurdle to meet than IAS 41.30): IAS 41.10:

> 10 An entity shall recognise a biological asset or agricultural produce when, and only when:
>
> (a) the entity controls the asset as a result of past events;
>
> (b) it is probable that future economic benefits associated with the asset will flow to the entity; and
>
> (c) the fair value or cost of the asset can be measured reliably.

73. If both the fair value and the cost of produce cannot be measured reliably the produce would not be recognised as an asset under IAS 41.10. "Reliably measurable" is a lower hurdle than "clearly unreliable" in IAS 41.30. However, IAS 41.10 requires both cost and fair value measurement to be considered.

74. Notwithstanding the above, the staff believe that the produce will only meet the reliability exceptions in IAS 41.10 or IAS 41.30 in rare cases. In particular, where there is an active market for the agricultural produce, the staff thinks the fair value of the growing produce can be measured reliably. Produce will only be growing on a BBA for a short period of time before it is harvested and so the valuation of produce will not involve forecasting over long time periods (eg market prices are unlikely to fluctuate significantly before sale, cash flow forecasts will only cover a short period of time, discounting may not be required, etc). Furthermore at each reporting date the produce is likely to be in a similar state of growth as the produce in the previous reporting period, meaning that historical experience can be used to improve valuations.

75. **Aside consideration:** The reliability exception in IAS 41.30 is stricter than exceptions in other IFRSs covering non-financial assets, but with no clear justification:

(a) IAS 16 only permits the revaluation model to be used for an item of PPE if its fair value can be measured reliably.

(b) IAS 38 *Intangible Assets* only allows the revaluation model to be used for intangible assets when fair value can be measured by reference to an active market.

(c) Under IAS 40 *Investment Property* fair value measurement is not required if there is clear evidence when an entity first acquires an investment property that the fair value of the investment property is not reliably measurable on a continuing basis. IAS 40 states this is when the market for comparable properties is inactive and alternative reliable measurements of fair value are not available.

(d) Under IAS 41 fair value measurement is not required only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. This is a higher hurdle than “cannot be measured reliably” in paragraphs 75(a) and (c).

Staff recommendation for Issue 7

76. The difficulties of measuring produce growing on the BBAs described in paragraph 69 are equally applicable to produce growing in the ground. Therefore, it would be inappropriate to provide additional relief for produce growing on a BBA. For this reason the staff recommend that the exception in IAS 41.30 is not modified for produce growing on BBAs.

77. **Aside consideration:** Staff acknowledge that this limited scope project is not intended to address the fair value model in IAS 41. However, staff recommend that the IASB consider the wording in IAS 41.30 as part of the Annual Improvement process. The term “clearly unreliable” is not used in any other IFRSs and it implies a much higher hurdle that “cannot be measured reliably”. The staff recommend providing a similar reliability exception as IAS 40. For example staff would suggest modifying the wording in IAS 41.30 as shown in underline:

30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which fair value cannot be measured reliably using alternative fair value measurements. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

Question for the IASB

7. Does the IASB agree with the staff recommendation that the reliability exception in IAS 41.30 should not be modified for produce growing on BBAs (unless it is modified for all biological assets in IAS 41)?

Issue 8: Whether the produce growing on the BBAs should be in the scope of IAS 16 or IAS 41

Explanation of the issue

78. Should the produce growing on the BBAs be in the scope of IAS 16 or IAS 41?

Staff analysis

79. Based on the staff analysis no modifications are necessary to the requirements in IAS 41 to apply them to the produce growing on the BBAs. Issue 7 addresses the main area that staff believe could result in modifications to cater for the produce. Staff have reviewed the remainder of IAS 41 and think the current requirements for biological assets are suitable for the produce without modification. Staff think the only change required would be to ensure the produce growing on the BBAs is included in the definition of a biological asset. The definition could be modified as follows:

- A *biological asset* is a living animal or plant, including produce growing on a bearer biological asset.

80. If the IASB support the staff recommendation in Issue 7, virtually all of the paragraphs in IAS 41 would apply to the produce. Furthermore, none of the paragraphs of IAS 16 would apply. Therefore, it would make practical sense to include the produce in IAS 41.

81. An alternative approach would be to include the produce growing on the BBA in IAS 16 (together with the bare BBAs) and make reference to paragraphs in IAS 41 where necessary. This would prevent possible confusion arising from accounting for one piece of the biological asset under IAS 16 and the other piece under IAS 41.

Staff recommendation for Issue 8

82. The staff think that apart from changing the definition of a biological asset, no modifications are necessary to the requirements in IAS 41 to apply them to the produce growing on the BBA. Therefore staff recommend that the produce remains within the scope of IAS 41.

83. To avoid confusion staff recommend explaining within IAS 16 that the produce growing on the BBAs is accounted for under IAS 41. For example, IAS 41 has such a reference for agricultural produce, which is within the scope of IAS 2 *Inventories* after the point of harvest.

Question for the IASB
8. Does the IASB agree that the produce growing on the BBAs should be included in the scope of IAS 41?

Part C: Transition requirements

Issue 9: Transition requirements for the amendments to IAS 16 and IAS 41

Explanation of the issue

84. Should the transition requirements for the amendments to IAS 16 and IAS 41 provide relief from retrospective application?

85. Some BBAs have long life cycles, eg 25 years for palm oil trees and 30 years for rubber trees. If an entity currently measures its BBAs at fair value and has not previously collected cost information, collecting or estimating the historic cost of those BBAs may be costly (may require looking back several decades).

Staff analysis

86. Unless specific transition requirements are provided for the amendments to IAS 16 and IAS 41, changes would need to be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change (IAS 8.23).

87. Staff do not think that relief from retrospective application is necessary for the produce growing on the BBAs. Normally produce only grows on the BBAs for a short period of time before it is harvested. Therefore, retrospective application of the fair value requirements to the produce is unlikely to be costly or difficult.

88. In contrast, staff think relief from retrospective application of the cost model should be provided for BBAs for the reasons given in paragraph 85. Determining the historical cost of the BBAs may be very costly and time consuming. Furthermore, reconstructed cost data might be less relevant to users, and less reliable, than current fair value data. Therefore, for cost benefits reasons the staff think entities should be permitted to use fair value as deemed cost. Staff think an entity should be able to elect to measure its BBAs at fair value at the beginning of the earliest period for which that entity presents full comparative information under IFRSs. For simplification, staff think the fair value of BBAs could be measured by subtracting the fair value of the produce from the total fair value of

the biological assets. The fair value of the biological assets will be readily available to all entities at the beginning of the earliest comparative period (because IAS 41 would have been applied to that period).

89. The staff further believes the election should be available to BBAs on an item by item basis (see discussion in Issue 1 on what constitutes an item of BBA). IFRS 1 *First Time Adoption of IFRSs* permits fair value to be used as deemed cost on an item by item basis for PPE. IFRS 1.BC45 explains the Board's reasoning for permitting the exemption to be applied on an item by item basis to PPE. The staff think the same reasoning is valid for the amendments to IAS 16 and IAS 41 for BBAs:

> BC45 Under the revaluation model in IAS 16 *Property, Plant and Equipment*, if an entity revalues an asset, it must revalue all assets in that class. This restriction prevents selective revaluation of only those assets whose revaluation would lead to a particular result. Some suggested a similar restriction on the use of fair value as deemed cost. However, IAS 36 *Impairment of Assets* requires an impairment test if there is any indication that an asset is impaired. Thus, if an entity uses fair value as deemed cost for assets whose fair value is above cost, it cannot ignore indications that the recoverable amount of other assets may have fallen below their carrying amount. Therefore, the IFRS does not restrict the use of fair value as deemed cost to entire classes of asset.

90. Staff suggest amendments to IAS 16 and IAS 41 should be available for early adoption. In particular, this would benefit Malaysia where adoption of full IFRSs for agricultural entities has been delayed pending this limited scope project.

Staff recommendation for Issue 9

91. Staff recommend that the amendments to IAS 16 should permit use of fair value as deemed cost for items of BBAs at the start of the earliest comparative period to avoid the need to reconstruct cost information. Staff further recommend that the amendments to IAS 16 and IAS 41 should be available for early adoption.

Question for the IASB
9. Does the IASB agree with the staff recommendation that the amendments to IAS 16 should permit use of fair value as deemed cost for items of BBAs at the start of the earliest comparative period and that the amendments to IAS 16 and IAS 41 should be available for early adoption?

Issue 10: Amendments to IFRS 1

Explanation of the issue

92. Should a deemed cost exemption be available for BBAs on first time adoption of IFRSs?

93. The staff has been made aware that a number of agricultural entities in Malaysia are applying a capital maintenance method to account for BBA. Under this method, initial planting cost are capitalised and depreciation of those costs is not required provided the entity has a replanting program and future replanting costs are expensed. Therefore determining the historical cost in accordance with IAS 16 may be costly and could require looking back several decades.

Staff analysis

94. IFRS 1.D5-D8B cover the deemed cost exemption permitted for certain assets under IFRS 1. The staff think the following paragraphs may be relevant to BBAs:

> D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.
>
> D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
>
> (a) fair value; or
>
> (b) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index.
>
> D7 The elections in paragraphs D5 and D6 are also available for:
>
> (a) investment property, if an entity elects to use the cost model in IAS 40 *Investment Property*; and
>
> (b) intangible assets that meet:
>
> (i) the recognition criteria in IAS 38 (including reliable measurement of original cost); and
>
> (ii) the criteria in IAS 38 for revaluation (including the existence of an active market).
>
> An entity shall not use these elections for other assets or for liabilities.
>
> D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at

their fair value at one particular date because of an event such as a privatisation or initial public offering.

(a) If the measurement date is *at or before* the date of transition to IFRSs, the entity may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement.

(b) If the measurement date is *after* the date of transition to IFRSs, but during the period covered by the first IFRS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. At the date of transition to IFRSs, the entity shall either establish the deemed cost by applying the criteria in paragraphs D5–D7 or measure assets and liabilities in accordance with the other requirements in this IFRS.

D8A Under some national accounting requirements exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to IFRSs on the following basis:

(a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and

(b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to IFRSs in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* or IAS 36 respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

95. The staff have not included IFRS 1.D8B as it covers operations subject to rate regulation.

96. Based on IFRS1.D5-D8B the staff think the following are potential candidates for exemptions for BBAs:

(a) An entity may elect to measure an item of BBA at its fair value at the date of transition to IFRSs. The fair value will be its deemed cost at that date.

(b) An entity may elect to measure an item of BBA at a previous GAAP revaluation at, or before, the date of transition to IFRSs. The GAAP revaluation amount will be its deemed cost at the date of the revaluation. This election is only permitted if the revaluation was, at the date of the revaluation, broadly comparable to:

(i) fair value; or

(ii) cost or depreciated cost in accordance with IFRSs, adjusted to reflect, for example, changes in a general or specific price index.

(c) An entity may elect to measure BBAs at the date of transition at the amount determined under the entity's previous GAAP subject to an impairment test under IAS 36 *Impairment of Assets* at that date.

97. The deemed cost exemptions described in paragraph 96(a) and (b) are available to items of PPE on first time adoption of IFRSs. The staff think it would be appropriate to permit the same exemptions for items of BBAs.

98. The exemption in paragraph 96(c) is a special exemption for oil and gas entities that account for exploration and development costs in cost centres that include all properties in a large geographical area. It does not apply to all oil and gas entities, for example those that use a unit of account that is generally consistent with IFRSs. Although the exemption in paragraph 96(c) would provide relief from restatement for entities applying the capital maintenance method described in paragraph 93, staff does not think it is suitable for BBAs. Permitting such an exemption would mean that the deemed cost figure would be an amount comprising cost information dating back many years which has not been subject to depreciation and bears no resemblance to cost or fair value measurements under IFRSs. Staff also note that the situation in paragraph 93 could equally arise for items of PPE where local GAAP permits a similar capital maintenance method approach. IFRS 1 does not permit the exemption in paragraph 96(c) for PPE and staff does not believe an exception should be made for BBAs.

Staff recommendation for Issue 10

99. The staff think the deemed cost exemptions available for PPE on first time adoption should also be available for items of BBAs. The staff reasoning is the

same as set out in Agenda Paper 8B for the December 2012 IASB meeting for accounting for BBAs in the same way as PPE (see paragraphs 9-12).

Question for the IASB
10. Does the IASB agree with the staff recommendation that the deemed cost exemptions available for PPE on first time adoption should also be available for items of BBAs?