IFRS

STAFF PAPER

March 2017

IFRS® Interpretations Committee Meeting

Project	**New items for initial consideration**		
Paper topic	IAS 41 *Agriculture*— Fair value of biological assets growing on bearer plants		
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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify whether, in applying IAS 41 *Agriculture*, there are circumstances in which an entity cannot reliably measure the fair value of growing produce.

2. The objective of this paper is to:

    (a) provide the Committee with a summary of the request;

    (b) present the staff's research and analysis; and

    (c) ask the Committee whether it agrees with the staff recommendation not to add the issue to its agenda.

Structure of the paper

3. This paper includes:

    (a) background information;

    (b) summary of outreach and research;

    (c) findings from outreach and research;

    (d) staff analysis; and

    (e) staff recommendation, having considered the Committee's agenda criteria.

4. There are 3 appendices to the paper:

   (a) Appendix A—proposed wording of the tentative agenda decision;

   (b) Appendix B—the submission; and

   (c) Appendix C—summary of research.

Background information

5. IAS 41 applies to biological assets and agricultural produce. It generally requires an entity to measure agricultural assets within its scope at fair value.

6. In June 2014, the Board issued amendments to IAS 41 (the amendments) effective for periods beginning on or after 1 January 2016, with earlier application permitted.

7. The amendments introduced a concept of 'bearer plants'. Paragraph 5 of IAS 41 defines a bearer plant as:

   > … a living plant that:
   >
   > (a) is used in the production or supply of agricultural produce;
   >
   > (b) is expected to bear produce for more than one period; and
   >
   > (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

8. Paragraph 4 of IAS 41 includes as examples of bearer plants: palm oil trees, rubber trees and tea bushes.

9. Before the amendments, paragraph 12 of IAS 41 required an entity to generally measure bearer plants (including the produce growing on the plants) at fair value less costs to sell (fair value). The amendments removed bearer plants from the scope of IAS 41—instead, an entity accounts for bearer plants applying IAS 16 *Property, Plant and Equipment*. The produce growing on bearer plants remains within the scope of IAS 41. Accordingly, applying paragraph 12 of IAS 41, an entity generally measures the produce at fair value.

10. At the time the Board developed the amendments, a number of respondents expressed concern about measuring the produce growing on bearer plants at fair value. These respondents highlighted possible difficulties in determining a reliable fair value for that growing produce.

11. The Board acknowledged, in paragraph BC4C of IAS 41, that measuring produce growing on bearer plants at fair value might sometimes be difficult to apply in practice. However, it noted this might also be the case for produce growing in the ground. The Board decided not to provide additional relief from fair value measurement for produce growing on bearer plants that is not available for other biological assets. The Board observed that if an entity encounters significant practical difficulties on initial measurement of the produce, it should consider whether the requirements in paragraphs 10(c) and 30 of IAS 41 are met[1].

12. The Board also noted, in paragraph BC4E of IAS 41, that because of the specialised nature and diversity of bearer plants and produce, it would be too difficult for the Board to develop additional guidance on measuring the fair value of produce.

The requirements in IFRS Standards

13. Paragraph 5C of IAS 41 specifically says that the produce growing on bearer plants is a biological asset. Paragraph 10 of IAS 41 requires an entity to recognise a biological asset 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.

14. Paragraph 12 of IAS 41 requires an entity to measure biological assets on initial recognition and at the end of each reporting period at fair value less costs to sell, unless paragraph 30 of IAS 41 applies.

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[1] Paragraphs 10(c) and 30 of IAS 41 refer to reliable measurement of the asset—the requirements in those paragraphs are described in paragraphs 13 and 15 of the paper.

15. Paragraph 30 of IAS 41 provides a rebuttable presumption that an entity can reliably measure biological assets at fair value. An entity can rebut the presumption only on initial recognition when there is no quoted market for the asset and alternative fair value measurements are determined to be 'clearly unreliable'.

16. Paragraph 15 of IAS 41 allows an entity to group biological assets according to their significant attributes in order to determine a fair value.

The submitter's request

17. The submission is reproduced in Appendix B to this paper. The submitter asks two main questions:

    (a) does the Committee expect there to be circumstances in which an entity cannot reliably measure the fair value of growing produce (and thus, applying paragraph 30 of IAS 41, the entity rebuts the presumption that it can reliably measure fair value (the fair value presumption))?

    (b) is the palm oil industry an example of where there are 'significant practical difficulties' referred to by the Board in paragraph BC4C of IAS 41 (and thus it might be appropriate for an entity producing palm oil to rebut the fair value presumption for oil palm fruits growing on oil palms)?

Summary of outreach and research

Outreach request

18. To gather information about the circumstance described in the submission, we sent requests to securities regulators, members of the International Forum of Accounting Standard-Setters (IFASS) and the large accounting firms.

19. The request asked respondents to provide information, based on their experience, of the following:

    (a) whether any entities applying the amendments to IAS 41 have rebutted the fair value presumption for oil palm fresh fruit bunches (FFB) and, if so, the reasons given by the entity. If entities measure FFB at fair value, how did those entities determine a reliable fair value measure?

(b) whether any entities in industries other than palm oil have rebutted the fair value presumption for biological assets (both before and after application of the amendments).

(c) whether any entities have rebutted the fair value presumption for investment property applying paragraph 53 of IAS 40 *Investment Property* and, if so, the reasons given by the entity.

20. We received 12 responses from:

- one Committee member;
- three national standard-setters;
- two organisations representing groups of regulators; and
- six of the large accounting firms.

21. The views received represent informal opinions and do not reflect the official views of those respondents or their organisations.

Staff research

22. In addition to the outreach above, we conducted research to identify how entities in the palm oil and other agricultural industries apply the requirements in IAS 41. Details of this research are outlined in Appendix C to this paper.

Findings from outreach and research

Palm oil industry

23. Outreach respondents and the findings from our research identified that the majority of entities in the palm oil industry operate in Malaysia and Indonesia, the location of

the world's major oil palm plantations[2]. Agricultural entities in both countries are not required to apply the equivalent of IAS 41 until reporting periods beginning on or after 1 January 2018. In addition, the amendments to IAS 41 regarding bearer plants are effective on 1 January 2016. Consequently, limited information is available at this time on the practical implications of the amendments.

24. Respondents said a majority of palm oil entities applying the amendments measure FFB at fair value. They do so using a discounted cash flow valuation method. This method involves estimating (a) the number of fruits on oil palms at the period end, (b) the volume of oil each fruit will produce, (c) expected future prices for harvested palm oil, and (d) expected harvesting costs. This is consistent with the findings from our research summarised in Appendix C to the paper.

25. Entities that have not measured FFB at fair value (and explain why) say that the reason for doing so relates to uncertainties about the appropriate inputs to a fair value measure. These uncertainties include:

    (a) the appropriate point in the growth cycle of FFB at which to separately recognise and measure the produce—ie when should an entity consider FFB to exist separately from oil palms on which they are growing? For example, do FFB exist separately when the FFB are visible, first have oil-bearing fibre or another specified point in the growth cycle when it is probable that the FFB will be harvested? As a consequence, there are differing views about when to initially recognise and measure the produce;

    (b) how to estimate the number and weight of FFB; and

    (c) the extent to which an entity can allocate costs associated with the development of the fruit and maintenance of the plants to the plant or the produce.

26. In addition, some respondents said that a few entities have measured FFB at cost in the early stage of the growth cycle. These entities typically measure FFB at fair value in later stages of the growth cycle when sufficient biological development has taken

[2] Palm oil plantations of entities listed in other countries, for example in the UK and Belgium, are also typically located in Malaysia or Indonesia.

place. This is consistent with paragraph 24 of IAS 41, which says that 'cost may sometimes approximate fair value, particularly when little biological transformation has taken place since cost incurrence…'.

Other agricultural entities

27. The findings from our outreach and research indicate that the rebuttable presumption in paragraph 30 of IAS 41 is considered to be a high hurdle. There are very few agricultural entities that rebut the fair value presumption. In our research, 13 of the 15 non-palm oil entities applying the amendments to IAS 41 measure produce on bearer plants at fair value.

28. The outreach responses and research also indicate that entities rebutting the fair value presumption appear to do so mainly because there is no active market for the biological asset. Some entities use cost to approximate fair value when the biological asset is in the very early stages of the growth cycle, in line with the requirements in paragraph 24 of IAS 41.

29. In January 2017[3], the Board discussed the findings from phase 1 of the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*. Some of the identified issues relate to agricultural entities, and include difficulties in determining fair value for some agricultural produce. We reviewed the information obtained to date on the PIR of IFRS 13, and note that these difficulties generally arise when there is no active market for growing produce.

30. At its January 2017 meeting, the Board decided to further explore the need for education material on the fair value measurement of biological assets.

31. In addition, as part of the PIR of IFRS 13, some stakeholders said that IFRS Standards do not provide sufficient information on how an entity assesses the reliability of fair value measures. This issue is outside of the scope of the PIR of IFRS 13.

[3] Agenda Paper 7C

Investment property

32. Respondents said it was extremely rare for an entity to rebut the presumption that it can reliably measure the fair value of investment property. The only exception cited by respondents is investment property in the very early stage of construction, particularly in developing countries.

Staff Analysis

Question 1—does the Committee expect there to be circumstances in which an entity cannot reliably measure the fair value of growing produce?

33. The existence of the rebuttable presumption in paragraph 30 of IAS 41 indicates that the Board expected there to be some cases in which an entity might not be able to reliably measure the fair value of biological assets. Paragraphs B19-B21 of IAS 41 explains the Board's thinking, specifically B20 says:

> The Board decided there was a need to include a reliability exception for cases where market-determined prices or values are not available and alternative estimates of fair values are determined to be clearly unreliable.

34. When developing the amendments to IAS 41, the Board considered the fair value measurement of produce growing on bearer plants[4]. The Board decided not to provide additional relief from fair value measurement for produce growing on bearer plants that is not available for other biological assets. In doing so, the Board acknowledged that measuring growing produce at fair value might sometimes be difficult. However, the Board concluded that produce growing on bearer plants is not unique in this respect, noting that it might also be difficult to measure produce growing in the ground at fair value. This implies that the Board did not expect it to be more difficult to measure produce growing on bearer plants than it is for at least some other biological assets.

[4] See Paragraph BC4B-BC4E of IAS 41.

35. Paragraph BC4C of IAS 41 includes the Board's observation that if an entity encounters significant practical difficulties on initial measurement of produce growing on bearer plants, it should then consider whether the requirements in paragraphs 10(c) and 30 of IAS 41 (relating to reliably measuring the asset) are met.

36. In addition, before the amendments to IAS 41, most entities measured bearer plants, together with the produce growing on them, at fair value.

Staff conclusion

37. Having considered the Board's previous discussions, we are of the view that there are circumstances, albeit rare, in which an entity might rebut the fair value presumption in IAS 41 for produce growing on bearer plants.

38. Those circumstances arise only when quoted market prices are not available and an entity determines that alternative fair value measurements are clearly unreliable. In our view, the reference to 'clearly unreliable' in paragraph 30 of IAS 41 indicates that an entity needs to demonstrate that any fair value measurement is unreliable. In addition, paragraph BC4C of IFRS 41 suggests that when developing the amendments to IAS 41, the Board's expectation was that the fair value measurement of produce growing on bearer plants might be clearly unreliable only when an entity encounters significant practical difficulties. We note that if an entity encounters significant practical difficulties this does not automatically mean that any fair value measurement of produce is clearly unreliable—the Board observed that, in this situation, an entity should consider whether it is.

39. We think that the findings from outreach and research described in paragraphs 23-31 of this paper support our view—ie a majority of entities applying the amendments to IAS 41 measure biological assets (including produce growing on bearer plants) at fair value, indicating that they can do so reliably.

Question 2— is the palm oil industry an example of where there are 'significant practical difficulties' referred to by the Board in paragraph BC4C of IAS 41?

40. As described in paragraphs 23-24 of this paper, the findings from outreach and research indicate that, in practice, a majority of palm oil entities have concluded they are able to reliably measure FFB growing on oil palms at fair value.

41. Nonetheless, a few entities have not reached this conclusion (as described in paragraph 25 and in paragraphs C3-C6 of Appendix C). In their financial statements, two entities cite materiality as at least part of the reason for not doing so. Other entities and outreach respondents refer to fair value measurements being clearly unreliable—in particular, some referred to difficulties in determining when to recognise and measure FFB separately from the bearer plant (the oil palms). We understand that there are differing views on this matter—some recognise and measure FFB when they first appear on the plant (between 8 and 9 months before harvest), some when FFB becomes sufficiently mature for it to be probable that they will be harvested (typically around 4 months before harvest), and some when the oil begins to develop in the fruits (around a month before harvest, although some might determine this to be a shorter period). We also understand that differences in the point in the growth cycle of initial recognition and measurement can have a material effect (although we note that our research also suggests that the value of FFB is small relative to the carrying amount of the underlying oil palm plantations that entities now account for applying IAS 16).

42. On a related point, in considering the reliability of fair value measurements, we also note that paragraphs QC6-QC18 of the *Conceptual Framework* discuss relevance and faithful representation. Paragraph QC16 says the following, referring to an estimate of the amount by which an asset is impaired, which is being used as an example in paragraph QC16:

> ...That estimate can be a faithful representation if the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, if the level of uncertainty in such an estimate is sufficiently large, that estimate will not be particularly useful. In other words, the

> relevance of the asset being faithfully represented is questionable. If there is no alternative representation that is more faithful, that estimate may provide the best available information.

43. We therefore think that in assessing whether it can reliably measure the fair value of growing produce, an entity considers whether the measurement is relevant and provides a faithful representation.

44. We also note that an entity is required to measure palm oil fruit at fair value at the point of harvest. Paragraph 32 of IAS 41 says 'in all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably'.

Staff conclusion

45. Our findings suggest that palm oil entities are able to determine a fair value measure for FFB using a discounted cash flow method on the basis of supportable assumptions. The concern is more that possible differences in what might all be considered to be supportable assumptions could result in materially different valuations. In our view, this does not constitute 'significant practical difficulties' as referred to by the Board in paragraph BC4C. We also think this would not generally result in fair value measurements that are clearly unreliable. We would anticipate that there are other assets measured at fair value for which similar arguments might be made—for example, investment property in unusual locations or that has unique characteristics or use.

46. In saying that, we think it is not the role of the Committee to provide answers to very specific application questions for particular industries. In addition, neither the Board nor the Committee is a body expert in the valuation of FFB. For this reason, it is difficult for the Committee to reach conclusions specifically about the fair value measurement of FFB growing on oil palms.

47. We observe that the Board will explore the need for education material on measuring the fair value of biological assets as part of the PIR of IFRS 13. We also observe that

a majority of agricultural entities already measure FFB at fair value. We therefore think it may be possible for the industry to develop, or be involved in developing, standard valuation guidance for FFB.

Staff recommendation, having considered the Committee's agenda criteria

48. On the basis of our analysis, we think that the requirements in existing IFRS Standards provide an adequate basis for an entity to account for growing produce on bearer plants, including FFB growing on oil palms.

49. The Standards say all of the following:

    (a) Produce growing on bearer plants (of which FFB are an example) is a biological asset—paragraphs 4 and 5 of IAS 41. Accordingly, an entity accounts for that growing produce applying IAS 41.

    (b) An entity measures FFB on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when fair value cannot be measured reliably (paragraph 12 of IAS 41).

    (c) IFRS 13 includes requirements on fair value measurement. In addition, paragraphs 15-25 of IAS 41 provide requirements addressing fair value measurement specific to biological assets. For example, paragraph 15 addresses the grouping of biological assets by significant attribute, paragraph 24 when cost might sometimes approximate fair value and paragraph 25 the use of a residual method when valuing biological assets attached to land.

    (d) Paragraph 30 of IAS 41 explains that an entity can rebut the fair value presumption for biological assets only on initial recognition when market prices are not available and the entity determines that alternative fair value measurements are clearly unreliable.

50. Judgement is required in assessing whether fair value measurements are clearly unreliable applying paragraph 30 of IAS 41. Paragraphs QC6-QC18 of the

Conceptual Framework discusses the relevance and faithful presentation of information, which we think is helpful in this respect.

51. We think the submitter is not asking for clarity on how to read the requirements or on which requirements to apply. Instead, the submitter is asking the Committee for clarity on how a particular industry sector applies the requirements in paragraph 30 of IAS 41 in assessing whether fair value measurements are clearly unreliable. As noted earlier in the paper, we think it is not the role of the Committee to provide answers to very specific application questions, particularly when those questions relate to assessments that require the application of judgement.

52. On the basis of our assessment of the Committee's agenda criteria, we recommend that the Committee does not add this issue to its agenda. Appendix A to this paper outlines the proposed wording of the tentative agenda decision.

Questions for the Committee

1. Does the Committee agree with the staff recommendation not to add this issue to its agenda?
2. Does the Committee have any comments on the proposed wording of the tentative agenda decision outlined in Appendix A to this paper?

Appendix A

Proposed wording of the tentative agenda decision

IAS 41 *Agriculture*—Fair value of biological assets growing on bearer plants

The IFRS Interpretations Committee (the Committee) received a request about the fair value measurement of produce growing on bearer plants. More specifically, the request asked whether the Committee considers the palm oil industry, and in particular fruit growing on oil palms, to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41 *Agriculture*.

Paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for that growing produce applying IAS 41. Paragraph 12 of IAS 41 requires an entity to measure biological assets on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when fair value cannot be measured reliably.

Paragraph 30 of IAS 41 contains 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.

The Committee observed that the request in the submission appears to ask the Committee to conclude upon whether fair value measurements for a particular type of growing produce are clearly unreliable. Assessing the reliability of fair value measurements requires an entity to apply judgement, considering the relevance and faithful representation of information. The Committee determined that its role is not to conclude upon very specific application questions, particularly when they relate to the application of the judgements required in applying IFRS Standards. Consequently, the Committee [decided] not to add this issue to its agenda.

Appendix B
Submission

B1. The submission is reproduced below. We have deleted details that would identify the submitter of this request.

IFRS INTERPRETATIONS COMMITTEE POTENTIAL AGENDA ITEM REQUEST

The issue:

The IASB issued amendments to IAS 41 “Agriculture” in June 2014, with a requirement for preparers of accounts to adopt the amendments to the standards from periods beginning on or after 1 January 2016, although early adoption was permitted. Some preparers have early adopted in their 31 December 2015 annual accounts, and already there are indications of uncertainty and divergent treatment over application of the amendments relating to the valuation of produce growing on bearer plants, in particular for companies within the oil-palm sector.

The questions that need to be addressed are:

> Does the IFRS IC expect there to be instances where growing produce is not included at fair value (because of the provisos of IAS41:10c and IAS41:30) or would the IFRS IC expect that it will be possible to formulate a reliable estimate for the fair value of growing produce in all cases?
>
> To what extent is the valuation of growing produce in the oil-palm industry a good example of a situation indicative of the “significant practical difficulties” referred to in paragraph BC4C of the basis for conclusions to IAS 41, and also an example of “clearly unreliable” within IAS41:30?

In determining the reliability of an estimate of fair value, IAS41:30 states that the presumption of fair value should only be rebutted when fair value measurements are determined to be “clearly unreliable”. Is the IFRS IC able to provide any guidance on whether the requirements of IAS41:30 concerning “clearly unreliable” are different in any way to the requirements of IAS41:10c relating to recognising a biological asset “when, and only when … the fair value or cost of the asset can be measured reliably”?

Current practice:

Focusing on the oil-palm sector, based upon the evidence from early adopters of the new standard, there already appears to be divergent practice relating to the amended standard. In addition, from public comments made by companies yet to adopt the amended standard, there appears to be a lack of certainty and a need for clarification.

…

<u>Current guidance</u>

Companies are required to measure their biological assets at fair value less costs to sell (IAS 41:12). Prior to the June 2014 updates to the standard, bearer biological assets were included within the scope of IAS 41 and so assets such as tea bushes, grape vines, oil palms and rubber trees should have been measured by preparers in accordance with the requirements of IAS 41.

A fair value measurement of bearer plants would have included both the plant itself as well as any growing produce not yet harvested from the plant, and as a result it was not necessary to treat the two separately. As per the requirements of the standard, the agricultural produce was only measured separately at the point of harvest (IAS41:13).

The June 2014 updates to IAS 41 changed its scope, and determined that bearer plants were outside the scope of IAS 41 and were to be covered by IAS 16 (IAS41:1a, IAS41:2b). However, the amendments to the standard went on to clarify that produce growing on bearer plants is a biological asset (IAS41:5C).

The result of the amendments is, therefore, that in the case of bearer plants, unharvested growing produce should be measured in accordance with the fair value requirements of the standard. So, for the first time under the revised standard, it is necessary to separate the plant and the produce growing on that plant and treat the two linked assets under separate standards – IAS 16 and IAS 41.

The standard does provide some further guidance regarding measurement, stating the following:

- An entity should recognise a biological asset “when, and only when … the fair value … can be measured reliably” (IAS41:10c); and
- There is a presumption that fair value can be measured reliably for a biological asset. However, this presumption can be rebutted 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. (IAS41:30).

The basis for conclusions to the 2014 amendments to IAS 41 provides some commentary on measuring growing produce on bearer plants, and notes that there may be some practical difficulties arising in determining fair value (paragraph BC4C). In those circumstances, “The Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemptions in paragraphs 10c and 30 of IAS 41.”

For the oil-palm sector, when considering the practical challenges of determining the fair value of growing produce, the following specific factors need to be assessed:

- Oil palms are continuously harvested, and each individual palm will be at a different point in its production cycle depending on its age, innate productivity, past production, rainfall, terrain, climate and husbandry.
- It is not feasible to conduct a point in time census to establish a growing crop for any reasonably-sized business. To give an indication…oil-palm hectarage at 25,400 hectares. Taking a rough average of 120 palms / hectare gives more than 3,000,000 individual plants. Each plant has on average more than 30 in individual fresh fruit bunches (“f.f.b.”) at various stages of development, giving around 100,000,000 growing produce to be valued.
- Once an oil-palm plant has been pollinated, there is a period during which an individual f.f.b. will develop and undertake biological transformation prior to harvest. Only for some of that time will the f.f.b. be clearly visible on the palm. Assumptions will be required to determine:
    - over what period should weight, and by extension value, be accrued (the period from pollination / from when f.f.b. are visible / from a later point to reflect development of oil-bearing fibre – see below, or another basis …); and,
    - how value should accrue during that time (on a straight-line basis / exponentially, or another basis to reflect biological transformation …);
- The value of the bunches is more dependent on the amount of oil-bearing fibre within them than purely on their weight. Research suggests that the oil-bearing fibre develops more within the latter stages of ripening, adding further complication to determining a pre-harvest valuation, but, non-oil-bearing bunches are a necessary precursor to oil-bearing bunches.
- It is not clear what portion of costs (mainly fertilizer) have to or can be allocated to growing produce.

With very similar scenarios – considering how to apply IAS 41 as amended in June 2014 to growing produce in oil-palm plantations – there appears to be divergent practice and uncertainty in the industry…

Furthermore, in view of the practical difficulties involved, we are not aware of any palm oil companies currently including a valuation of growing produce in their internal reporting.

IAS41:BC78 stated that including growing produce as a biological asset “… would maintain the consistency of accounting for produce growing in the ground and produce growing on a bearer plant.” However, this objective will be defeated if there is a lack of consistency even within a single industry as noted above.

Reasons for the IFRS IC to address the issue:

The IFRS IC has an opportunity to clarify the relationship between the June 2014 amendments to IAS 41, and the existing provisions within the standard relating to when fair values should not be used (IAS41:10c, IAS41:30). Depending on the assumptions used in developing fair value models, companies are at risk of inappropriately including / excluding material balances from their financial statements relating to growing produce, and the amounts involved can potentially be very material under certain assumptions.

The palm oil industry is significant, particularly in Indonesia and Malaysia which are the world’s leading producers. The two countries together produce in excess of 50 million tonnes of palm oil annually, making the industry worth approximately US$ 35 billion per annum.

Financial reporting would be improved if the IFRS IC were able to provide a clarification, to ensure that preparers of accounts could proceed with the amended standard with confidence, based on the guidance provided. Furthermore, that guidance should fall within the remit of the IFRS IC to address and be effective for a reasonable time period, given that it will provide clarifying guidance for a revised standard which becomes effective for periods beginning on 1 January 2016.

…

Appendix C
Summary of research

This section summarises the research conducted and the findings from that research.

Palm oil industry

C1 We reviewed the most recent publically available financial statements (annual or interim) of palm oil producers. To identify those producers, we used environmental rankings of the environmental stability of palm oil plantations such as the Sustainable Palm Oil Transparency Toolkit, developed by The Zoological Society of London. In addition, we included in our analysis any palm oil entities identified in performing the procedures noted in paragraph C10.

C1 We identified 16 entities that (a) produce palm oil, and (b) have adopted the amendments to IAS 41 in their most recent annual or interim financial statements. These entities are listed on exchanges in Belgium, Denmark, France, Indonesia, Malaysia, Nigeria, Singapore and the United Kingdom. 11 of these entities recognised FFB at fair value, although many do not provide information about the methodology used to measure fair value. Typically when entities disclose a methodology, these are similar to the methodologies identified by outreach respondents (see paragraph 24 of this paper).

C2 We identified five entities that did not measure FFB at fair value. Two of these entities provided no reasons for not doing so.

C3 One entity indicated that the period of biological transformation of FFB from blossom to harvest, and then conversion to inventory and sale, is relatively short (about 2 months). For this reason, it concluded that changes in fair value at each reporting date are generally immaterial and did not therefore recognise the produce in its financial statements.

C4 In its interim financial statements for the six months ended 30 June 2016, another entity has not recognised growing FFB. It discloses:

> The amendment of IAS 41 however, has also introduced a new requirement for plantation companies to account for "growing produce", but only if this can be reliably measured. In the case of the group, growing produce will mean fresh fruit bunches (FFB) in formation on the group's oil palms. Such growing produce will, if measured, be treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement. Certain listed planation companies decided to apply the amendments to IAS 41 with effect from 1 January 2015, but have adopted divergent practices as regards the valuation of growing produce. Some have concluded that developing FFV cannot be reliably measured and have therefore not accounted for it while others have applied varying formulaic methodologies to calculate theoretical values from developing FFB…In view of the divergent practices and the fact that a reasonable formulaic methodology would not result in material quantitative adjustments to the financial statements, the directors have decided…not to recognise any amounts for developing FFB. Meanwhile the group continues to account for FFB at the point of harvest.

C5 One entity has disclosed that it does not recognise FFB until harvest because of the unreliability of fair value measurements. Note 3 of its 2015 Annual report states:

> [The group] has opted to measure growing biological produce of palm oil, rubber and tea at fair value at the point of harvest in accordance with IAS 41.32 and not to measure it at fair value as it grows less costs to sell in accordance with IAS 41.10c as we are of the opinion that all parameters used in any alternative fair value measurement (future productions, determination of the start of the life cycle, cost allocation,…) are clearly unreliable. As a consequence all alternative fair value measurements are also considered clearly unreliable.

Other agricultural entities

C6 We identified other entities that apply IAS 41 to agricultural produce by reviewing publicly available financial statement of listed entities that have a Global Industry Classification Standard (GICS) code 30202010 Agricultural Products. We used an exchange's own industry classification for exchanges that have their own industry classification. We identified 34 entities, including some palm oil entities that have not applied the amendments to IAS 41 in their most recent annual or interim financial statements. The tables below provide information on the jurisdictions in which the entities are listed and the types of agricultural produce identified.

Continent	**Number of entities**
Africa	6
The Americas	4
Asia/Oceania	14
Europe	10
Total	34

Table 1 – Geography of agricultural entities identified.

Entity type	**Number of entities**
Bearer plant – apply IAS 41 amendments	15
Bearer plant – have not applied IAS 41 amendments	7
Livestock	3
Other types of plant	5
Palm oil but do not apply amendments	4
Total	34

Table 2 – Types of agricultural entities identified.

C7 In total, we identified 5 instances of entities not measuring agricultural produce at fair value. This includes two entities that adopted the amendments to IAS 41 but did not recognise the produce growing on bearer plants. They provide no reasons for not recognising these assets.

C8 A further two entities identified as bearer plant owners that have not adopted the amendments to IAS 41 in their most recent financial statements. Accordingly, in applying IFRS Standards they are required to recognise those bearer plants, combined with the produce growing on them, at fair value applying paragraph 12 of IAS 41. In both cases the entities include a statement that the fair values of the biological assets are clearly unreliable and, therefore, those entities have measured the assets at cost less depreciation. One entity has palm oil plantations and the other produces bananas and pineapples. No reasons are given for their conclusion.

C9 One entity recognises a range of agricultural products at fair value but rebuts the reliable fair value assumption for its crop of mushrooms. In its financial statements for the year ended 26 April 2016, the entity said:

> Short lived crops (mushrooms) are measured at cost. These crops typically have a short term development cycle of less than three months. The calculation of market value for these crops is based on total cost due to the inherent difficulty in accurately determining the biological advancement percentage of the crop. As such, the cost approach takes into account actual costs for preparation and cultivation.

C10 All other entities identified in our sample were able to reliably measure the fair value of agricultural produce.