

Introduction and

Invitation to Comment

In this exposure draft the International Accounting Standards Board proposes to amend IAS 41 *Agriculture* to remove the prohibition on taking ‘additional biological transformation’ into consideration when calculating fair value using discounted cash flows.

The Board invites comments on the proposed amendments. It would particularly welcome answers to the question set out below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 41 not addressed in the Exposure Draft.

Question

Do you agree with the proposal to remove the exclusion of ‘additional biological transformation’ from paragraph 21 of IAS 41? If not, why?

Proposed amendments to IAS 41 *Agriculture*

In the Standard, paragraphs 5, 17 and 21 are amended (new text is underlined, deleted text is struck through). Paragraphs 18–20 have been included for ease of reference but are not amended.

Definitions

Agriculture-related definitions

5 The following terms are used in this Standard with the meanings specified:

...

Biological transformation comprises the processes of growth, degeneration, production, ~~and procreation~~ and harvest that cause qualitative or quantitative changes in a biological asset.

...

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Recognition and measurement

17 If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.

18 If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

- (a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the balance sheet date;
- (b) market prices for similar assets with adjustment to reflect differences; and
- (c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

- 19 In some cases, the information sources listed in paragraph 18 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- 20 In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value.
- 21 The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. ~~The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.~~

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Additional biological transformation

BC1 IAS 41 requires biological assets to be measured at fair value. In some circumstances, these fair values are measured using discounted cash flows. Paragraph 21 of IAS 41 specifically excludes from such calculations increases in cash flows arising from ‘additional biological transformation’. There is diversity in practice resulting from different interpretations of this requirement. The Board took the view that not including these cash flows would result in a carrying amount that was not representative of the asset’s fair value. The Board noted that the risks associated with cash flows from ‘additional biological transformation’ are considered in determining the discount rate. Therefore, the Board proposes to amend IAS 41 to remove the perceived prohibition on an entity taking into account the cash flows resulting from ‘additional biological transformation’ when estimating the fair value of a biological asset.