

## STAFF PAPER

20-24 May 2013

## IASB Meeting

<b>Project</b>	<b>Matters Arising from the IFRS Interpretations Committee</b>		
Paper topic	IAS 41 <i>Agriculture</i> and IFRS 13 <i>Fair Value Measurement</i> —Valuation of biological assets		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

This paper is a copy of Staff Paper 2 presented at the March 2013 IFRS Interpretations Committee meeting. This paper is presented as additional information in support of Staff Paper 16 for the May 2013 IASB meeting.



## STAFF PAPER

March 2013

## IFRS Interpretations Committee Meeting

<b>Project</b>	<b>IAS 41 <i>Agriculture</i> and IFRS 13 <i>Fair Value Measurement</i></b>		
<b>Paper topic</b>	Valuation of biological assets using a residual method		
<b>CONTACT(S)</b>	Kazuhiro Sakaguchi	ksakaguchi@ifrs.org	+44 (0)20 7246 6930

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. In April 2012, the IFRS Interpretations Committee (the Interpretations Committee) received a request seeking clarification on paragraph 25 of IAS 41 *Agriculture*. This paragraph refers to the use of a residual method as an example of a possible valuation technique to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market does exist for the combined assets as a group.
2. The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13 *Fair Value Measurement*) when applying the residual method to measure the fair value of the biological assets might result in a minimal or nil fair value for the biological assets, if the highest and best use of the land is different from its current use.
3. The Interpretations Committee deliberated this issue in May, September and November 2012. At its November 2012 meeting, the Interpretations Committee noted that the IASB has decided to undertake a limited-scope project on IAS 41 to address the accounting for bearer biological assets. The Interpretations Committee also noted that guidance on the application of the highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13.

Consequently, the Interpretations Committee tentatively decided not to take this issue onto its agenda.

4. This paper provides the Interpretations Committee with the staff's analysis on the comment letters received on the tentative agenda decision. This paper recommends to the Interpretations Committee that it should finalise its agenda decision and propose to the IASB that the IASB should address this issue. The proposed wording for the final agenda decision is presented in Appendix A of this paper.

### Summary of comment letters

5. The comment period for the tentative decision ended on 22 January 2013 and three responses<sup>1</sup> were received. All comment letters are attached in Appendix B of this paper.
6. One respondent<sup>2</sup> agreed with the Interpretations Committee's decision not to add this issue to its agenda, pending the residual method of valuation being addressed by either the IASB's limited scope project on bearer biological assets or the educational material for IFRS 13.
7. Another respondent<sup>3</sup> agreed with the Interpretations Committee's decision not to add this issue to its agenda. However, they disagreed with the suggestion that the IASB's project on bearer biological assets would totally address this issue. They note that because the residual method could also be used to measure the fair value of *consumable* biological assets that are physically attached to land, the issue as stated in the submission could arise.
8. Another respondent<sup>4</sup> was concerned that the tentative agenda decision, as currently worded, will not address the issue raised in the submission or the underlying concern about how to determine the highest and best use of non-

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<sup>1</sup> Ernst & Young Global Limited, Canadian Accounting Standards Board, Deloitte Touche Tohmatsu Limited

<sup>2</sup> Deloitte Touche Tohmatsu Limited

<sup>3</sup> Canadian Accounting Standards Board

<sup>4</sup> Ernst & Young Global Limited

financial assets in accordance with IFRS 13. They were specifically concerned that:

- (a) the use of a residual method is not required by IAS 41 while IFRS 13 encourages the use of multiple valuation techniques. Therefore, in their view, paragraph 25 of IAS 41 is redundant and could be deleted.
- (b) clarification of the requirements in paragraph 31(a)(iii) of IFRS 13 is needed to determine the highest and best use when two or more non-financial assets are physically attached to each other.

9. They think that the Interpretations Committee or the IASB should further consider this issue and provide authoritative guidance to ensure consistent interpretation and application. They do not think that the educational material on fair value is the appropriate document to deal with this issue. They also suggest some changes to the wording of the tentative agenda decision if the Interpretations Committee decides to proceed with the agenda decision.

### **IASB's limited scope project on bearer biological assets**

10. At the May 2012 meeting<sup>5</sup>, the IASB decided to give priority to developing a proposal to amend IAS 41 for bearer biological assets. The IASB staff presented a proposal, at the September 2012 meeting<sup>6</sup>, recommending that the IASB should add a limited-scope project on bearer biological assets to its agenda. All IASB members supported undertaking such a project.
11. At the December 2012 meeting<sup>7</sup>, the IASB discussed several issues identified by the staff as important to the IASB's initial discussion on the limited-scope project and tentatively decided that:
- (a) the scope of the amendment to IAS 41 should be restricted to bearer biological assets that are plants.

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<sup>5</sup> May 2012 IASB Update: <http://media.ifrs.org/IASBupdateMay2012.html#7>

<sup>6</sup> September 2012 IASB Update: <http://media.ifrs.org/IASBSep2012.html#IAS-41>

<sup>7</sup> December 2012 IASB Update: <http://media.ifrs.org/2012/Updates/IASB-Update-December-2012.html#Bearer-biological-assets>

- (b) plants would be defined as bearer biological assets if they have no consumable attributes. This means that they can only be used in the production or supply of agricultural produce (so there is no alternative use other than use as bearer biological assets).
12. The IASB further decided to develop a cost-based model for bearer biological assets within the scope of the project and made the following tentative decisions:
- (a) before being placed into production, such assets should be measured at accumulated cost. This approach is similar to the accounting treatment for a self-constructed item of machinery before it is placed into production.
  - (b) the produce growing on bearer biological assets should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This method would ensure that produce growing in the ground (eg carrots) and produce growing on a bearer biological asset (eg apples) would be accounted for consistently.
13. At its February 2013 meeting<sup>8</sup>, the IASB discussed the remaining issues in the limited scope project on bearer biological assets and made the following tentative decisions:
- (a) the recognition requirements of IAS 16 *Property, Plant and Equipment* (covering unit of measure, initial costs and subsequent costs) could be applied to bearer biological assets without modification.
  - (b) the disclosure requirements of IAS 16 could be applied to bearer biological assets without modification. However, the IASB will ask a question in the Exposure Draft on whether the following disclosures are necessary for investors:
    - (i) disclosures about the fair values of bearer biological assets (including assumptions and inputs used);

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<sup>8</sup> February 2013 IASB Update:  
[http://media.ifrs.org/2013/IASB/February/IASB%20Update\\_February\\_2013\\_HTML.html#Agriculture](http://media.ifrs.org/2013/IASB/February/IASB%20Update_February_2013_HTML.html#Agriculture)

- (ii) disclosures about the significant inputs that would be required to determine the fair value of bearer biological assets (but without the need to disclose the fair value of the bearer biological assets); and
  - (iii) other disclosures about productivity, for example age profile, estimates of the physical quantities of bearer biological assets and output of agricultural produce etc.
- (c) the revaluation model should be permitted for bearer biological assets.
  - (d) bearer biological assets should be included within the scope of IAS 16, rather than adding requirements to IAS 41.
  - (e) the reliability exception in IAS 41.30 should not be modified for produce growing on bearer biological assets. The produce should remain within the scope of IAS 41.

The IASB also made a few tentative decisions on the transition requirements.

### **Educational material for IFRS 13**

- 14. In November 2012 we explained to the Interpretations Committee that the IASB's Fair Value Measurement project team plans to develop educational material dealing with the application of highest and best use when measuring the fair value of non-financial assets in accordance with IFRS 13. We understand that they aim to publish the chapter in the second half of 2013.
- 15. However, the project team states that the chapter in the educational material will not address the specific issue submitted to the Interpretations Committee. In their view, the issue in the submission is not only about how to apply the highest and best use concept, but about the accounting implications when the highest and best use of an asset in a group of assets is different from its current use and overrides the fair value of the group of assets based on its current use. The educational material will not address that accounting.

## Staff analysis

### *IASB's project on IAS 41*

16. The biological assets specified in the submission to the Interpretations Committee are biological assets that are physically attached to land. Biological assets that are physically attached to land could be bearer biological assets (eg grape vines) or consumable biological assets (eg timber).
17. Under the IASB's tentative decisions as stated above, bearer biological assets that are plants would be measured at accumulated cost before being placed into production and the produce growing on them would be measured at fair value less costs to sell. If an entity uses a residual method to measure the fair value of, for example the produce before harvest, in accordance with paragraph 25 of IAS 41, the issue raised in the submission could arise for such produce when the highest and best use of the land is different from its current use.
18. We note, however, that IAS 41 does not require the use of a residual method. The residual method is simply an example of a possible valuation technique and IFRS 13 encourages the use of multiple valuation techniques where appropriate. We also note that the result of the outreach to valuation specialists (see agenda paper 7 for the September 2012 meeting<sup>9</sup>) provided us with an evidence of the availability of valuation techniques other than the residual method.
19. Bearer biological assets with consumable attributes are excluded from the scope of the amendment to IAS 41. Accordingly, consumable biological assets that are physically attached to land will need to be measured at fair value irrespective of the amendments to IAS 41. However, our understanding is that the fair value measurement of such biological assets is relatively straight-forward because they would need to be separated from the land to be sold in the principal (or most advantageous) market.
20. Further, in our view, this issue is broader than just for biological assets and is about the application of the valuation premise when the highest and best use of an asset in a group of assets is different from its current use and overrides the fair

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<sup>9</sup> <http://www.ifrs.org/Meetings/Pages/IFRSInterSept12.aspx>

value of the group of assets based on its current use (see further discussions below).

***Application of highest and best use concept***

21. The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) when applying the residual method in IAS 41 might result in a minimal or nil fair value for the biological assets, if the highest and best use of the land is different from its current use.
22. We think that, in the submitted fact pattern, there is a tension between the requirement in IFRS 13 that assumptions about the highest and best use shall be consistent for all assets within an asset group (as per paragraph 31 (a)(iii) of IFRS 13) and the situation where the highest and best use of an asset in a group of assets is different from its current use and overrides the fair value of the group of assets based on its current use.
23. IFRS 13 defines unit of account as the level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes. Paragraph 32 of IFRS 13 states that fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IFRSs. IAS 41 is a Standard that addresses recognition and measurement of agricultural activity including biological assets, not a group of assets.
24. However, in most cases, the valuation premise of a biological asset will be to use the asset in combination with other assets (eg land and other plantation assets) as a group, because using the asset in that way maximises the value of that asset. The residual method in paragraph 25 of IAS 41 assumes that there would be a residual amount to allocate to the biological assets and is consistent with valuation premise when the biological assets are used in combination with other assets.
25. Having said that, we think that the measurement of the biological assets will be challenging if the value of the land is maximised in a different way to its current use. Assume there is a plantation whose current fair value is CU100<sup>10</sup>, which

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<sup>10</sup> Currency amounts are denominated in 'currency units' (CU) in this paper.



coincides with its highest and best use. The breakdown is CU70 for raw land, CU25 for biological assets and CU5 for land improvement. After one year, it turned out that the raw land can be used for an alternative use, such as for residential or commercial development. The fair value of the raw land in its highest and best use considering the cost of the conversion is now CU140.

26. In our view, now that the fair value of the raw land is higher than the ‘fair value’ of the combined assets in accordance with their current use, the assumption that the biological assets are used in combination with other assets and that all of these assets need to be measured based on this valuation premise loses meaning. This is because the value of the land when used for residential or commercial development uses provides evidence that value for the entire group would be maximised if biological assets would be destroyed (or harvested and sold) and the land would be used for those other alternative uses.

27. We note that, in the development of IFRS 13, the IASB considered the situation where the highest and best use of an asset in a group of assets is different from its current use and overrides the fair value of the group of assets based on its current use. Paragraphs IE7 and IE8 of IFRS 13 refers to an example:

IE7 An entity acquires land in a business combination. The land is currently developed for industrial use as a site for a factory. The current use of land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the entity determines that the land currently used as a site for a factory could be developed as a site for residential use (ie for high-rise apartment buildings) because market participants would take into account the potential to develop the site for residential use when pricing the land.

IE8 The highest and best use of the land would be determined by comparing both of the following:

- (a) the value of the land as currently developed for industrial use (ie the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).
- (b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the entity would be able to convert the asset to the alternative use) necessary to convert the

land to a vacant site (ie the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory operations, including its assets and liabilities.

28. In our view, IFRS 13 does not address the accounting implications of the situation in IE8(b). That is, it does not address how to account for the factory if the fair value of the land assumes that the factory is demolished. Paragraphs BC 72 and BC73 of IFRS 13 state:

BC72 When the IASB was developing the proposals in the exposure draft, users of financial statements asked the IASB to consider how to account for assets when their highest and best use within a group of assets is different from their current use by the entity (ie when there is evidence that the current use of the assets is not their highest and best use, and an alternative use would maximise their fair value). For example, the fair value of a factory is linked to the value of the land on which it is situated. The fair value of the factory would be nil if the land has an alternative use that assumes the factory is demolished. The IASB concluded when developing the exposure draft that measuring the factory at nil would not provide useful information when an entity is using that factory in its operations. In particular, users would want to see depreciation on that factory so that they could assess the economic resources consumed in generating cash flows from its operation. Therefore, the exposure draft proposed requiring an entity to separate the fair value of the asset group into its current use and fair value components.

BC73 Respondents found that proposal confusing and thought that calculating two values for a non-financial asset would be costly. As a result, the boards decided that when an entity uses a non-financial asset in a way that differs from its highest and best use (and that asset is measured at fair value), the entity must simply disclose that fact and why the asset is being used in a manner that differs from its highest and best use (see paragraphs BC213 and BC214).

29. These BCs indicate that the IASB decided to address the accounting implications through disclosure requirements but not through measurement, if the highest and best use of an asset in a group of assets is different from its current use and overrides the fair value of the group of assets based on its current use, such as in the case of the submitted fact pattern.

30. In our view, this issue is too broad for the Interpretations Committee to address. We note that one respondent<sup>11</sup> states that the issue is not solely related to assets within the scope of IAS 41 but could also involve investment properties physically attached to land. Because this issue could be broader than just for biological assets and will not be addressed by the educational material for IFRS 13, we think that the Interpretations Committee should propose to the IASB that the IASB should address this issue.

**Staff recommendation**

31. On the basis of our analysis above, we recommend that the Interpretations Committee should finalise its agenda decision and propose to the IASB that the IASB should address this issue. The proposed wording for the final agenda decision is presented in Appendix A of this paper. If the Interpretations Committee agrees with the staff recommendation, we will present at a future IASB meeting a summary of this issue and the Interpretations Committee’s recommendation that the IASB should address this issue.

**Question for the Interpretations Committee**

<b>Question for the Interpretations Committee</b>
Does the Interpretations Committee agree with the staff recommendation and the proposed wording for the final agenda decision?

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<sup>11</sup> Ernst & Young Global Limited

## Appendix A—Proposed wording for final agenda decision

### **IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*—Valuation of biological assets using a residual method**

The Interpretations Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph permits the use of a residual method to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets.

The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) in applying the residual method in IAS 41 might result in a minimal or nil fair value for the biological assets when the current use of the land is different from its highest and best use.

The Interpretations Committee noted that, in the development of IFRS 13, the IASB considered the situation where the highest and best use of an asset in a group of assets is different from its current use and overrides the fair value of the group of assets based on its current use, but did not fully address the accounting implications in such circumstances.

The Interpretations Committee also noted that this issue is not solely related to assets within the scope of IAS 41 but could also involve assets in the scope of other Standards (eg investment properties) that are physically attached to land.

~~The Interpretations Committee noted that the IASB has tentatively decided to undertake a limited scope project on IAS 41 to address the accounting for bearer biological assets. The Interpretations Committee also noted that guidance on the application of highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13.~~

Consequently, in the light of the analysis above, the Interpretations Committee observed that this issue is too broad for it to address and, accordingly, the Interpretations Committee {decided} not to take this issue onto its agenda. The Interpretations Committee will propose to the IASB that the IASB should address this issue.

## Appendix B—Comment letters received to the tentative agenda decision



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17 December 2012

Dear IFRS Interpretations Committee members

### **Tentative Agenda Decision – IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement* – Valuation of biological assets using a residual method**

The global organisation of Ernst & Young is pleased to submit our comments on the Tentative Agenda Decision relating to IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement* – Valuation of biological assets using a residual method as published in the November 2012 *IFRIC Update*.

The Interpretations Committee (the Committee) received a request seeking clarification on the application of paragraph 25 of IAS 41 when measuring the fair value of a biological asset. We understand the submitter's concern that applying the residual method in IAS 41 might result in a minimal or nil fair value for the biological assets when the current use of the land on which the biological asset resides is different from its highest and best use. However, we are concerned that the tentative agenda decision, as currently worded, will not address the issue raised in the submission or the underlying concern about how to determine the highest and best use of non-financial assets in accordance with IFRS 13.

Our specific concerns and recommendations are included below. However, if the Committee decides to proceed with the planned agenda decision, we have included suggested changes to the current wording in an appendix.

### **Application of paragraph 25 of IAS 41**

While we understand the submitter's concern regarding the application of the residual method, paragraph 25 of IAS 41, where applicable, does not require its use. This paragraph only provides the residual method as an example. IFRS 13 does not limit the types of valuation techniques (including allocation methods) an entity might use to

measure fair value. Therefore, an entity would not be restricted to the residual method; it can, and should, consider other appropriate methods of allocation. Furthermore, paragraph 63 of IFRS 13 encourages the use of multiple valuation techniques, where appropriate. This could include the use of techniques that are more consistent with the asset's unit of account. In light of the requirements in IFRS 13, particularly paragraph 63 of IFRS 13, we believe paragraph 25 of IAS 41 is redundant and could be deleted to avoid confusion.

### **Determining highest and best use in accordance with IFRS 13**

The submission assumed the highest and best use of the biological asset was in combination with the land to which it was attached, however, the highest and best use of the land was not its current use. While the submitter did not request clarification in relation to determining the highest and best use, we believe clarification is needed

Determining the highest and best use of a non-financial asset necessarily requires an entity to:

- ▶ Identify the principal (or most advantageous) market
- ▶ Identify market participant characteristics
- ▶ Determine how market participants in that principal (or most advantageous) market would use the asset (its current use or an alternative use), taking into consideration what is financially feasible, legally permissible and physically possible.

The overall assessment requires judgement, particularly because these concepts are interrelated and can influence each other. However, the determination of highest and best use necessarily starts with the presumption that an asset's highest and best use is its current use in accordance with paragraph 29 of IFRS 13. A decision to consider alternative uses should be based on the weight of evidence available about uses market participants in the principal (or most advantageous) market would consider. However, it should also take into consideration paragraph 18 of IFRS 13, which states that "if there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date."

Paragraph 25 of IAS 41 suggests that, where there is no market for a biological asset physically attached to land (in its current form), there may be an active market for the combined group, comprised of the land and biological asset(s). In our experience, this occurs infrequently, however there may be observable transactions. It is not clear from the submission whether there is an active market or other observable transactions in this specific situation. However, if there were an active market for the combined group, it would likely provide evidence that the highest and best use of the assets was in combination. In contrast, if observable transactions indicated biological assets were being removed from the land (in order for the land to be used for an alternative purpose), it would call into question whether the current use of the combined assets was the highest and best use.

Paragraph 31 of IFRS 13 clarifies that the highest and best use of the asset drives its valuation premise, that is, whether a market participant acquiring the asset would use it on its own or in combination with other assets and/or liabilities. Regardless of the valuation premise, paragraph 32 of IFRS 13 clarifies that the fair value measurement still assumes the sale of a single asset (consistent with its unit of account). In the submitter's

situation, this would require the fair value measurement to assume the sale of the biological asset (on its own), assuming market participants already own the land to which it is attached.

In our view, clarification is needed in relation to determining highest and best use when two or more non-financial assets are physically attached to each other, in light of the requirement in paragraph 31(a)(iii) of IFRS 13 that “assumptions about the highest and best use of a non-financial asset...be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used”. The need for clarification is not solely related to assets within the scope of IAS 41. Other examples could include investment properties physically attached to land.

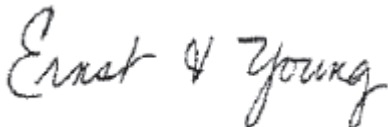
To the extent that clarification is needed in relation to assets within the scope of IAS 41, we are concerned that the IASB’s project on bearer biological assets may only address a subset. In addition, if, as part of that project, the IASB chooses to require application of IAS 16 *Property, Plant and Equipment* to bearer biological assets, entities that elect to use the revaluation approach for subsequent measurement would still need to determine the highest and best use in order to measure fair value.

In light of this need for clarification, we would encourage further consideration of this matter by the Committee and/or the International Accounting Standards Board. We believe that any guidance provided, whether by interpretation or amendment, should be subject to due process to ensure consistent interpretation and application. As such, we are concerned about the extent to which potential educational material would be subject to the necessary due process and we therefore do not support addressing this issue by way of educational material.

Whichever approach is used to provide this clarification, we would encourage consideration of the US Financial Accounting Standards Board’s (FASB) equivalent standard (Topic 820 *Fair Value Measurement* in the FASB Accounting Standards Codification) to ensure continued convergence as was originally intended with the standard.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully



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## Appendix

If the Committee decides to finalise the tentative agenda decision, below are our suggested changes to the current wording.

### **IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*—Valuation of biological assets using a residual method**

The Interpretations Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph permits the use of a residual method to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets. The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) in applying the residual method in IAS 41 might result in a minimal or nil fair value for the biological assets when the current use of the land is different from its highest and best use.

The Interpretations Committee noted that determining the highest and best use of a nonfinancial asset requires judgement, in light of the requirements of IFRS 13. Paragraph 25 of IAS 41 indicates an entity may use information related to a biological asset and land, in combination, to derive the fair value of the biological asset. That paragraph provides the residual method as an example of allocation methods that might be used, but does not require its use. IFRS 13 does not limit the types of valuation techniques an entity may use to measure fair value. In addition, paragraph 63 of IFRS 13 encourages the use of multiple techniques (where appropriate).

The Interpretations Committee noted that the IASB has tentatively decided to undertake a limited scope project on IAS 41 to address the accounting for bearer biological assets. The Interpretations Committee also noted that guidance on the application of highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13. Consequently, the Interpretations Committee [decided] not to take this issue onto its agenda.





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January 2, 2013

(via email to [ifric@ifrs.org](mailto:ifric@ifrs.org))

IFRS Interpretations Committee  
30 Cannon Street, 1st Floor  
London EC4M 6XH  
United Kingdom

Dear Sirs:

**IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*—Valuation of biological assets using a residual method**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee’s tentative agenda decision on the valuation of biological assets using a residual method, as published in the November 2012 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee’s decision not to add this item to its agenda. Based on consultations with domestic stakeholders we do not believe that this is a significant issue in Canada. Also, we do not share the concern in respect of application of the residual method when the current use is different from the highest and best use. We think that the highest and best use assumption provides valuable information in the scenario noted.

We disagree with the suggestion that the project to amend IAS 41 in respect of bearer biological assets will totally address this issue. Some consumable biological assets, such as trees grown for lumber, are physically attached to land. Accordingly, a residual method could be used to value consumable biological assets. Since the project to amend IAS 41 will only be in respect of bearer biological assets, this issue could still arise for consumable biological assets.

If you require further information, please contact me at +1 416 204-3276 (email [peter.martin@cica.ca](mailto:peter.martin@cica.ca)) or Greg Edwards, Principal, Accounting Standards at +1 416 204-3462 (email [greg.edwards@cica.ca](mailto:greg.edwards@cica.ca)).

Yours truly,

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Chairman  
IFRS Interpretations Committee  
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Email: [ifric@ifrs.org](mailto:ifric@ifrs.org)

22 January 2013

Dear Mr Upton

**Tentative agenda decision: IAS 41 Agriculture and IFRS 13 Fair Value Measurement – Valuation of biological assets using a residual method**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the November 2012 IFRIC Update of the tentative decision not to take onto the IFRIC's agenda a request for clarification of the application of the residual method of valuation to biological assets that are physically attached to land.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda pending the residual method of valuation being addressed by either the educational material for IFRS 13 or the IASB's limited scope project on bearer biological assets.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read "V Poole".

Veronica Poole  
Global IFRS Leader  
Technical

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