



**KPMG IFRG Limited**  
15 Canada Square  
London E14 5GL  
United Kingdom

Tel +44 (0) 20 7694 8871  
Fax +44 (0) 20 7694 8429

mark.vaessen@kpmgifrg.com

Ms Sue Lloyd  
International Accounting Standards Board  
1<sup>st</sup> Floor  
30 Cannon Street  
London  
EC4M 6XH

Our ref MV/288

16 May 2017

Dear Ms Lloyd

**Tentative agenda decision: IAS 41 Agriculture – Biological assets growing on bearer plants**

We appreciate the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision, IAS 41 *Agriculture – Biological assets growing on bearer plants*, issued in the IFRIC Update March 2017. We have consulted with, and this letter represents the views of, the KPMG network.

We have concerns that the wording in this tentative agenda decision could be interpreted in a manner not consistent with the concept of "reliability of measurement".

In addressing the issue of when fair value measurement of agricultural produce is 'clearly unreliable', the tentative agenda decision refers to paragraph BC4C of IAS 41, stating that "this paragraph suggests that the Board's expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable *only* when an entity encounters significant practical difficulties". BC4C indicates the following: "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 exemption in paragraphs 10(c) and 30 of IAS 41". Paragraph BC4C of IAS 41 does not clearly describe what constitutes "significant practical difficulties". Furthermore, this paragraph does not indicate that fair value measurement is "clearly unreliable" *only* when significant practical difficulties exist.

In paragraphs 4.41-43 of the Conceptual Framework, reliability of measurement is addressed in the context of the ability to make a reasonable estimate. In light of the guidance above, the reference in paragraph 30 of IAS 41 to fair value measurement that is "clearly unreliable" can be interpreted as a measurement in which the level of uncertainty in the estimate is too high. We believe that the concepts of "reliability of measurement" and "significant practical difficulties" are very different and should not be linked to one another.

16 May 2017

We are proposing some amendments to the tentative agenda decision in the Appendix to this letter. We urge the Committee to amend the wording of the agenda decision in this respect

Please contact Mark Vaessen +44 (0)20 7694 8871 or Wolfgang Laubach +49 30 2068 4663 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

Cc: Reinhard Dotzlaw

## Appendix

### Proposed changes

#### 1.1 IAS 41 *Agriculture*—Biological assets growing on bearer plants (Agenda Paper 7)

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 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.

The Committee observed that:

- a. paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for fruit growing on oil palms applying IAS 41;
- b. the recognition requirements in paragraph 10 of IAS 41 specify when an entity recognises the fruit growing on oil palms separately from the oil palms themselves, which the entity accounts for applying IAS 16 *Property, Plant and Equipment*. An entity recognises a biological asset when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably;
- c. an entity measures a biological asset 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 on initial recognition (paragraph 12 of IAS 41); and
- d. 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. Paragraph 30 of IAS 41 says that once the fair value of such a biological asset becomes reliably measurable, an entity measures it at its fair value less costs to sell.

The Committee concluded that the reference to ‘clearly unreliable’ in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable.

Paragraph BC4C of IAS 41 indicates the following: **“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 exemption in paragraphs 10(c) and 30 of IAS 41”**. However paragraph BC4C of IAS 41 does not clearly describe what constitutes **“significant practical difficulties”**. Furthermore, this paragraph does not indicate that fair value measurement is **“clearly unreliable”** *only* when significant practical difficulties exist.

The Committee also observed that the submission appears to ask whether possible differences in supportable assumptions (which might result in significantly different valuations) constitutes ‘significant practical difficulties’ as referred to in paragraph BC4C of IAS 41. The Committee concluded that this is not evidence of significant practical difficulties, and that it would not, in and of itself, result in fair value measurements that are clearly unreliable.

The Committee noted that paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose information about assumptions and estimates for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, paragraph 91 of IFRS 13 *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

The Committee observed that the submission asks the Committee to conclude whether fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable. 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 matter to its standard-setting agenda