July 29, 2019

Submitted electronically via ifric@ifrs.org

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
London, E14 4HD

Subject: Tentative Agenda Decision – Subsequent Expenditures on Biological Assets

Dear members of the IFRS Interpretations Committee (Committee),

The Canadian Securities Administrators (the CSA or we) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Alberta, British Columbia, Ontario and Quebec.

In Canada, many of the public companies applying IAS 41 *Agriculture* (IAS 41) are in the cannabis sector – a new and emerging part of the Canadian capital market. In 2018, we published (CSA) Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry* (CSA Staff Notice) that outlines our review of the disclosures of 70 reporting issuers operating in the cannabis industry. Among other things, our review identified diversity in accounting practices that are causing difficulties for investors to understand and compare the financial performance of such companies. With this context we submit this letter in response to the June 2019 Tentative Agenda Decision – *Subsequent Expenditures on Biological Assets* (Agenda Decision).

We appreciate the Committee's consideration of the accounting for costs related to the biological transformation (i.e., subsequent expenditure) of biological assets in the context of IAS 41 *Agriculture* (IAS 41). Overall, we believe the Agenda Decision is not helpful, incomplete and could have unintended consequences, such as condoning certain accounting practices that are causing difficulties for investors[1].

To avoid such unintended consequences, we recommend the Agenda Decision direct entities to paragraph 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), and paragraph 85 of IAS 1 *Presentation of Financial Statements* (IAS 1). Further analysis, including the basis for our recommendation is included below.

[1] As stated in the original submission to you by the Canadian Accounting Standard Board (AcSB), "stakeholders in our jurisdiction are reporting significant difficulties understanding and comparing the components of financial performance reported in the financial statements of agricultural producers".

Developing an Accounting Policy

Accounting Policy that Results in Relevant Information

The Agenda Decision acknowledges that "IAS 41 does not specify requirements on the accounting for subsequent expenditure" and an "entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets". However, the Agenda Decision does not discuss the relevant guidance that an entity should consider in developing an accounting policy for subsequent expenditures. We recommend the Agenda Decision direct entities to consider IAS 8.10.

In listening to the June 2019 IFRIC discussion of Staff Agenda Paper 9, we note IFRIC Staff shared the view that IAS 8.10 does not apply because of the existence of IAS 41. We disagree with this view. The view shared by IFRIC Staff was not addressed in Staff Agenda Paper 9 and therefore lacks the supporting analysis as to why IAS 8.10 does not apply.

IAS 8.10 states that "in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users…". In our view, IAS 41 does not negate the relevance of IAS 8.10 because IAS 41 does not specifically address a particular transaction (i.e., subsequent expenditure). As such, consistent with IAS 8.10, when a particular transaction is not specifically addressed by IFRS, IAS 8.10 provides relevant guidance to be considered in the selection of an accounting policy.

Considering the feedback received from investors in the cannabis industry, we question the relevance of an accounting policy that expenses subsequent expenditures.[2] Staff Agenda Paper 9 echos this point by stating "we also think users of financial statements might find it more useful if entities were to capitalise subsequent expenditure, rather than expense it." Since agenda decisions are meant to improve the consistency of application of IFRS Standards and provide explanatory material, in our view, the Agenda Decision should explicitly discuss that a relevant accounting policy in the cannabis sector is to capitalise subsequent expenditures.

Capitalization Accounting Policy

Staff Agenda Paper 9 acknowledges some of the diverse accounting practices for subsequent expenditures, including diversity of accounting practices among entities that capitalize subsequent expenditures.

To reduce diversity in practice, we recommend the Agenda Decision direct entities to consider IAS 8.11 when developing a capitalization policy for subsequent expenditures. In the context of IAS 8.11, entities would consider the requirements in IFRSs dealing with similar and related issues, such as IAS 2 *Inventories* (IAS 2) or IAS *16 Property Plant and Equipment* (IAS 16), as a basis for developing their capitalization policy. Narrowing the range of capitalization practices would reduce diversity in practice and support better comparability.

[2] Our CSA Staff Notice states that "issuers who expense biological asset costs as incurred should consider whether this accounting policy results in information that is relevant to the decision-making needs of investors".

Additional Line Items

We agree with the Committee's observation that "capitalising subsequent expenditure or recognising it as an expense has no effect on the measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss".

To help ensure investors receive relevant information, particularly regarding costs of production, we recommend the Agenda Decision direct entities to consider IAS 1.85.[3] In the context of IAS 1.85, entities would consider the need to present additional line items, such as cost of production excluding fair value adjustments, when such presentation is relevant to an understanding of the entity's financial performance.

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We appreciate your thoughtful consideration of the views and recommendations provided in this letter. If you have any questions or need additional information, please do not hesitate to contact us.

Yours sincerely,

The CSA Chief Accountants Committee

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[3] (CSA) Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry* found that "that 71% of LPs [licensed producers] did not separately disclose all fair value amounts included in the P&L. In these cases, fair value adjustments were often embedded in cost of goods sold. It is critical for investors to be able to understand how much it costs a company to produce its product. Since fair value amounts in the P&L of an LP are not costs that have been incurred related to cannabis sold, it is important for all fair value amounts to be separately disclosed, so that investors can understand a company's cost of sales excluding any fair value amounts."