



Memorandum

To:	AASB members	Date:	8 October 2013
From:	Shaun Steenkamp and Kala Kandiah	Agenda Item:	14.1(M134)
Subject:	Bearer Plants – issues for AASB’s submission to the IASB	File:	

Action

Subject to consideration of any further comments that might be received from AASB constituents, form views on the main proposals in IASB ED/2013/8 *Agriculture: Bearer Plants*, and decide on an approach for finalising the AASB’s comment letter to the IASB.

Attachments

Agenda paper 14.2 – Issues paper on AASB ED 245 *Agriculture: Bearer Plants* (which incorporates the IASB ED)

Agenda paper 14.3 – full text of submissions received on AASB ED 245

Agenda paper 14.4 – AASB ED 245

Background

1. Bearer plants are described by the IASB as a class of biological assets that, once mature, are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms. IAS 41 *Agriculture* requires, subject to a rebuttable presumption, all biological assets that are related to agricultural activity, including bearer plants, to be measured at fair value less costs to sell. This requirement is based on the principle that biological transformation is best reflected by fair value measurement.
2. Respondents to the IASB’s 2011 Agenda Consultation expressed concerns that fair value measurement is not appropriate for mature bearer biological assets because they are no longer undergoing biological transformation and favoured a limited-scope project for bearer biological assets to address the concerns. This was also supported by the Asian-Oceanian Standard-Setters Group (AOSSG), which produced an Issues Paper stating that the operation of bearer biological assets is similar to that of manufacturing and it would be consistent to apply the provisions of IAS 16 *Property Plant and Equipment* to account for bearer biological assets.
3. In response to the above, the IASB published ED/2013/8 in June 2013, proposing that bearer plants (excluding the produce on the bearer plants) be treated as property, plant and equipment in the scope of IAS 16 and be subject to all of that standard’s requirements. This would permit the use of a cost model or a revaluation model for subsequent measurement of mature bearer plants.
4. The IASB limited the scope of its proposals to bearer plants and did not include livestock as the IASB observed that the use of a cost model for livestock is more complex and there is usually an active market for livestock, meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement. The IASB also noted that concerns raised by respondents to its 2011 Agenda Consultation mainly related to plants, not livestock.

5. In July 2013, the AASB issued ED 245, which incorporates IASB ED/2013/8. The comment period for ED 245 closed on 1 October 2013 and two submissions were received. Staff will provide a verbal update if any subsequent submissions are received before the forthcoming Board meeting. The comment period for IASB ED/2013/8 closes on 28 October 2013.

Overview of proposals

6. The main IASB ED/2013/8 proposals are that:
- (a) a bearer plant is a plant that is:
 - i. used in the production or supply of agricultural produce;
 - ii. expected to bear produce for more than one period; and
 - iii. not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales;
 - (b) bearer plants be scoped out of IAS 41 and be subject to all of the requirements in IAS 16, including the following:
 - i. before they mature, bearer plants would be measured at their accumulated cost, in the same way that a self-constructed item of property, plant and equipment is accounted for before it is in the location and condition necessary to operate in the manner intended by management; and
 - ii. entities would have a policy choice to measure their bearer plants, after they are mature, using either the cost model or the revaluation model; and
 - (c) produce growing on bearer plants would continue to be accounted for under IAS 41 as biological assets.
7. The IASB ED includes Alternative Views expressed by two IASB members, arguing that the proposals are not improvements to IFRS.

AASB outreach

8. AASB staff conducted targeted outreach to constituents in the form of teleconferences to gather additional feedback on the proposals. Feedback received from this outreach has been incorporated into agenda paper 14.2.
9. AASB ED 245 includes a question asking whether constituents envisage any GAAP/GFS implications of the proposals in the IASB ED. None of the submissions received, nor feedback from targeted outreach, have highlighted any additional GAAP/GFS issues.

Process for finalising the AASB comment letter

10. Staff recommend, subject to the nature of any further responses that might be received from constituents, the submission be finalised out-of-session via the Chairman. If any substantial issues are raised by constituents, staff could bring these to the attention of the Board out of session.

Questions to Board members:

- 1. Do you agree with project staff's preliminary views in Agenda paper 14.2 on the main proposals in IASB ED/2013/8? Are there other issues you think should be raised?
- 2. Do you agree to finalise AASB's submission to the IASB out-of-session via the Chairman?