



Australian Government
**Australian Accounting
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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB Exposure Draft ED/2013/8 *Agriculture: Bearer Plants*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on Exposure Draft ED/2013/8 *Agriculture: Bearer Plants*. In formulating these comments, the AASB sought and considered the views of Australian constituents via comment letters and targeted outreach meetings. The comment letters received are published on the AASB's website.

Though we hold mixed views about the most desirable measurement basis for bearer plants, the AASB accepts that their nature is quite similar to property, plant and equipment. Accordingly, the AASB is of the view that bearer plants should be accounted for under IAS 16 *Property, Plant and Equipment*. IAS 16 allows a choice between cost and fair value, and therefore entities could elect to adopt fair value where they can overcome the practical challenges, and thereby reflect the effect of biological transformation through fair value measurement. The AASB considers the retention of this choice to be critical to Australia as a number of our reporting entities would be expected to continue to revalue bearer plants under IAS 16.

Consistent with this broad support, the AASB agrees that the accounting requirements for bearer plants before maturity should be the same as for other items of property, plant and equipment under IAS 16 that are not yet in a condition capable of operating in the manner intended by management. However, the AASB considers that an interpretation of the requirements of IAS 16 for bearer plants before maturity by the IASB (for example, by stating in the amendments or the Basis for Conclusions that bearer plants before maturity should be measured at accumulated cost) is not appropriate because this could be seen as interpreting IAS 16's application to property, plant and equipment that are not bearer plants. The AASB sees no reason for not revaluing bearer plants before maturity if that is also the basis for subsequent measurement.

The AASB does not support, for cost versus benefit reasons, the proposal to account for the produce growing on a bearer plant as a biological asset under IAS 41 *Agriculture* separately from the bearer plant itself. The AASB is concerned that this approach would increase the complexity of preparing financial statements for the purpose of reporting changes in value at an earlier point in time than is required by IAS 41. Given that the rationale for the proposals appears to be primarily for practical reasons, the AASB considers that the produce growing on a bearer plant should not be treated separately from the plant itself until such time as the produce is harvested.

The AASB's responses to the specific matters for comment in ED/2013/8 are included in the Appendix to this letter.

If you have any queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@asb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K. M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin M. Stevenson
Chairman and CEO

Question 1—Scope of the amendments

The IASB proposes to restrict the scope of the proposed amendments to bearer plants. The proposals define a bearer plant as a plant that is used in the production or supply of agricultural produce, that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Under the proposals, if an entity grows plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, it must continue to account for those plants within the scope of IAA 41 at fair value less costs to sell in their entirety (for example, trees that are cultivated for their lumber as well as their fruit).

Do you agree with the scope of the amendments? If not, why and how would you define the scope?

Although the AASB holds mixed views about the most desirable measurement basis for bearer plants, we can accept that their nature is similar to property, plant and equipment. Accordingly, the AASB considers that bearer plants should be accounted for under IAS 16 *Property, Plant and Equipment*. IAS 16 allows a choice between cost and fair value, and therefore entities could elect to adopt fair value where they can overcome the practical challenges, and thereby reflect the effect of biological transformation through fair value measurement. Retention of this choice is critical to Australia as a number of Australian reporting entities would be expected continue to revalue bearer plants under IAS 16.

The AASB agrees that the scope of the proposals should be limited to bearer plants. Unlike plants, the AASB considers that bearer livestock are not only *capable* of being sold but that sales do actually occur from time to time. In other words, they are not confined to a ‘bearer’ role. Further, there are usually active markets for breeding stock.

The AASB, therefore, agrees with limiting the scope to bearer plants that are not intended to be sold as living plants or harvested as agricultural produce, except for incidental scrap sales. Otherwise it would be more difficult and too judgemental to determine the main purpose of a bearer plant and the appropriate accounting (i.e. whether to account for it under IAS 16 or IAS 41). There would also be the issue of dealing with reclassifications between IAS 16 and IAS 41 if the main purpose of the bearer plant changes.

Produce on bearer plants

The AASB notes that the produce growing on bearer plants is excluded from the scope of the proposed amendments and would be accounted for under IAS 41 as biological assets. This would require such produce to be measured separately from the bearer plant at fair value less costs to sell at initial recognition and at the end of each reporting period prior to harvest. The AASB considers that this approach would inappropriately increase complexity and subjectivity in the financial statements, particularly as (a) the bearer plant itself could be

carried at either cost or revalued amount and (b) a revaluation of the bearer plant would be through other comprehensive income whereas the produce growing on bearer plants would be fair valued through profit and loss.

For practical reasons, the AASB considers that the produce growing on a bearer plant should not be treated separately from the plant itself, until such time as the produce is harvested. Delaying measurement to this point would substantially reduce the complexity in financial statements. The initial accounting for produce immediately after harvest should, therefore, be as currently required in IAS 41.

Question 2—Accounting for bearer plants before maturity

The IASB proposes that before bearer plants are placed into production (ie before they reach maturity and bear fruit) they should be measured at accumulated cost. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.

Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend?

The AASB agrees with the proposed addition of paragraph 22A to IAS 16, which would clarify that bearer plants before maturity are to be accounted for in the same way as self-constructed items of property, plant and equipment. However, the AASB does not consider it appropriate for the IASB to interpret the application of IAS 16's principles for bearer plants before maturity (i.e. by stating that they should be measured at accumulated cost, as the IASB has done in paragraph BC25 of the ED). The AASB is concerned that this could be seen as an interpretation of IAS 16's application to items of property, plant and equipment that are not bearer plants.

Question 3—Accounting for bearer plants before maturity

Some crops, such as sugar cane, are perennial plants because their roots remain in the ground to sprout for the next period's crop. Under the proposals, if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

The IASB believes that in most cases the effect of accounting for roots separately under IAS 16 would not be material and the IASB does not therefore believe that specific guidance is required.

Do you think any additional guidance is required to apply the proposals to such perennial crops? If so, what additional guidance should be provided and why?

For consistency of application, the AASB suggests clarifying in the definition that when part of a plant (for example the roots of sugar cane) is retained to bear produce for more than one period, that part of the plant would meet the definition of a bearer plant.

Question 4—Accounting for bearer plants after maturity

The IASB proposes to include bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for mature bearer plants subject to the requirements in IAS 16. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Do you agree that bearer plants should be accounted for in accordance with IAS 16? Why or why not? If not, what alternative approach do you recommend?

The AASB accepts that the nature of bearer plants is quite similar to property, plant and equipment and considers that they should be accounted for under IAS 16 either at cost or revalued amount. For practical reasons, the AASB also considers that the produce growing on bearer plants should not be treated separately from the plant itself, until such time as the produce is harvested.

Question 5—Additional guidance

The IASB proposes that the recognition and measurement requirements of IAS 16 can be applied to bearer plants without modification.

Are there any requirements in IAS 16 that require additional guidance in order to be applied to bearer plants? If so, in what way is the current guidance in IAS 16 insufficient and why?

The AASB considers that the requirements of IAS 16 can be applied to bearer plants without modification and additional guidance other than that reflected in the AASB’s responses to Questions 2 and 3 above is not necessary and indeed would be inappropriate to the extent it entails an interpretation of IAS 16. That might affect the application of IAS 16 to property, plant and equipment more generally (see, for example, the AASB’s response to Question 2 above).

Question 6—Fair value disclosures for bearer plants

Do you think either of the following types of disclosures about bearer plants should be required if they are accounted for under the cost model in IAS 16—why or why not:

- (a) the disclosure of the total fair value of the bearer plants, including information about the valuation techniques and the key inputs/assumptions used; or
- (b) disclosure of the significant inputs that would be required to determine the fair value of bearer plants, but without the need to measure or disclose the fair value of them?

The AASB does not consider that the disclosures mooted in Question 6 should be required. The AASB notes that, for entities that would elect to measure bearer plants at revalued amounts under IAS 16, the disclosures currently required in paragraph 77 of IAS 16 are broadly consistent with the disclosures mooted in the question. For entities that would elect to carry bearer plants at cost under IAS 16, the disclosures mooted would negate most of the

practical and operational benefits derived from scoping bearer plants into IAS 16. The AASB considers that IAS 16 should just be allowed to apply to bearer plants in the same way as it applies to other items of property, plant and equipment.

Furthermore, requiring disclosure of significant inputs that might be needed to determine the fair value of bearer plants without actually disclosing the fair values is at risk of resulting in ‘boilerplate’ disclosures with little informational value to users.

Question 7—Additional disclosures

Many investors and analysts consulted during the user outreach said that instead of using fair value information about bearer plants they use other information, for example, disclosures about productivity, including age profiles, estimates of the physical quantities of bearer plants and output of agricultural produce. They currently acquire this information via presentations made to analysts, from additional information provided by management in annual reports (for example, in the Management Commentary) or directly from companies.

Do you think any disclosures for bearer plants, apart from those covered in Question 6, should be required in addition to those in IAS 16? If so, what and why?

The AASB does not consider that disclosures should be required for bearer plants in addition to those currently in IAS 16. The AASB is of the view that it should be left to the entity to decide if any additional disclosures are warranted having regard to the specific facts and circumstances the entity faces, and the needs of the users of the entities financial statements, in relation to the entity’s bearer plants.

Question 8—Transition provisions

The IASB proposes to permit an entity to use the fair value of an item of bearer plants as its deemed cost at the start of the earliest comparative period presented in the first financial statements in which the entity applies the amendments to IAS 16. The election would be available on an item-by-item basis. The IASB also plans to permit early application of the amendments to IAS 16 and IAS 41.

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

The AASB agrees with the proposed transitional provisions as a practical way of effecting the proposed amendments.

Question 9—First-time adopters

The IASB proposes that the deemed cost exemption provided for an item of property, plant and equipment in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should also be available for an item of bearer plants.

Do you agree with the proposed transition provisions for first-time adopters? If not, why and what alternative do you propose?
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As noted in its response to question 1, the AASB can accept, and therefore agrees that bearer plants should be treated in the same way as items of property, plant and equipment. Accordingly, the AASB agrees that the deemed cost exemption for items of property, plant and equipment provided in IFRS 1 should also apply to items of bearer plants.

Question 10—Other comments

Do you have any other comments on the proposals?
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No.