9 October 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Via email: standard@aasb.gov.au

Dear Kevin

ED 245 Agriculture: Bearer Plants (proposed amendments to AASB 116 and AASB 141)

Thank you for the opportunity to comment on ED 245 (the ED). CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The ED proposes amendments to AASB 141 (IAS 41) *Agriculture* whereby plants that are only used as bearer biological assets and are expected to be used for more than one period will be accounted for under AASB 116 (IAS 16) *Property, Plant and Equipment*. We concur with the feedback the IASB has received in its user outreach that the fair value information about bearer plants is either of limited or no use. We think the same is true of all bearer assets. Accordingly, we support the proposal described in the ED as Option 1: the no-alternative-use model. While we can support the proposal in the ED to implement Option 3: the no-alternative-use model – plants, we do not think it goes far enough to address the current problems faced by entities applying AASB 141 (IAS 41) to bearer assets.

Our detailed responses to the questions posed in the ED are contained in the attached appendices. If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely

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Appendix – IASB Questions

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 IAS 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?

No, we do not agree with the proposal to limit the scope of the amendments only to Option 3: no-alternative-use model – plants. Instead, we support an expansion of the scope of the amendments to incorporate the proposal described in the ED as Option 1: the no-alternative-use model. Option 3's exclusion of bearer livestock seems to us to be more about establishing rules than principles. Please note that our responses to Questions 2-10 are made on the basis that the IASB will precede with its Option 3 proposal.

We consider that a wider scope could improve the quality of financial reporting and lead to greater consistency across agricultural entities.

We believe the issues raised by staff in relation to bearer livestock during the development of the ED are not so significant that they cannot be resolved. For example, while determining cost may be complex, it should not be any more difficult than determining the cost for bearer plants as described by staff in the February 2013 IASB Staff Paper Agenda Ref 4A – IAS 41 *Agriculture: Bearer Biological Assets (BBAs) - Accounting for bearer biological assets (remaining issues)*. The current version of IAS 41 *Agriculture* does not apply to harvested products at the point of harvest and not prior or subsequent to harvest.

Accordingly, before harvest, the product to be harvested is not accounted for separately from the biological asset from which it comes. As the proposals in the ED change this principle we suggest that the IASB might reconsider the appropriateness of this outcome.

In addition, depending on decisions made about the unit of account and bearer livestock, the complexities of determining the costs for bearer livestock may be further reduced (see also our response to Question 5 below). Refer below for an example as to how this may relate to livestock:

- Componentisation at the time of harvest: At the time of harvest, the harvested product (e.g., calf or macadamia nuts) will need to be separated from its bearer asset. Separating an asset into components that did not previously exist already occurs under IAS 16 *Property, Plant and Equipment*. For example, the owner of a parcel of land that was purchased with inseparable water rights and the legislation changes so that the water rights are now a separately tradeable asset. How is the cost allocated? What if the land had been previously revalued through Other Comprehensive Income and the previous land fair value included the value of the inseparable right, which can no longer be revalued as a separately tradeable intangible asset under IAS 38 *Intangible Assets* as an active market for the tradeable right did not exist? Allocating the fair value between the bearer asset and its harvested produce (e.g., the mother and its calf, or the macadamia tree and the macadamia nuts) based on their respective fair values would appear to be appropriate as it is the approach that we would expect to observe in accounting for the land and water rights example described above.

ED paragraph BC13 states "…that if a biological asset is intended to be sold as a living plant or harvested as agricultural produce after it has been used as a bearer biological asset for a period of time, apart from incidental scrap sales (for example if a plant is sold as firewood at the end of its productive life), fair value measurement would provide useful information about the future economic benefits from the future sale of the asset. Furthermore, if a biological asset is commonly sold, there will often be an active market for that asset meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement."

While some livestock bearers may have a higher than incidental scrap value at the end of their useful life, such a value (after deducting disposal and transport costs to abattoir etc.) is often not significant and not as relevant as the Board suggests in paragraph BC13. For example, we understand that when a hen's laying rates begin to decline, many are sent to a poultry processing plant and used in commercial food products. While the proceeds are likely to be higher than incidental, they are not likely to be significant. Also, having a residual value at the end of an asset's useful life is not a barrier to using the IAS 16 cost or revaluation models. IAS 16.53 states "The depreciable amount of an asset is determined after deducting its residual value. In practice…[it] is often insignificant…". We recommend that the proposed definition of bearers be changed so that it refers to insignificant residual value rather than to incidental scrap sales.

Question 2—Accounting for bearer plants before maturity

The IASB proposes that before bearer plants are placed into production (i.e., 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?

Yes, we agree with the proposal that the Standard requires that before bearer plants reach maturity and are placed into production that they should be measured at accumulated cost. This accounting treatment is more relevant and reliable for immature bearer plants and will provide useful information to users. However, as indicated in Question 1, we would recommend this accounting treatment be extended to other biological assets.
We note that paragraph 20 of IAS 16 states that when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management, subsequent costs are not recognised in the carrying amount of the property, plant and equipment. Therefore, we believe some guidance may be useful as to how the concept of 'reach maturity and bear fruit' may link to this discussion. For example, macadamia trees start producing macadamia nuts after 3 or 4 years but only reach commercial level of production when they are 7 years old.

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 the 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?

Yes, we agree with the proposals that the Standard requires that if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant. That said, we are not completely convinced that under this definition it is a matter of fact that sugar cane is a perennial plant.

We have been told that sugar cane grows perennially and the root system (the ratoon), which remains in the ground, will re-sprout from each sugar cane stalk. A maximum of four ratoon crops are typically grown before ploughing out the crop and replanting with either whole stalks or stalks cut up into shorter segments called setts. In other situations the sugar cane harvest and the plough out of ratoons may occur simultaneously, so according to the proposals the sugar cane described cannot be a perennial plant. We have been told that entities that are currently applying the Australian equivalent of IAS 41 adopt varied approaches to the valuation of sugar cane ratoons after the sugar cane harvest, i.e. whether a value is attributed to the living ratoon being a biological asset in the ground, or a nil value assigned.

Given that Question 3 specifically refers to sugar cane, we suggest that the Basis for Conclusions to the finalised Standard clarifies its treatment. We consider that a practical example may be necessary to help distinguish whether a bearer plant is immature or mature, in these circumstances.

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?

Yes, we agree with the proposal that the Standard permits an entity to account for its bearer biological assets under IAS 16, using either the cost or revaluation model.
As noted above in question 1, we believe that these proposals should also include livestock.

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?

Yes, in principle we agree with the proposal that the recognition and measurement requirements of IAS 16 apply without modification. However, we do have some concerns about the establishment of the unit of account to which the proposals would apply and the diversity in practice that might follow (see also our response to Question 1 above). We think it might be useful for the Board to undertake outreach to those countries that have adopted IFRS, but not IAS 41, and countries that adopted IFRS including IAS 41, but did not have an equivalent predecessor standard to IAS 41, to understand their experience in applying this concept. The outcome of that outreach could inform the finalisation of the Standard.

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. 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?**

No, we do not support the inclusion of the additional disclosures as they are not required for similar manufacturing or production assets, such as property, plant and equipment or intangible assets. Further, if the IASB requires these entities to disclose fair value information, it calls into question the whole premise of the proposed amendment.

Question 7—Additional disclosures

Many investors and analysts consulted during the user outreach said that instead of using the 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?

No, we do not support the inclusion of any additional disclosures on the basis that such disclosures are not required for similar manufacturing or production assets being property, plant and equipment or intangible assets.

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?

We support allowing retrospective application by class of bearer plant, including the effective reconstruction of the asset revaluation reserve. In addition, we support the transition provisions whereby an entity may elect to use fair value as deemed cost.

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?

We agree with the proposals.

Question 10—Other comments

Do you have any other comments on the proposals?

We think it would be useful to include some discussion in the Standard about the meaning of normal level of wastage, by specifically addressing the issue that many bearers will die before maturity, including as a consequence of the implementation of a planned thinning program.
We note the ED proposes to change IAS 23 *Borrowing Costs* to include bearer plants (before maturity) as a qualifying asset. We think it might be useful for the Basis for Conclusions to the finalised Standard to include a specific reference to the fact that a bearer plant, before maturity, will be a qualifying asset for the purpose of IAS 23 and certain borrowing costs may be eligible for capitalisation.

Appendix – AASB Specific Matters

1. **Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

    a. **not-for-profit entities; and**
    b. **public sector entities, including GAAP/GFS implications?**

    The Board notes that 'bearer plants' as defined in the Exposure Draft appear to be included in what the ABS GFS Manual describes as 'cultivated assets', which are classified under GFS as non-financial produced assets in the GFS balance sheet. Bearer plants that meet the GFS definition of 'cultivated assets' would not be expected to be classified as inventories under either GAAP or GFS. The proposal that bearer plants be measured at accumulated cost before they reach maturity could give rise to a GAAP/GFS difference that does not currently exist. However, the proposal that mature bearer plants be measured at either cost or fair value under AASB 116 would not be expected to give rise to a new GAAP/GFS difference, given the requirement in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for a GAAP choice to be limited to that which aligns with GFS. Changes in fair value of bearer plants would normally be presented in 'other comprehensive income' (rather than profit or loss) under the proposals – which could be seen as bringing GAAP into closer alignment with GFS, which classifies asset price changes in 'other economic flows'.

    Apart from the issues articulated above, we are not aware of any others arising from the ED specifically pertaining to not-for-profit entities and public sector entities.

2. **Overall, would the proposals result in financial statements that would be useful to users?**

    Yes, we believe the proposals would result in financial statements that would be more useful to users. We believe that the usefulness of the financial statements could be improved further by expanding the scope of the amendments to incorporate the proposal described in the ED as Option 1: the no-alternative-use model.

3. **Are the proposals in the best interests of the Australian economy?**

    We have asked the IASB to consider expanding the scope of the amendments to incorporate the proposal described in the ED as Option 1: the no-alternative-use model, as we do not believe Option 3: the no-alternative-use model - plants addresses all of the current problems faced by entities applying AASB 141 (IAS 41) to bearer assets including livestock. However, we do acknowledge that Option 3 does address the concerns of some preparers and their issues with applying AASB 141 (IAS 141). Accordingly, was the IASB to proceed with the implementation of Option 3, we believe it is in the best interests of the Australian economy for the AASB to do the same and then separately discuss with the IASB about the outstanding issues.

4. **Unless already provided in response to specific matters for comment 1 – 3 above, do you have any comments on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative?**

    We concur with the feedback the IASB has received in its user outreach that the fair value information about bearer plants is either of limited or no use. Currently, some entities applying AAB 141 (IAS 41) incur a significant cost in producing information that is of little benefit to users. We do not expect there to be any negative consequence from the implementation of the proposal.