Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

7 November 2013

Dear Kevin

Re: AASB ED 244 *Insurance Contracts* and ED 255 *Agriculture: Bearer Plants*

I am enclosing a copy of PricewaterhouseCooopers' responses to the International Accounting Standards Board's exposure drafts

- ED/2013/7 *Insurance Contracts* and
- ED/2013/8 *Agriculture: Bearer Plants*.

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment
We are not aware of any regulatory or other issues that could affect the implementation of the proposals in either exposure draft by not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, we believe the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

Reduced disclosure requirements for insurance contracts
As explained in our previous submission on ED 201, we generally agree with the AASB's approach of not specifying Tier 2 disclosures for insurance contracts, based on the assumption that entities with material insurance activities would generally be publicly accountable. However, this does not have to be the case. For example, a captive insurer who is a wholly-owned subsidiaries without external stakeholders would not normally be publicly accountable.

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Under the current differential reporting regime, these entities can reduce their disclosure burden by preparing special purpose financial reports. However, should the Board decide in the future to change the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements', all entities with insurance contracts would be required to apply the proposed insurance contracts disclosures regardless of whether they are publicly accountable or not, and whether users of the financial statements would require this kind of information. This would be an additional burden for entities such as captive insurers.

We therefore recommend that the Board reviews the application of the proposed disclosures to non-publicly accountable insurers using the Tier 2 Disclosure Principles should the reporting entity concept be revised at a future point in time.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

Paul Brunner
Partner, PricewaterhouseCoopers

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

28 October 2013

Dear Sir/Madam

Exposure Draft ED/2013/8: Agriculture: Bearer Plants – *Proposed amendments to IAS 16 and IAS 41* (the Exposure Draft/the ED)

We are responding to your invitation to comment on the Exposure Draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We do not support the proposed amendment to remove bearer plants from the scope of IAS 41 *Agriculture*. We appreciate the difficulties associated with fair value measurement of long lived non-financial assets. However, as explained below, we do not see the conceptual basis for treating bearer plants differently from other biological assets. We suggest that the Board may want to reconsider IAS 41 in its entirety.

IAS 41 currently has four main categories of biological asset; bearer, consumable and plant or animal. The proposed amendment would result in one subcategory, bearer plants, being accounted for differently to all other biological assets. All agricultural assets share similar features and therefore the accounting, whether this is a cost or fair value model, should be similar. The Exposure Draft is not persuasive as to why one subcategory should be accounted for differently, thus it may be appropriate to reconsider IAS 41.

We attach our responses to the specific questions in the invitation to comment in Appendix 1.

We have identified a number of practical application issues that we believe need to be addressed through guidance if the Board proceeds with this amendment. These are outlined in Appendix 2.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497), or Mary Dolson (020 7804 2930).

Yours faithfully

PricewaterhouseCoopers

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Appendix 1 - Detailed response to ED/2013/8 – Agriculture: Bearer Plants

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?

We do not support the proposed amendment to remove bearer plants from the scope of IAS 41 *Agriculture*. We do not see the conceptual basis for treating one type of biological asset differently from others.

BC14 of the current standard explains that the Board previously agreed that biological transformation is best reflected through the use of a fair value model.

Biological transformation is defined in IAS 41 as "the process of growth, degeneration, production and procreation that causes qualitative or quantitative changes in biological assets." Although the process of growth may have plateaued for mature bearer plants, degeneration, production and procreation will continue for the full life cycle.

The ED asserts that bearer animals should remain within the scope of IAS 41 as they will often have an alternative use; i.e. they can be held to bear produce or consumed This same principle could be applied to bearer plants. Whilst many bearer plants would be sold together with the land this is not applicable to all, for example gum trees and flower bulbs in the horticulture sector.

The proposed amendment would result in a bearer plant being within the scope of IAS 16 and its related produce remaining in the scope of IAS 41. Introduction of a specific rule without detailed guidance is likely to lead to diversity in practice and numerous practical application issues.

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?

The ED does not provide a persuasive basis to distinguish bearer plants from other long lived biological assets. Much of the development to maturity is dependent on natural processes and environmental factors. This seems very distinct from self-constructing an asset.

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Further, it is clear when a machine is in the location and condition capable of being operated however for a bearer plant this may be more subjective.

Most plants have a life cycle along the following lines:

- very early years where they are just growing
- after a few years they start to produce limited quantities of produce
- at some point they reach peak production, which may last many years
- eventually they begin to decline until, finally, they are removed and replaced by new plantings

Entities may take different views as to the point at which plants are in a "condition necessary to bear produce". It may be when they first bear the produce, when they produce commercial quantities, or when they reach peak production. This may lead to diversity in practice.

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?

All bearer assets are perennials. We do not see a basis in the ED to treat perennials differently. We also think that this accounting could have a material impact.

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 of 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?

We do not agree that bearer plants alone should be within the scope of IAS 16. Our view is that all biological assets share similar features and therefore the accounting for them should be the same.

Respondents expressed concerns about the cost, complexity and reliability of fair valuations of bearer plants in the 2011 Agenda Consultation. Companies however, have been following the fair value principles of IAS 41 for over 10 years and have models in place to calculate fair value. The fair value of a bearer plant is based on the future cash flows from its expected agricultural produce. We would question how this would differ across classes of assets. For example, is it easier to estimate the fair value of a forest with a 100 year harvest or an apple tree with perhaps 20 years of individual harvests?

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We would suggest that the IASB might reconsider IAS 41 in its entirety as a larger project and consider whether a fair value model is appropriate for biological assets and if so how gains and losses should be recognised.

The ED concludes that a fair value model is not appropriate for bearer plants. We struggle to see why therefore the IAS 16 revaluation model would be acceptable. If the Board proceeds with the amendment we would suggest not permitting the use of the revaluation model in IAS 16.

Question 5 – Additional Guidance

The IASB proposed 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?

We have detailed a list of practical application issues in Appendix 2 that are likely to arise from the amendment that might benefit from additional guidance.

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?

It seems inconsistent to conclude that fair value information for bearer plants is not relevant but then require extensive fair value disclosures.

However, historic cost information has less predictive value. Users of the accounts would be seeking additional disclosure and these would generally be the inputs used in a fair value model. For example area of the farm, age profiles of crops, average annuals yields expected, number of harvests expected over the life of the plants; risks associated with the yields etc.

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?

See our response to question 6.

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 agree with the transition provisions for those entities already complying with IAS 41.

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 deemed cost is appropriate for first time adopters.

Question 10 – Other comments

Do you have any other comments on the proposals?

We have identified a number of practical application issues of the proposed amendment. If the amendment goes forward we recommend that additional guidance is added for these areas.

Appendix 2 – Practical application issues of the proposed amendment

- **Revaluation** – Additional guidance is needed to explain how the revaluation model would work under IAS 16 for bearer plants if the Board decide to allow the use of this model.

  Example: For an apple tree, under IAS 41 the fair value would be based on the future cash flows from the apples. If the apples remain in IAS 41 and the tree moves to IAS 16 how would a fair value for the tree be ascertained?

- **Maturity** – Additional clarity is needed to explain at what point bearer plants are in a location and condition to bear produce. There is not enough guidance on what is mature. Is it when the first produce grows or when a full yield is grown. If this is a policy choice this could lead to diversity in practise.

  Example: An oil palm may be fruiting in a limited way by its 3rd year from planting. It may not reach full production maturity until its 7th year from planting. When does a sugar cane root reach maturity (e.g. when it shoots above the ground or when it reaches full height?)

- **Identifying the biological asset versus the produce** – For some plants it is hard to distinguish between the bearer plant and the produce.

  Example: In tea bushes only some of the top leaves are picked and used for tea but the rest are left on the bush.

- **Fair value of produce when it is not at the point of harvest** - Under the proposed amendment the bearer plant is in IAS 16 and the agriculture produce is measured at fair value in IAS 41. Many plants are in a constant state of production and it is unclear what accounting is required if there is partly grown fruit at the reporting date.

  Example: A grape vine is pruned, starts to grow and shoots out new wood; produces a flower bud; the bud is fertilised; the flower grows, dies and a grape develops – at what point do you have produce? And at what point therefore would you recognise the fair value?

  Example: How would you value the product on the plant for assets like rubber trees and maple trees where it is the sap that is harvested?

- **Scope issues** –For some plants deciding if the asset is in scope of IAS 16 or IAS 41 could be challenging.

  Example: A cucumber bears fruit but has a very short harvest (under a year.) Although this is a bearer plant, due to its short life cycle would it still be in the scope of IAS 41?

  Example: Some plants could be bearer or consumable and the decision of how they will be used is dependent on a future event. When a gum tree is planted, it usually has one harvest of sap. Dependant on the quality of the wood and the market position the tree could be kept for a second harvest as fire wood. This decision is only made in year two so it would be hard to determine the scope on planting.