

4 November 2013

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

Dear Hans

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

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB ED/2013/8 *Agriculture: Bearer Plants*. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that are consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedbacks after having initially developed through the AOSSG Agriculture Working Group.

AOSSG members appreciate the IASB's efforts in reviewing the current requirements under IAS 41 *Agriculture*, in particular, the accounting for bearer plants, and considering the similarities in nature between a bearer plant that grows produce over its productive life and property, plant and equipment used in the manufacture of goods.

Overall, AOSSG members are broadly supportive of the general direction of the proposals in ED/2013/8.

Consistent with this broad support, AOSSG members generally agree:

- with the limited scope amendments to bearer plants proposed by the IASB, however, some

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AOSSG members have concerns about the proposed accounting for produce growing on bearer plants and the potential wide interpretation of when bearer plants have matured; and

- that the accounting requirements for bearer plants before maturity should be the same as for 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.

Furthermore, AOSSG members do not consider that disclosures should be required for bearer plants in addition to those currently required in IAS 16.

The views of the AOSSG are explained in more detail in the Appendix. If you have any questions regarding any matters in this submission, please contact us.

Yours sincerely,



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## APPENDIX – Detailed comments of the AOSSG on 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?

AOSSG members broadly agree with the limited scope amendments to bearer plants proposed by the IASB.

Unlike plants, bearer livestock are not only capable of being sold at any point in time but that sales do actually occur from time to time. In other words, livestock are not confined to a ‘bearer’ role. Further, there are usually active markets for breeding stock. Accordingly, this AOSSG member 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.

Some AOSSG members suggest that the IASB should review the accounting treatment for bearer livestock when the IASB conducts a comprehensive review of IAS 41 *Agriculture*.

AOSSG members have further comments about the scope of the amendments to produce growing on bearer plants (refer responses to Question 10 below).

### 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?

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AOSSG members broadly agree with the proposed accounting treatment for bearer plants before they reach maturity. A few of these AOSSG members raised the following concerns.

- (a) One AOSSG member 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 ED/2013/8). This AOSSG member 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.
- (b) Two AOSSG members believe there could be various interpretation of the proposed accounting for bearer plants on maturity. Some entities may interpret 'maturity' as the point when bearer plants no longer undergo significant biological transformation, which is when bearer plants reach their full yield potential; while some entities may interpret 'maturity' as the point when bearer plants bear their first commercially viable produce but continue to undergo biological transformation that improves their yield.

Under the former interpretation, depreciation would commence only when bearer plants reach full yield potential, which could occur long after they bear their first commercially viable produce. Under the latter interpretation, determining the amount of costs directly attributable to agricultural activity that increases the yield to be capitalised as part of the cost of bearer plants could be practically challenging and complex.

Accordingly, the IASB should clarify when bearer plants are considered matured.

### 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?

AOSSG members agree with the proposed inclusion of roots of perennial crops in the definition of bearer plants.

However, for consistency of application, we suggest clarifying in the definition that only the part of a plant (for example the roots of sugar cane) that is retained to bear produce for more than one period would meet the definition of a bearer plant and not the whole plant.

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### 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?

AOSSG members agree with the proposal of the IASB to account for bearer plants in accordance with IAS 16 because bearer plants are used to bear agricultural produce in a manner similar to the way property, plant and equipment is used to produce goods.

For practical reasons, a few of these AOSSG members 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. Refer to further comments in response to Question 10 below.

### 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?

Most AOSSG members believe that the requirements of IAS 16 provide sufficient guidance for bearer plants.

One AOSSG member considers additional guidance, other than that reflected in 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, which might affect the application of IAS 16 to property, plant and equipment more generally.

### 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?

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It is believed that once it is accepted that the bearer plants are of the nature of plant and equipment, the existing disclosure requirements in IAS 16 should be applicable. Accordingly, the same disclosures which are required for property, plant and equipment should be required for bearer plants and no additional disclosures should be required. It is also believed that the additional fair value information for bearer plants is less relevant for the understanding of the financial performance of the reporting entities and also imposes undue cost on preparers.

Furthermore, one AOSSG member considers 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?

Consistent with our response to question 6 above, AOSSG members do not consider that disclosures should be required for bearer plants in addition to those currently in IAS 16. If disclosures about productivity are required in addition to the accounting for bearer plants in IAS 16, those disclosures would be repetitive in certain instances because IAS 41 already requires ‘disclosure of output of agricultural produce during the period’.

One AOSSG member notes that the disclosure about productivity of bearer plants may be useful information. However, those disclosures should not be mandated for inclusion in the financial statements. Entities should be given an option to disclose the productivity information in the annual report similar to that provided in the current IAS 41 paragraph 46.

### **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?

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Those AOSSG members that have already adopted IFRS, agree with the proposed transitional provisions as a practical way of effecting the proposed amendments.

However, one of these AOSSG members recommends that the IASB provides sufficient implementation lead time to allow entities that may choose to apply the amendments retrospectively to extract the necessary cost information, which could require considerable efforts particularly for bearer plants with relatively long life cycle.

### **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?

IAS 41 is not currently applied in some AOSSG member jurisdictions. These AOSSG members agree with the proposed transition provisions for first-time adopters.

### **Question 10 – Other comments**

Do you have any other comments on the proposals?

As indicated from our response to Questions 1 and 4 above, AOSSG members note 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 growing 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. AOSSG members consider that this approach would inappropriately increase complexity and subjectivity in the financial statements.

In particular, some of these AOSSG members consider (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. Accordingly, these AOSSG members consider 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.

For practical reasons, some AOSSG members consider 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. Furthermore, because growing produce typically have a relatively short growth period, any loss of fair value less costs to sell information at period end is unlikely to have a substantial impact on the decision usefulness of financial statements to users. The initial

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accounting for produce immediately after harvest should, therefore, be as currently required in IAS 41.

Should the IASB proceed with its current proposal to separately measure growing produce from the bearer plant, the IASB should clarify when to initially recognise the growing produce; and provide more guidance on how to measure non-financial items such as agriculture matters in IFRS 13 *Fair Value Measurement* as the guidance in the standard is currently orientated towards financial instruments.