



28 October 2013

Our ref: ICAEW Rep 155/13

Your ref: ED/2013/8

Hans Hoogervorst  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Dear Hans,

**ED/2013/8 - Agriculture: Bearer Plants**

ICAEW is pleased to respond to your request for comments on *ED/2013/8 Agriculture: Bearer Plants*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### AGRICULTURE: BEARER PLANTS

**Memorandum of comment submitted in October 2013 by ICAEW, in response to the IASB exposure draft Agriculture: Bearer Plants published in June 2013.**

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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Agriculture: Bearer Plants* published by the IASB in June 2013.

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems. In preparing this response the faculty has been assisted by ICAEW's Farming and Rural Business Group.

## MAJOR POINTS

### Support for the initiative

5. Under IAS 41 *Agriculture*, the distinction between bearer biological assets and consumable biological assets is currently limited to a disclosure requirement. Therefore, whilst there is recognition that there are different classes of biological assets, this is not reflected in the current accounting treatment. We therefore welcome the proposed amendments which seek to align more closely the accounting treatment of bearer biological assets with the underlying economic substance of these assets and to ensure comparability with similar assets used in a similar way.

### Scope of the proposals

6. The research conducted by the IASB in preparation for this exposure draft indicates that investors, analysts and other users of financial information do not, in general, find fair value measurements for bearer biological assets appropriate or useful. The general conclusion that bearer biological assets are operated in a similar way to a manufacturing process - and should therefore be accounted for like property, plant and equipment - is, in our opinion, a reasonable assessment. Therefore, having reached this well documented conclusion, we are not convinced, as discussed below, by the reasons that the IASB has given for limiting the scope of these proposals to bearer plants which have no alternative use.
7. We are aware that, in reaching this decision, the IASB has considered how applying the cost model to livestock can be complex and the possible difficulties in applying judgement where an asset has both a bearer and consumable attribute. However, we believe that further consideration should be given to the proposed scope. In our opinion, business models which involve biological assets tend to be economically similar, whether they involve plants or livestock. Therefore, the potential issues highlighted by the IASB should be balanced against the benefits of applying a common approach to the accounting treatment of all bearer

biological assets. It would be unfortunate, having clearly established that bearer biological assets exhibit unique characteristics that warrant a different accounting treatment, if the final proposals were to be restricted to a very specific category of biological bearer assets (bearer plants), thus reducing the comparability between similar assets used in a similar way.

## RESPONSES TO SPECIFIC QUESTIONS/POINTS

### Question 1

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?

8. We welcome these proposals, which are intended to align the accounting treatment of bearer biological assets with both their underlying economic substance and between similar assets used in a similar way. However, we have some reservations concerning the proposed scope, which is based on a 'no alternative use plants only' model. Such a model excludes livestock and any biological assets which have both a bearer attribute and a consumable attribute, for example a sheep reared for its wool and for its meat.
9. One of the key drivers behind the proposed changes to IAS 41 has been the generally accepted view that mature bearer biological assets no longer undergo biological transformation and that the operation of these assets is similar to that of property, plant and equipment. For this reason, fair value measurements are not considered an appropriate measure for these assets. It is also noted in the basis for conclusions that fair value measurements are often costly, complex and unreliable due to an absence of an active market for bearer biological assets. Furthermore, the volatility in fair value calculations from year to year means that investors frequently adjust the reported profit or loss to eliminate the effects of changes in fair value of bearer biological assets. Therefore, having established the reasons why bearer biological assets, as a defined group, should be accounted for differently, we do not believe that the proposals should be restricted to bearer plants which have no alternative use.
10. Livestock bearer biological assets, which as noted above are not within the scope of the proposals, appear to be excluded due to the expected complexity in applying the cost model to this category of asset. It is also argued that fair value measurements are generally easier to obtain for livestock as the market is more active. Whilst we agree that these are important considerations, we believe that they should be balanced against the wider benefits of adopting a common approach to the accounting for bearer biological assets. Business models which include bearer biological assets tend to be economically similar, whether they involve plants or livestock. Therefore, excluding livestock would result in different accounting treatment for economically similar biological assets and reduce the comparability of financial information.
11. Equally, the scope of the proposals excludes bearer plants which are also intended to be 'sold as a living plant or harvested as agricultural produce, except for scrap sales' (ie, bearer plants which have an alternative use). This is due to the expected complications involved with judging whether a biological asset, which has both bearer and consumable attributes, is in fact predominantly used as a bearer biological asset and should be accounted for under IAS 16. However, we believe that limiting the scope in this way may introduce an arbitrary division in the accounting for bearer plants (indeed, all bearer biological assets) which, in addition to reducing comparability, may result in situations whereby the accounting treatment does not

reflect the underlying economic substance of the biological asset or the company's business model.

12. We recommend that the IASB considers widening the scope of the proposed amendments to include livestock and assets which are predominantly used as bearer biological assets.

#### Question 2

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?

13. We agree that bearer plants, before they reach maturity and bear produce, should be measured at accumulated cost. We accept that the lack of an active market for these assets can reduce the reliability of the fair value measurements and can limit the use of this information to users of the financial statements.

#### Question 3

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?

14. We agree that plants which are produced on an annual basis because their roots remain in the ground from one period to the next should be classified as bearer plants. We do not believe that further guidance is required on this matter.

#### Question 4

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?

15. We agree with the assessment that bearer plants, once mature, do not undergo further significant biological transformation and that their operation is similar to that of a manufacturing process. Therefore, we support the proposal that bearer plants should be accounted for in accordance with IAS 16.

#### Question 5

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?

16. We believe that in general the principles of IAS 16 can be effectively applied to bearer plants. However, we would welcome a review of whether the principles for the assessment and calculation of impairments and the treatment for government grants outlined in IAS 16 can be logically applied to bearer plants.

### Question 6

**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?**

17. We do not support either of the proposed disclosures. As noted above, fair value measurements for bearer biological assets can often be unreliable due to the lack of an active market in these assets. Further, as bearer plants are mostly held for the purpose of bearing produce, rather than for sale (other than scrap) they are not likely to realise their fair value which further limits the usefulness of this information to the users of the financial statements. If fair value information is easy for a company to obtain and is considered useful additional information for the users of the financial statements, then entities should have the option to provide it. However, it should by no means be a mandatory requirement which extends to all accounting for bearer plants under the cost model in IAS 16, risking additional cost for no benefit and cluttering up the financial statements as a consequence.

### Question 7

**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?**

18. We do not agree that additional non-financial information about bearer plants should be disclosed in the financial statements. Agricultural activity is highly diverse and companies are likely to apply very different non-financial metrics to analyse their business. To require the disclosure of specific types of non-financial information may result in companies producing information which is not relevant to their business.
19. Nor is it clear why the IASB should choose to require such information for this industry only when the same principles apply to other types of business who produce non-financial metrics to describe their business. Research conducted by the IASB for the purpose of this exposure draft indicates that investors and analysts often use other non-financial information relating to bearer plants instead of the fair value information. This information is obtained from the front-end of annual reports, analyst presentations or received directly from companies. Whilst it is clear that other information is indeed relevant to investors and analysts we do not agree that it belongs in the financial statements. Non-financial information that is significant and relevant to an understanding of the business is likely to be included in the management commentary of the annual reports, which is outside the remit of accounting standards. Indeed, this is cited as a key source already used by these stakeholders in obtaining this information.

### Question 8

**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?**

20. We support the proposal to permit companies to elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the first financial statements in

which the entity applies the amendments to IAS 16 and IAS 41, and to use the deemed cost at the date.

21. We agree with the proposal to permit early application of the amendments.

**Question 9**

**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?**

22. We agree with the proposal to permit companies to use the fair value as deemed cost on first time adoption of International Financial Reporting Standards.

**Question 10**

**Do you have any other comments on the proposals?**

23. We have no further comments at this stage.

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