STAFF PAPER

Due Process Oversight Committee

27 May 2014

Contact: Michelle Fisher mfisher@ifrs.org

Agriculture: Bearer Plants: Due process 'lifecycle' review

Introduction

1. This paper summarises the due process steps completed for the IASB's *Agriculture: Bearer Plants* project. The limited-scope project will result in amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* that will define a bearer plant (a subset of biological assets) and include bearer plants within the scope of IAS 16.

2. Appendix A of this paper summarises discussions with the Trustees and the DPOC on this project. Further details of the due process steps considered by the IASB were contained in the Due Process Paper presented to the IASB in April 2014 (a copy of that IASB agenda paper 14 was circulated to the DPOC under cover of an e-mail message from Henry Rees on 14 April 2014). At that meeting, all IASB members confirmed that they are satisfied that the IASB has completed all of the necessary due process steps on the project to date. An updated version of the due process protocol table in Appendix B of Agenda Paper 14 has been included as Appendix B in this paper.

3. In addition:

   (a) Appendix C of this paper reproduces the dissenting opinions of two IASB members who oppose the issuance of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41); and

(b) Appendix D reproduces the Effects Analysis to be issued with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41).

Background

4. Prior to the 2014 amendments, IAS 41 *Agriculture* required all biological assets related to agricultural activity to be measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement.

5. Stakeholders told the Board that they think that fair value measurement is not appropriate for mature bearer biological assets such as oil palms and rubber trees because they are no longer undergoing significant biological transformation. The use of mature bearer biological assets such as these is seen by many as similar to that of manufacturing and, consequently, they think that a cost model should be permitted for those bearer biological assets, because it is permitted for property, plant and equipment. These interested parties also said that they had concerns about the cost, complexity and practical difficulties of fair value measurements of bearer biological assets in the absence of markets for those assets, and about the volatility from recognising changes in the fair value less costs to sell in profit or loss. Furthermore, they asserted that investors, analysts and other users of financial statements adjust the reported profit or loss to eliminate the effects of changes in the fair values of these bearer biological assets.

6. Most respondents who mentioned agriculture in their responses to the Board's 2011 Agenda Consultation raised concerns in relation to plantations, for example oil palm and rubber tree plantations, and favoured a limited-scope project for these bearer biological assets to address the concerns in paragraph 5. Only a small number of respondents favoured a broader consideration of IAS 41 or a Post-implementation Review, or said there is no need to amend IAS 41.

Due process steps

7. Before the limited-scope project for bearer biological assets was added to its work programme, the Board was monitoring work undertaken by the Asian-

Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal that would remove some bearer biological assets from the scope of IAS 41 and account for them in accordance with IAS 16. Those proposals were discussed several times by national standard-setters, the IASB Emerging Economies Group (EEG) and the IFRS Advisory Council. Feedback from these meetings indicated strong support for the AOSSG/MASB proposals, for the Board to start a limited-scope project for bearer biological assets, and also confirmed that the views expressed by the interested parties in paragraphs 5-6 seemed to be widespread.

8. The due process steps taken by the IASB beginning with the proposal to add a limited-scope project on BBAs to the IASB's agenda in September 2012 up until giving staff permission for balloting the final amendments in April 2014 are described in paragraphs 6-16 of IASB Agenda Paper 14. An updated version of the due process protocol table has been included as Appendix B.

Responses to the Exposure Draft (ED)

9. The Board received 72 comment letters on the ED. The vast majority of respondents supported the proposal in the ED to account for bearer plants in accordance with IAS 16, thereby permitting a cost model. The following were the three main requests by respondents.

    (a) extend the scope of the amendments to other biological assets (see paragraphs 11-15);

    (b) do not require fair value measurement of growing produce (see paragraphs 16-18); and

    (c) provide guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it reaches maturity (see paragraphs 19-20).

10. As a result of the Board's redeliberations of the issues raised on the ED, only

three changes were made to the proposed amendments in the ED, other than minor drafting changes. Those three changes were.

(a) modifying criterion (c) of the definition of a bearer plant;

(b) adding a clarifying sentence to the transition provisions; and

(c) exempting entities from the disclosure requirements in paragraph 28(f) of IAS 8 for the current period in both the amendments to IAS 16 and the amendments to IAS 41.

Extending the scope of the amendments to other biological assets

11. Many respondents to the ED said that the concerns outlined by interested parties in paragraph 5 apply equally to other biological assets, such as bearer livestock and other plants used to produce agricultural produce. These respondents said that there was no conceptual basis for singling out bearer plants and that all biological assets used in the production or supply of agricultural produce should be accounted for in the same way.

12. During redeliberations of the proposals in the ED, the Board noted that the project was added to the Board's agenda to respond to concerns raised by respondents to the 2011 Agenda Consultation, which were raised primarily about plants used solely to bear agricultural produce (ie bearer plants as defined in the ED), for example, oil palm and rubber tree plantations. When the limited-scope project was added to the Board's agenda, the Board had noted that it did not have the resources at that time to perform a comprehensive review of IAS 41. However, the Board had observed that a limited-scope project could be addressed quickly.

13. Most respondents to the ED who suggested expanding the scope to livestock did not acknowledge that a key reason the Board limited the scope to bearer plants was the complexities of measuring the initial cost of bearer livestock. A few respondents disagreed with the Board's view that a cost model would be complex to implement for bearer livestock and noted that cost-based models are used for livestock in some jurisdictions. However, they did not

provide any further information on how a cost model like the one in IAS 16 can be applied to livestock. One respondent said that it has developed its own livestock costing system for management reporting and livestock costs are modelled off readily-available market cost data. The Board noted that use of market cost data implies that the approach is not consistent with the IAS 16 cost model because it uses fair value information, for example, fair value at birth followed by accumulated subsequent costs.

14. The Board observed that before and during development of the amendments it had received significant information from interested parties about the issues of applying a fair value model to bearer plants, and the consequences of including bearer plants in IAS 16. However, the Board noted that it had received only limited information about these issues within the context of other biological assets. The Board agreed that the scope of the project should not be expanded without understanding whether IAS 16 is appropriate and can be applied consistently to those biological assets. The Board observed that obtaining this understanding would take time and delay completion of the ED. The Board also noted that such requests for an expanded scope would increase the complexity of the project and raise conceptual issues that did not belong in a limited-scope project but rather in a comprehensive review of IAS 41.

15. The Board agreed that the amendments address an urgent need for plantation entities and are generally perceived by respondents to result in a significant improvement in financial reporting. Consequently, the Board decided not to expand the scope of the amendments with the aim of finalising the amendments quickly.

Fair value measurement of growing produce

16. The Board observed that the produce is a consumable biological asset growing on the bearer plant and the growth of the produce directly increases the expected revenue from the sale of the produce. Consequently,

fair value measurement of the growing produce provides useful information to users of financial statements about future cash flows that an entity will actually realise. Many respondents to the ED acknowledged that they understood the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges.

17. The Board acknowledged that measuring produce growing on bearer plants at fair value less costs to sell might sometimes be difficult to apply in practice. However, it was noted that similar difficulties are encountered when measuring the fair value less costs to sell of produce growing in the ground. Consequently, the Board decided that it would be inappropriate to provide additional relief from fair value measurement for produce growing on a bearer plant and not also for other biological assets within the scope of IAS 41.

18. The Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemptions in paragraphs 10(c) and 30 of IAS 41. The Board noted that this limited-scope project was added to its agenda with the narrow objective of considering a scope amendment for some or all bearer biological assets and that it was not intended to address the fair value model in IAS 41. Consequently, the Board agreed not to further discuss the exemptions in IAS 41 as part of this project.

Guidance on when a bearer plant reaches maturity

19. Most respondents to the ED requested additional guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it is deemed to have reached maturity. For example, an oil palm may start to grow produce after two years, but only reach its maximum yield after seven years. Respondents suggested either defining the date of maturity to be 'the date of the first harvest of

commercial value' or 'the date commercial quantities of produce are produced'.

20. The Board noted that without further clarification these terms would not assist entities in applying judgement in this area and would be likely to lead to interpretation requests in the future. The Board also noted that a similar scenario arises for a factory or retail outlet that is not yet capable of operating at full capacity and did not think that this was a major issue in practice. Consequently, the Board decided not to add guidance in this area.

User outreach

21. In their responses to the 2011 Agenda Consultation plantation companies asserted that shareholders, analysts, and other users of their financial statements disregard the fair value changes of bearer plants in their analyses. Several listed plantation companies provide additional disclosures on the face of their statement of comprehensive income that exclude changes in the fair value of bearer plants from profit or loss. They also do this for internal reporting.

22. During the project the staff took additional outreach to seek the views of users of financial statements of entities with bearer plants. The staff presented the feedback received during this outreach at the December 2012 IASB meeting. A summary of the main feedback is provided in paragraph 23. The feedback was consistent with the results of a survey of analysts specialising in plantation companies performed by the Malaysian Accounting Standards Board (MASB) in 2010.

23. Nearly all investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants has limited use to them. The main reasons given by the investors and analysts were:

    (a) information about operating performance and cash flows is more relevant to their forecasting and analysis. Consequently, they eliminate changes in the fair value less costs to sell of bearer plants from the figures used for their analysis.

(b) there are concerns about relying on the fair value measurements because valuations involve significant management judgement, have the potential for manipulation, and assumptions vary significantly between companies.

(c) fair value information about bearer plants is not very useful without fair value information about the related land, land improvements, agricultural machinery, etc.

24. One user representative group responding to the Exposure Draft acknowledged that investors and analysts in the staff outreach said fair value information regarding bearer plants was of limited use without fair value information for land, agricultural machinery etc, but said instead of eliminating fair value information for bearer plants, to best serve investor needs entities should be required to provide the fair value of the components (ie bearer plants and land) separately, and as a combined whole. This would enable users to determine when the economics (i.e. highest and best use) of the assets change.

25. The IASB noted that there is also no clear basis for requiring agricultural entities to provide fair value disclosures for their land when these disclosures are not required for entities in other industries. The IASB further acknowledged that the limited-scope project was added to its agenda with the narrow objective of considering a scope amendment for bearer plants and was not intended to address fair value disclosure requirements for other assets in IAS 16. Consequently, the IASB decided not to require additional fair value disclosures for entities with bearer plants.

Appendix A

Agriculture: Bearer Plants forthcoming amendments to IAS 16 and IAS 41 due process life cycle review: Reporting to the Trustees and the DPOC

Date	Trustees/DPOC	Report
Oct 2012	Trustees	Reference in *Report of the IASB Chair* (Agenda Paper, AP, 2). In a section of the report considered the feedback to the IASB's 2011 Agenda Consultation, the paper noted that the IASB had agreed to give priority to certain projects, including amendments to IAS 41 *Agriculture*. The *Summary of conclusions of the IFRS Foundation Trustees' meeting* reported that the IASB had agreed to add this limited-scope project to its agenda and aimed to publish an Exposure Draft (ED) in the first half of 2013.
Oct 2012	DPOC	Reference as above in *Update on Technical Activities* (AP 3B).
Jan 2013	Trustees	Reference in *Technical Projects – Update* (AP 2B) noting that the IASB had decided in December 2012 to develop a cost-based model for bearer biological assets that were plants. AP 2B also noted that because of the research on the subject that had been undertaken by a national standard-setter, a Discussion Paper would not be necessary for this project. The *Summary of conclusions of the IFRS Foundation Trustees' meeting* reported that the IASB was taking forward this narrow-scope review.
Jan 2013	DPOC	Reference as above in *Update on Technical Activities* (AP 3C (i)).
Mar 2013	DPOC	E-mail to DPOC 14 March with a copy of a paper to be presented to the IASB *IAS 41 'Agriculture': Bearer Biological Assets – Due process steps and permission for balloting* (IASB meeting March 2013 AP 10).
Apr 2013	Trustees/MB	Reference in *Report of the IASB Chairman* (AP MB2) noting the IASB's plans to publish an ED proposing changes to the accounting for bearer plants.
Apr 2013	Trustees	References in the *Report of the IASB Chair* (AP 2) and *Technical Projects – Update* (AP 2A) as above. The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Senior Director – Technical Activities had reported to the Trustees and the Monitoring Board the progress on the project.
Apr 2013	DPOC	Reference in *Technical Projects – Update* (AP 3A) as above. The *Report of the DPOC meeting* stated that the DPOC had been updated on the progress of the project.
Jul 2013	Trustees	Reference in *Report of the IASB Chair* (AP 2) to the publication of the ED.
Jul 2013	DPOC	Reference in *Technical Projects – Update* (AP 3B) as above.
Oct 2013	Trustees	Reference in *Report of the IASB Chair* (AP 2) to the publication of the ED.
Oct 2013	DPOC	Reference in *Technical Projects – Update* (AP 3B) as above, noting that the comment period closed on 31 October 2013.
Jan 2014	Trustees/MB	Reference in *Report of the IASB Chairman* (AP MB3) to developments, noting that the IASB had published an ED in June 2013.
Jan 2014	DPOC	Reference in *Technical Projects – Update* (AP 3B) as above. The *Report of the DPOC meeting* noted that the DPOC had been

Date	Trustees/DPOC	Report
		updated on the progress of the project and that the IASB had considered the comments received in response to the ED at its meeting in January 2014. The paper noted that some of the main concerns raised by respondents included extending the scope of the amendment to include livestock, exempting produce growing on bearer plants from fair value measurement and providing further guidance on determining when a bearer plant reached maturity.
Apr 2014	Trustees	Reference in *Report of the IASB Chairman* (AP 2) to developments, noting that the IASB had redeliberated the proposals in the ED and expected to issue final amendments in Q2 2014.
Apr 2014	DPOC	Reference in *Technical Activities – Update* (AP 3B). The paper noted that the IASB had redeliberated the proposals at its meetings in February and March 2014. The *Report of the DPOC meeting* stated that the IASB had tentatively decided to amend the definition of bearer plants to clarify that the likelihood of selling a bearer plant as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, must be remote. The IASB was scheduled to review the due process steps undertaken on this project at its April 2014 meeting and decide whether it had undertaken sufficient consultation and analysis to begin the balloting process for the limited amendments that would be needed to IAS 16 and IAS 41. The DPOC was alerted to the fact that, should the IASB give a positive decision at its April meeting, the staff was planning to issue the final amendments in June. As a consequence, the lifecycle review of the project would need to take place before the DPOC's next meeting in July. The plan was for the staff to circulate the lifecycle review to the DPOC by e-mail and, if necessary, to organise a conference call for the Committee.
Apr 2014	DPOC	E-mail to DPOC 14 April with a copy of a paper to be presented to the IASB *Agricultures: Bearer Plants – Due process, re-exposure and permission to draft* (IASB meeting April 2014 AP14).

Appendix B: Due process requirements – finalisation of a Standard

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Consideration of information gathered during consultation				
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	Comment letters on the ED have been posted on the project page of the IFRS Foundation website. A comment letter analysis was presented to the IASB at its January 2014 meeting and is available on the project page of the IFRS Foundation website. Progress has been reported in the quarterly report at Trustee meetings.
Round-tables between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	No formal round-table meetings were hosted by the IASB because this is a limited-scope project with limited changes affecting a narrow industry. The IASB has received sufficient input from work performed by the MASB, meetings of national standard-setters and the IASB's EEG, feedback from preparers and other interested parties on the IASB's 2011 Agenda Consultation and the ED, ongoing discussions with preparers and standard setters, and additional user outreach performed by staff.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. Extent of meetings with consultative group held and confirmation that critical issues	The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted. The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed.	The IASB held public meetings from September 2012 to May 2014. A project page has been in place over the course of the project. It contains a full description of the project with up-to-date information on progress, including meeting papers and decision summaries (all posted on a timely basis). The DPOC has been regularly updated on the status of the project.

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
		have been reviewed with them.	The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The DPOC has reviewed and responded to comments on due process as appropriate.	
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or on-going associated costs.	Required	Publication of the Effect Analysis.	The IASB and the DPOC have reviewed the results of the Affect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	An analysis of the likely effects of the ED was included in its Basis for Conclusions. An analysis of the likely effects of the final amendments will be included in the final Basis for Conclusions. The current draft of this (from the ballot draft) is included in Appendix D. There are no substantive changes to the likely effects analysis from the ED because the IASB is only making relatively minor changes to the proposals in the ED.
Email alerts are issued to registered recipients.	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	General IFRS subscribers have been notified when key documents, eg the ED and IASB Update newsletters, are issued. There is no separate subscriber list for the project because this is a limited-scope project with limited changes affecting a narrow industry.
Outreach meetings to promote debate and hear views on proposals that are published for public	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	Not considered necessary because this is a limited-scope project with limited changes. The IASB has received sufficient input from work performed by the MASB, meetings of national standard-setters and the IASB's EEG, feedback from preparers and other interested

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
comment.				parties on the IASB's 2011 Agenda Consultation and the ED, ongoing discussions with preparers and standard setters, and additional user outreach performed by staff.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	The project has been discussed several times by national standard setters and the IASB's EEG. Regional discussion forums were not considered necessary because this is a limited-scope project with limited changes.
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Standard is issued.	Agenda Paper 14 for the April IASB meeting provides a summary of all due process steps taken during this limited-scope project. This agenda paper was sent to the DPOC by email in April 2014.
Need for re-exposure of a Standard is considered.	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	The IASB is only making relatively minor changes to the proposals in the ED. Consequently, in April 2014 the IASB decided not to re-expose the amendments. A copy of Agenda Paper 14 for the April IASB meeting supporting this decision was emailed to the DPOC in April 2014.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	In April 2014 the IASB decided that the effective date should be 1 January 2016 with early application permitted. A copy of Agenda Paper 14 for the April IASB meeting supporting this decision was emailed to the DPOC in April 2014.

Drafting				
Drafting quality	Required	The Translations	The DPOC has	The IFRS Foundation translation

assurance steps are adequate.		team has been included in the review process.	received a summary report of the due process steps that have been followed before a Standard is issued.	staff have been consulted as part of the balloting process to take into account the need for language that is translatable into other languages.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The IFRS Foundation XBRL staff have been consulted as part of the balloting process to take into account the need for language that is translatable into the IFRS XBRL Taxonomy.
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process. In addition, external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before an ED is issued, including the extent to which external reviewers have been used in the drafting process.	The editorial team has been included in the review process. In addition comments have been received from eight external reviewers. These comments were incorporated in the ballot draft sent to IASB members on 20 May 2014.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been made available to members of the IFASS and the comments have been collected and considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The pre-ballot draft of the amendments was made available on an internal site accessible by national standard-setters. Comments received were incorporated in the ballot draft sent to IASB members on 20 May 2014
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been posted on the project website.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The staff does not intend to publish a draft of the amendments on the project website because this is a limited amendment and only relatively minor changes are being made to the proposals in the ED. The pre-ballot draft of the final amendments was sent to external parties for fatal flaw review, including reviewers with agricultural industry knowledge.

Publication				
Press release to	Required	Press release has	The DPOC has	To be completed in due course.

announce final Standard.		been announced in a timely fashion. Media coverage of the release.	received a copy of the press release and a summary of the media coverage.	
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	Publication of the Feedback Statement.	The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.	To be completed in due course.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Number of podcasts held.	The DPOC has received a report of outreach activities.	To be considered in due course.
Standard is published.	Required	Official release.	The DPOC has been informed of the release.	To be completed in due course.

Appendix C: Dissenting opinions

This appendix reproduces the dissenting opinions of Mr Finnegan and Ms McConnell in the ballot draft of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) sent to IASB members on 20 May 2014. There are no significant changes to their views as expressed in the ED.

Dissenting Opinions

Dissent of Patrick Finnegan and Patricia McConnell

DO1 Mr Finnegan and Ms McConnell voted against the publication of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) published in June 2014 (the 'June 2014 Amendment') because they believe that including bearer plants within the scope of IAS 16 *Property, Plant and Equipment* rather than within the scope of IAS 41 *Agriculture* will eliminate information about the fair value changes in bearer plants and the underlying assumptions used to estimate those changes. Information about the fair values of all biological assets including bearer plants is critical both to managing agricultural activities and to investing in entities that engage in those activities. Without such information, investors are unable to assess changes in expectations of future net cash inflows to an entity engaged in agricultural activity. The fact that published price quotations have developed throughout the world for orchards and plantations that include bearer plants demonstrates the importance of fair value information to those who invest in agricultural activities.

DO2 IAS 41 prescribes the accounting for agricultural activity, that is, the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets. The underlying principle of IAS 41 is that fair value measurement best reflects the biological transformation of biological assets. It requires measurement at fair value less costs to sell (referred to hereafter as fair value) from initial recognition of biological assets up to and including the point of harvest, other than when fair value cannot be measured reliably on initial recognition.

DO3 The June 2014 Amendment changes the measurement for one subset of biological assets, bearer plants, from fair value to a cost-based measure. Bearer plants are plants that are used only in the production or supply of agricultural produce and are expected to bear produce for more than one period. The June 2014 Amendment includes bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for bearer plants. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41, including bearer animals.

The importance of fair value information for biological assets

DO4 Fundamentally, IAS 41 is a Standard on accounting for biological transformation. Biological transformation of bearer assets occurs both prior to maturity and after maturity. A cost model ignores biological transformation when it occurs. That is why IAS 41 requires fair value measurement. The Basis for Conclusions of IAS 41 states: "Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity." Mr Finnegan and Ms McConnell see no reason to abandon that principle with respect to bearer plants. Consequently, they do not agree that prior to maturity, bearer plants should be measured at accumulated cost. They do not believe that accounting for bearer plants in the same way as for self-constructed items of property, plant and equipment will provide users of financial statements with information that is useful to an understanding of the agricultural entity's performance for the period or of its productive capacity at a point in time.

DO5 While maturing, bearer plants are undergoing biological transformation. Mr Finnegan and Ms McConnell continue to believe that fair value measurement for the biological transformation process provides the best information about bearer assets' quality and quantitative changes during their growth period. They also believe that the fair value of bearer plants at maturity provides the best measure of an entity's resources being placed into the production of produce at maturity. Investors need that information to assess management's stewardship of the resources invested in the production process and the performance of the entity using those resources. Consequently, they believe that bearer plants must be measured at fair value while maturing because fair value provides users of financial statements with the best information about an important aspect of an agricultural entity's performance and management stewardship.

DO6 They also reject the view that biological transformation of bearer assets is no longer a key element for understanding the future net cash flows to an entity once such assets reach maturity. By definition, biological transformation is not limited to merely the growth process to maturity, but also includes the cycles of production and degeneration, which are critical phases in the life cycle of bearer assets. Fair value measurements of bearer assets throughout their lives provide information about the effectiveness and efficiency of the production process, and about the capability of such assets to generate net cash inflows into the future. In contrast, depreciation of the cost of a mature bearer asset only approximates the biological transformation of a bearer asset throughout its productive life and has only an indirect relationship, at best, to changes in future net cash inflows.

Effects of the use of fair value measurement

DO7 Mr Finnegan and Ms McConnell acknowledge that measuring bearer plants at fair value may sometimes be difficult. In particular, the IASB has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. However, Mr Finnegan and Ms McConnell note that IAS 41 contains an exception from fair value for biological assets for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable on initial recognition. They believe that this exception is sufficient to deal with the concerns about the reliability of fair value measures of bearer plants during the early years of their life cycle. They also note that entities throughout the world have been applying IAS 41 in a wide variety of agricultural activities since 2003. In fact, some national accounting standards required or recommended measurement of bearer assets at fair values even before IAS 41 was issued. They do not believe that measuring fair value of bearer plants, in general, is any more difficult than measuring fair value for other biological assets such as bearer animals. Furthermore, they believe that applying a cost measure to bearer plants may be equally as difficult in some situations. Fair value measurements are required in assessing bearer plants for impairment, and surely those who are urging a reversion to a cost model for bearer assets would not suggest that impairment should be ignored because fair value measurement may sometimes be difficult. Moreover, the June 2014 Amendment would permit fair value measurements as a pure accounting policy choice. Mr Finnegan and Ms McConnell believe that accounting should reflect underlying economic circumstances and should not merely be left to choice. The existing fair value exception in IAS 41 is based on circumstances (measurement reliability), and is not an accounting policy choice.

DO8 In addition to concerns about the reliability of fair value measures, entities with bearer assets expressed concern about the volatility that arises from recognising changes in the fair value of the bearer plants in profit or loss and said that users of financial statements adjust reported profit or loss to eliminate the effects of changes in fair values of bearer biological assets. Mr Finnegan and Ms McConnell accept the view that the use of fair value for bearer assets makes the analysis of profit or loss and financial position more difficult. At the same time, they note that price volatility is an indicator of risk, and risk assessment is part of an analyst's job. Mr Finnegan and Ms McConnell note that sound financial statement analysis will always adjust reported profit or loss and financial position for the effects of unusual or non-recurring changes in reported information. However, if critical information about changes in the economic benefits arising in an agricultural operation is not reported, such analysis is impaired or not possible at all.

DO9 Mr Finnegan and Ms McConnell believe that rather than ignore the fair value volatility, which a cost model does, volatility should be addressed as a matter of financial statement presentation—such as by putting the fair value changes in other comprehensive income. They note that under the June 2014 Amendment, the bearer assets will be within the scope of IAS 16 and revaluation will be permitted. If an entity were to choose revaluation, the change in the revaluation amount (which approximates fair value) would be reported in other comprehensive income. Consequently, they believe that requiring fair value measurement during the entirety of the bearer plant's life cycle with the fair value changes reported in other comprehensive income would be consistent with permitting revaluation of the bearer asset. Furthermore, Mr Finnegan and Ms McConnell believe that such a change would preserve relevant information for investors through prominent display in the primary financial statements, while addressing the concerns of those who believe that fair value changes distort profit or loss.

Current proposals are not improvements to IFRS

DO10 Mr Finnegan and Ms McConnell believe that if bearer assets are measured at accumulated cost, then at a minimum, the fair value of the bearer plants should be a required disclosure, including information about the valuation techniques and key inputs/assumptions used. However, the 2014 Amendment is not requiring disclosure of fair value. Consequently, critical information is being eliminated from the financial statements of entities engaged in agricultural activities using bearer assets. Mr Finnegan and Ms McConnell do not believe that this is an improvement to financial reporting. In January 2013, the Trustees of the IFRS Foundation approved a new *Due Process Handbook* that specifies, among other things, the criteria for new Standards or major improvements. The main criteria (in addition to pervasiveness of the issue) are (1) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports, and (2) the importance of the matter to those who use financial reports. Mr Finnegan and Ms McConnell believe that, from a user perspective, there is no deficiency in the accounting for, and disclosures about, bearer assets in IAS 41 and that fair value information is important (indeed essential) to those who use the financial reports of entities engaged in agricultural activity.

DO11 In the user outreach performed by the staff, most investors and analysts said that fair value information about bearer plants is of either limited or no use to them *without* fair value information about the related land, agricultural machinery, etc. Rather than meeting the needs of users by providing this additional fair value information to make the fair value of bearer plants more useful, the IASB has chosen to withdraw the requirement to provide the fair value of bearer plants. In the view of Mr Finnegan and Ms McConnell this solution does not adequately address the needs of users of financial statements.

DO12 A better solution would have been for the IASB to require the fair value of bearer plants in combination with the fair value of the land to which such plants are attached. One of the weaknesses in IAS 41 is that it does not require the use of fair value to measure land to which bearer plants are attached. This is a weakness because the value of bearer plants is inextricably tied to the value of the land. By understanding the value of the bearer plants and the land, investors know the true potential of an entity's future net cash inflows. A historical cost model for either or both is incapable of providing such information.

DO13 As just discussed, Mr Finnegan and Ms McConnell do not believe the June 21014 Amendment represents an improvement to IFRSs and, in fact, represents a step towards lowering the quality of the information available in the financial statements of entities engaged in agricultural activities. The June 2014 Amendment therefore fails to meet the IASB's own criteria for a new or amended Standard.

Appendix D: Draft effects analysis

This appendix reproduces the Effects Analysis in the ballot draft of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) sent to IASB members on 20 May 2014. This analysis is largely unchanged from that published with the Basis for Conclusions on the ED.

Analysis of the likely effects of the amendments

BC99 The following paragraphs describe the Board's analysis of the likely effects that will result from the amendments to the requirements for the accounting for bearer plants.

BC100 The Board is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of each new or revised Standard—the costs and benefits are collectively referred to as 'effects'.

BC101 The Board gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities. The likely effects are assessed:

(a) in the light of the Board's objective of financial reporting transparency; and

(b) in comparison to the existing financial reporting requirements.

BC102 In evaluating the likely effects of the amendments, the Board has considered the following issues (see paragraphs BC106–BC117):

(a) how the changes are likely to affect how bearer plants are reported in the financial statements of those applying IFRS;

(b) whether those changes improve the comparability of financial statements between different reporting periods for an individual entity and between different entities in a particular reporting period;

(c) whether the changes will improve the ability of users of financial statements to assess the future cash flows of an entity;

(d) whether the improvements to financial reporting will result in better economic decision-making;

(e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

(f) whether the likely costs of analysis for users of financial statements, including the costs of extracting data, identifying how it has been measured and adjusting it for the purposes of including that data in, for example, a valuation model, are affected.

BC103 The amendments will permit entities to apply either the cost model or the revaluation model, in accordance with IAS 16, for bearer plants. The Board expects that most entities would choose the cost model rather than the revaluation model, because:

(a) the revaluation model would not eliminate the main concerns raised by preparers, in particular the cost and complexity of regularly measuring the fair value of bearer plants.

(b) most entities apply a cost model to agricultural land and machinery and the Board expects that those entities would favour using a consistent approach for all assets used in the production of income, including bearer plants.

(c) IAS 16 only permits the revaluation model to be used if the fair value of bearer plants can be measured reliably. Many entities with bearer plants told the Board that fair value estimations are often complex and subjective. If fair value cannot be measured reliably, use of the revaluation model would be precluded.

BC104 Consequently, the analysis of the likely effects in paragraphs BC106–BC117 only considers the likely effects of applying the IAS 16 cost model in comparison to the IAS 41 fair value model.

BC105 If entities choose to account for bearer plants using the revaluation model in IAS 16, the most significant effect would be to require changes in the revalued amount, which approximates fair value, in other comprehensive income. Currently, changes in fair value less costs to sell are recognised in profit or loss under IAS 41.

How the amendments are likely to affect how activities are reported

BC106 The amendments will only affect entities in a specific part of the agricultural industry, namely those entities with bearer plants.

BC107 Assuming that current IFRS adopters choose to apply the cost model in IAS 16 to bearer plants the main changes will be as follows:

Effect	**Fair value model in IAS 41**	**Cost model in IAS 16**	**Effect**
Financial position	Measured at fair value less costs to sell (together with the produce).	Measured at cost less any accumulated depreciation and any accumulated impairment losses (produce measured separately at fair value less costs to sell).	Net asset amounts are likely to be lower for the cost model than the fair value model during the earlier part of the productive life of a bearer plant. This is because the future cash flows that are can be generated by the bearer plant, and reflected in a fair value measurement, will likely be higher than the cost on initial recognition. Over time, the carrying amounts measured in accordance with the two models are expected to converge as the asset approaches the end of its productive life.
Profit or loss	Changes in fair value less costs to sell are recognised in profit or loss. Costs may be recognised as an expense immediately or capitalised. If they are capitalised there is an equal reduction in the change in the fair value less costs to sell.	The depreciation charge for each period, and any impairment loss, will be recognised in profit or loss.	Over the life of the bearer plants the net amount recognised in profit or loss will likely be the same whether applying the fair value model or the cost model. However, if applying the fair value model the effect on profit or loss will be variable (changes in fair value) and if applying the cost model the effect on profit or loss is likely to be more systematic (depreciation, with possible impairment).

How the amendments affect the comparability of financial statements

Comparability between entities

BC108 The Board does not expect the amendments to significantly reduce the comparability between entities because:

(a) IAS 41 requires biological assets to be accounted for using the fair value model. The Board does not expect the choice of accounting policy in IAS 16 to reduce comparability between entities with bearer plants because most entities are expected to choose the cost model for the reasons explained in paragraph BC103.

(b) The primary benefits of using fair value for biological assets are that fair value captures biological development (ie the growth of the produce) and is closely aligned with how the entity expects to convert the asset to cash (ie through sale). The changes the Board has made retain fair value for the produce of a bearer plant (for which these primary benefits are applicable) while aligning the accounting for the bearer plant, for which biological transformation is less important, with the accounting for property, plant and equipment. The Board considers that this change will improve comparability by distinguishing between types of biological asset.

(c) The Board observed that some entities may elect to measure bearer plants at fair value on initial application of the amendments and use that fair value as its deemed cost at that date, while others may elect to apply the amendments retrospectively (eg if they currently use a cost model in accordance with IAS 16 for management purposes). However, the Board noted that if there is any lack of comparability between entities on initial application, it is just as likely to arise from the aggregation of costs incurred at different dates as from the use of fair value as deemed cost by some but not all entities. Furthermore, the use of fair value as the deemed cost for bearer plants means that an entity will report the same cost data as if it had acquired bearer plants with the same remaining service potential at the date of transition to IFRS, eg if it had purchased an area of plantation on that date.

Comparability between reporting periods for an individual entity

BC109 The Board does not expect the amendments to significantly reduce the comparability between reporting periods for an individual entity choosing the cost model. This is because under IAS 41 the change in the fair value less costs to sell of bearer plants can fluctuate significantly between reporting periods as a result of small changes in assumptions. Furthermore, most investors and analysts consulted during the user outreach performed by staff said that they eliminate the change in the fair value less costs to sell of bearer plants when comparing an entity’s operating performance between reporting periods.

BC110 Currently, bearer plants are accounted for in a different way from the land, land improvements and agricultural machinery used in the production process. In most cases entities account for these assets at cost under IAS 16. Consequently, accounting for the bearer plants under IAS 16 will improve comparability between the producing assets of the entity by accounting for similar assets in similar ways.

How the amendments will improve a user’s ability to assess future cash flows

BC111 IAS 41 currently requires bearer plants to be measured at fair value less costs to sell. Consequently, the requirement to measure fair value applies to both the bearer plant and the produce growing on the bearer plant. As a result of the amendments only the produce growing on bearer plants will be measured at fair value less costs to sell.

BC112 The produce of the bearer plants is usually grown for sale. Consequently, fair value changes in the produce have a direct relationship to the expectations of future cash flows that the entity will receive on sale. In contrast, the bearer plants are normally held by an entity for the whole of their useful life and then scrapped, so changes in fair value are not recognised as cash flows. Consequently, the Board thinks that providing separate fair value information for the produce is likely to improve the ability of users of the financial statements to assess future cash flows.

BC113 During the project the staff sought the views of investors and analysts that use the financial statements of companies with bearer plants. Many of these investors and analysts told the staff that they focus on cash flows that an entity will actually realise. These investors and analysts said that the fair value of bearer plants is not considered in their analysis because the bearer plants themselves are not sold and the changes in the fair value of the bearer plants do not directly influence the entity’s future cash flows. Furthermore, some of these investors and analysts said that they would prefer a cost model for bearer plants because it provides a better basis to forecast future capital expenditure than a fair value model.

How the amendments will affect economic decision-making and the costs of analysis for users of financial statements

BC114 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the usefulness of the reported information. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used provides support for accounting for them in the same way.

BC115 As a result of the amendments, users of financial statements will generally receive cost information about bearer plants rather than fair value information. This is not expected to result in less relevant information for users of financial statements because nearly all investors and analysts consulted during the user outreach performed by staff said that the IAS 41 fair value information about bearer plants is of limited use to them for the reasons set out in paragraph BC68.

Effect on the compliance costs for preparers

BC116 Preparers of financial statements have expressed concern that, in the absence of active markets for bearer plants, fair value measurements are complex, time-consuming and costly, especially for entities that hold large plantations with varying maturities, yield profiles and locations. The amendments respond to this concern and are expected to significantly reduce costs for preparers of financial statements by permitting a cost model for bearer plants. However, entities will still be required to perform the following fair value measurements:

(a) the produce growing on the bearer plants will still be measured at fair value less costs to sell. The Board's reasoning for requiring the produce to be measured at fair value less costs to sell is set out in paragraphs BC72–BC78.

(b) as is the case for all items of property, plant and equipment, bearer plants will be subject to an impairment test under IAS 36 *Impairment of Assets*. Consequently, if there is an indication that bearer plants are impaired at the reporting date, the entity would be required to estimate the recoverable amount of the asset (or its cash-generating unit). The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

BC117 Nevertheless, the amendments will reduce compliance costs for the majority of entities because:

(a) the Board thinks that measuring the produce at fair value less costs to sell would be less complex than measuring the bearer plants and produce together at fair value less costs to sell. This is because the produce is growing on the bearer plants only for a short period and so the valuation of produce will not involve forecasting over long time periods. Furthermore, there is usually an active market for the harvested produce, whereas there is rarely an active market for bearer plants and market prices generally exist only for many bearer plants together with the land.

(b) IAS 41 currently requires entities to determine the fair value less costs to sell of bearer plants at each reporting date. As a result of the amendments an entity applying the cost model in accordance with IAS 16 would be required to estimate the recoverable amount of an item of bearer plants (or the relevant cash-generating unit) only if there are indicators of impairment at the reporting date. In general, bearer plants do not generate cash flows independently of the land. Consequently, the impairment test would take place at the cash-generating unit level. If the fair value of the land is greater than the carrying amount of the cash-generating unit containing the land and bearer plants, the cash generating unit would not be impaired. Consequently, as a result of the amendments, fair value measurements are expected to be less frequent.