

Meeting documentation

World Standard-setters Meeting

Smaller group Meeting Agriculture



World Standard-setters Meeting

Monday 23 and Tuesday 24 September 2013
The Grange City Hotel (London)

Smaller group discussion}
Agriculture

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September 2013

International Financial Reporting Standards

Agriculture Bearer Plants

(Proposed amendments to IAS 16 and IAS 41)

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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2

Overview

Current requirements for agricultural activity

```

    graph TD
      BA[Biological assets] --> P[Plants]
      BA --> A[Animals]
      P --> IAS41([IAS 41  
Fair value through  
profit or loss])
      A --> IAS41
  
```

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3

Overview

Proposed requirements for agricultural activity

```

    graph TD
      BA[Biological assets] --> P[Plants]
      BA --> A[Animals]
      P --> BP[Bearer plants]
      P --> PGP[Produce growing on bearer plants]
      P --> OP[Other plants]
      BP --> IAS16([IAS 16  
Cost or revaluation  
model])
      PGP --> IAS16
      PGP --> IAS41([IAS 41  
Fair value through  
profit or loss])
      OP --> IAS41
  
```

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4

Background

IAS 41 principle

- Biological transformation is best reflected by fair value measurement
- IAS 41 defines 'biological transformation' as follows:
 - comprises processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset
- IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes

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5

Background

- **Consumable biological assets (CBAs)**—harvested as agricultural produce or sold as biological assets
 - livestock used for production of meat
 - livestock held for sale
 - crops such as maize and wheat
 - trees grown for lumber
- **Bearer biological assets (BBAs)**—other than CBAs
 - livestock from which milk is produced
 - grape vines, apple trees, oil palms, rubber trees
 - trees from which firewood is harvested while tree remains

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6

Background

Concerns about IAS 41

- Class of biological assets (BBAs) held solely to grow produce over productive life
 - on maturity no longer undergo significant biological transformation
 - operation similar to manufacturing

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Background

7

Limited-scope project (started September 2012)

- Considers whether to account for BBAs like PPE
 - ✓ thereby permitting use of a cost model

External input

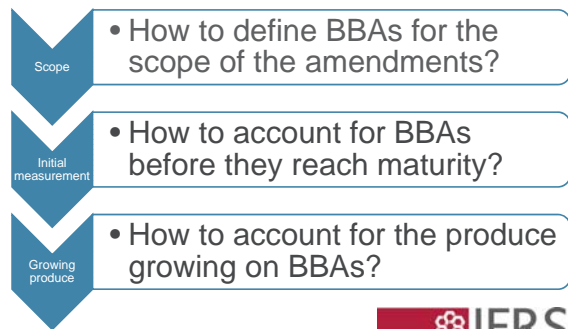
- Builds on work by Asian-Oceanian Standard-Setters Group (AOSSG) and Malaysian Accounting Standards Board (MASB)
- Strong support by national standard-setters (IFASS), IASB's Emerging Economies Group (EEG) and IFRS Advisory Council
- Addresses main concerns about IAS 41 raised by respondents to IASB's 2011 Agenda Consultation

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Three main issues

8



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Scope of the amendments

9

- **Option 1: no-alternative-use model**
 - Only used in production of agricultural produce (ie only used as BBAs)
- **Option 2: predominant-use model**
 - Used predominantly in production of agricultural produce (ie used primarily as BBAs)
- **Option 3: no-alternative-use—plants only**
- **Option 4: predominant-use—plants only**

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Scope of the amendments

10

IASB decision was Option 3

- Title of Exposure Draft is Bearer Plants, rather than BBAs, to better describe the scope
- A **bearer plant** is plant that meets all of the following:
 - used in production or supply of agricultural produce
 - expected to bear produce for more than one period
 - not intended to be sold as a living plant or harvested as agricultural produce
 - except incidental scrap sales

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Scope of the amendments

11

The following are not bearer plants:

- Plants to be harvested as agricultural produce
 - ✓ trees grown for lumber
- Plants both to produce agricultural produce and to be harvested as agricultural produce or sold (other than as scrap)
 - ✓ trees used for lumber and fruit
- Plants cultivated for sale only
 - ✓ plants in a garden centre
- Annual crops

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Accounting for bearer plants before maturity

12

Fair value approach

- ✓ Biological transformation distinguishes bearer plants from self-constructed PPE
- ✓ Biological transformation is not reflected by a cost accumulation approach
- ✓ Consistent with IAS 41 principle

Cost accumulation approach

- ✓ IAS 16 does not incorporate internal profit in measurement of a self-constructed PPE
- ✓ Users in outreach sample said fair value information about bearer plants is of limited use
- ✓ Consistent with IAS 16 approach (by analogy)

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Accounting for bearer plants before maturity

13

IASB decision

- IAS 16 cost accumulation approach like self-constructed items of machinery
 - ✓ unit of account
 - ✓ initial recognition and measurement
- Question in Exposure Draft to see if further guidance is required



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Accounting for the produce

14

- **Fair value at harvest**
 - Avoids significant practical difficulties, but...
- **Fair value during growth (IASB decision)**
 - Consistent treatment for produce growing in the ground and produce growing on bearer plants
 - Provides useful information about future economic benefits from sale
 - Consistent with IAS 41 principle—essentially a CBA growing on a bearer plant



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Summary of proposals

15

IASB's principal decision underlying proposals:

- Bearer plants are similar to PPE, for which the accounting is prescribed in IAS 16

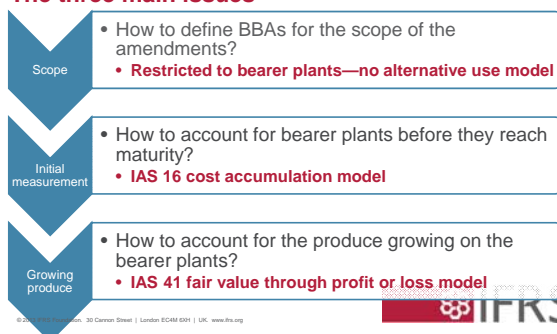


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Summary of proposals

16

The three main issues



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Summary of proposals

17

Bearer plants to be included in IAS 16

- Requirements of IAS 16 would be applied to bearer plants without modification, including:
 - ✓ revaluation model permitted
 - ✓ no additional disclosures for bearer plants
- Bearer plants would be PPE so other Standards apply as normal:
 - ✓ IAS 17 Leases
 - ✓ IAS 23 Borrowing costs
 - ✓ IAS 36 Impairment of Assets
 - ✓ etc



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Other decisions

18

Produce to remain under IAS 41

- Requirements of IAS 41 would continue to apply to produce without modification:
 - Fair value through profit or loss
 - IAS 41 disclosures for the produce
 - Presumption fair value can be measured reliably can be rebutted on initial recognition if
 - ✓ quoted market prices are not available
 - ✓ alternative fair value measurements are clearly unreliable



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Transition

19

Current adopters

- Apply amendments to IAS 16 and IAS 41 retrospectively
 - but can elect to measure an item of bearer plants at fair value at beginning of earliest period presented
 - and use as deemed cost at that date
 - item by item election

First-time adopters

- Deemed cost exemptions in IFRS 1 for PPE



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Timetable

20

- Exposure Draft was issued in June 2013
- Comments to be received by **28 October 2013**
- Final amendments expected first half 2014
- Early application permitted



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Thank you

21



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NOTES