

STAFF PAPER

April 2014

IASB Meeting

Project	Agriculture: Bearer Plants		
Paper topic	Due process steps and permission for balloting		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44 (0)20 7246 6918

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective of this meeting

1. The purpose of this meeting is for the International Accounting Standards Board (IASB) to review the due process steps taken in the limited-scope project *Agriculture: Bearer Plants* and decide whether the staff can begin the balloting process for the final amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* ('the amendments').

Structure of this paper

2. This Agenda Paper 14 is set out as follows:
 - (a) Background
 - (b) Projects steps
 - (c) Effects analysis
 - (d) Staff analysis and recommendations
 - (e) Questions for the IASB
 - (f) Appendix A: Summary of the IASB's decisions and changes to the proposals in the Exposure Draft (ED)
 - (g) Appendix B: Action taken to meet the due process requirements

Background

Aim of the project

3. The aim of this limited-scope project is to respond to concerns about the application of the fair value model in IAS 41 for a subset of biological assets, known as bearer biological assets (BBAs). These concerns were raised by respondents to the IASB's 2011 Agenda Consultation and were made primarily about the reporting by plantation companies. The project is not intended to revisit the fair value model in IAS 41 for other biological assets.

Criticism of IAS 41

4. IAS 41 requires that all biological assets related to agricultural activity are measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. Interested parties have told the IASB that fair value measurement is not appropriate for mature BBAs because they are no longer undergoing biological transformation. The operation of mature BBAs is seen by many as similar to that of manufacturing and, consequently, they believe that such assets should be accounted for in accordance with IAS 16.
5. These interested parties also expressed concerns about the cost, complexity and reliability of fair value valuations of BBAs 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. They also claim that most 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 BBAs and that they are more interested in the revenue from the produce growing on the BBAs.

Project steps

Steps pre-ED

6. Before the project was added to its work programme the IASB was monitoring work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal to amend IAS 41 for BBAs. The MASB's analysis has been discussed several times by national standard-setters and the IFRS Advisory Council.
7. Most respondents who mentioned agriculture in their responses to the IASB's 2011 Agenda Consultation favoured a limited-scope project for BBAs to address the criticism in paragraphs 4-5. Feedback from national standard-setters and from the 2011 Agenda Consultation indicated that support for the project was widespread and strong.
8. At the September 2012 IASB meeting, the staff presented a proposal to add a limited-scope project on BBAs to the IASB's agenda. The staff proposal provided details of the research performed by the MASB and explained that this should provide the IASB with sufficient information to make a decision about adding the project to its agenda without the need for a Discussion Paper. All IASB members supported undertaking the project.
9. The project proposal was discussed at the October 2012 meeting of the IFRS Advisory Council. There was strong support at that meeting for the IASB to commence the project with the initial objective of developing an ED.
10. During September to November 2012 the staff asked investors and analysts who study companies with BBAs how they use the fair value information for BBAs. This outreach consisted of written correspondence and conference calls. The staff findings were presented to the IASB at its December 2012 meeting.
11. During its December 2012 and February 2013 meetings the IASB discussed all the issues under the project. The decisions made during these two meetings were included in IASB Update newsletters for those meetings. During the December 2012 meeting the IASB tentatively decided the scope of the amendments should be restricted to BBAs that are plants and the title of the project was changed to

Bearer Plants, rather than *Bearer Biological Assets*, to better describe the scope of the amendments.

12. The IASB's progress on the project was reported to the Trustees and the Trustees' Due Process Oversight Committee (DPOC) at their October 2012, January 2013 and April 2013 meetings as part of the update on the IASB's technical activities.
13. In June 2013 the IASB published an ED of proposed amendments to IAS 16 and IAS 41 proposing to account for bearer plants like property, plant and equipment (PPE) in accordance with the requirements in IAS 16. The IASB set a 120 day comment period. The IASB decided that additional time in excess of the normal 120-day period in the Due Process Handbook was not necessary because the proposed amendments were straight forward and expected to be well received.

Steps post-ED

14. We received 72 comment letters. In January 2014 the IASB discussed the feedback received on the ED. The meeting was educational in nature and the IASB did not make any decisions.
15. During its February and March 2014 meetings the IASB discussed all the issues raised by respondents to the ED. The decisions made during these two meetings were included in IASB Update newsletters for those meetings. The result of the IASB's redeliberations at these meetings is only two relatively minor changes will be made to the proposals in the ED.
16. The IASB's progress on the project was reported to the Trustees and the DPOC at their October 2013 and January 2014 meetings as part of the update on the IASB's technical activities. An update will also be provided at their April 2014 meeting. A copy of this agenda paper will be provided to the DPOC before the amendments are finalised.

Effects analysis

17. The vast majority of respondents to the ED supported the proposal to account for bearer plants in accordance with IAS 16. The amendments are expected to reduce compliance costs, complexity and profit volatility for preparers without a significant loss of information for users of their financial statements. A detailed effects analysis was presented in paragraphs BC44-BC64 in the Basis for Conclusions accompanying the ED. The result of the IASB's post-ED redeliberations is only two relatively minor changes will be made to the proposals in the ED. Consequently, the effects analysis is unchanged.

Staff analysis and recommendations

Re-exposure

18. The result of the IASB's post-ED redeliberations is only two relatively minor changes will be made to the proposals in the ED. Consequently, there are no substantive changes being made on which respondents have not had the opportunity to comment and so it is unlikely re-exposure would reveal any new concerns. The staff recommend that the IASB does not re-expose the amendments.

Permission to ballot

19. The IASB finalised its technical discussions at its March 2014 meeting. The IASB has undertaken all of the activities identified as being 'required' and many of the additional non-mandatory activities set out in the Due Process Handbook (see Appendix B). The staff think that the IASB has undertaken sufficient due process steps to finalise the amendments. If the IASB is satisfied that it has been provided with sufficient analysis, and undertaken appropriate consultation, to support the publication of the amendments, the staff requests permission to start the balloting process.

Dissents

20. Two IASB members dissented from the ED. Any IASB members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

Effective date

21. The staff expect the final amendments will be issued in June 2014. The amendments are narrow in scope. They also provide relief from retrospective restatement by permitting an entity to use the fair value of an item of bearer plants as the deemed cost at the start of its earliest comparative period—permitted on an item-by-item basis. All current IFRS adopters will have already provided fair value information at their previous year end (for the bearer plant and produce together). Consequently, the staff does not think there is a need to provide additional implementation lead time and propose that the effective date for the amendments is 1 January 2016.
22. The staff also propose that early application of the amendments is permitted. The ED proposed to allow early adoption and virtually all respondents supported this proposal.

Questions for the IASB

- 1) **Re-exposure:** Does the IASB agree with the staff recommendation not to re-expose the amendments?
- 2) **Permission to ballot:** Is the IASB satisfied that the due process requirements have been met and it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?
- 3) **Dissents:** Do any members of the IASB plan to dissent from the publication of the amendments?
- 4) **Effective date:** Does the IASB agree that the effective date for the amendments should be 1 January 2016 with early adoption permitted?

Appendix A: Summary of the IASB's decisions and changes to the proposals in the ED

I) Summary of the IASB's post-ED decisions (February and March 2014 meetings)

Scope

A1. The IASB tentatively decided:

- (a) the amendments should apply only to bearer plants (no change to the proposal in the ED).
- (b) to replace part (c) of the definition of a bearer plant in the ED with the following—‘(c) the likelihood of selling the plant as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, is remote’.

Accounting treatment for bearer plants

A2. The IASB tentatively decided:

- (a) bearer plants should be included in the scope of IAS 16;
- (b) the revaluation model should be permitted for bearer plants;
- (c) not to add guidance to IAS 16 to address circumstances specific to bearer plants;
- (d) not to require any additional disclosure requirements for bearer plants;
and
- (e) not to add specific guidance on application of the requirements for government grants to bearer plants.

(the above decisions result in no changes to the proposals in the ED)

Accounting for the produce on the bearer plants

A3. The IASB tentatively decided:

- (a) produce growing on bearer plants should be accounted for at fair value through profit or loss in accordance with IAS 41; and
- (b) specific guidance on measurement of the fair value of the produce should not be added to IAS 41 or IFRS 13 *Fair Value Measurement*.

(the above decisions result in no changes to the proposals in the ED)

Transition requirements

A4. The IASB tentatively decided not to make any changes to the transition requirements in the ED, other than to add the following clarifying sentence:
“Any difference between the previous carrying amount and fair value shall be recognised in retained earnings.”

II) Summary of the final amendments highlighting changes to the proposals in the ED

A5. The result of the IASB's post-ED redeliberations (see part I of this appendix) is only two relatively minor changes will be made to the proposals in the ED. The staff have set out the proposals in the ED below together with those two changes in boxes thus providing a summary of the final amendments.

Scope

A6. The ED proposes to define a bearer plant as a plant that is

- (a) used in the production or supply of agricultural produce;
- (b) expected to bear produce for more than one period; and
- (c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Post-ED decision

The IASB tentatively decided to replace part (c) of the definition of a bearer plant with:
(c) the likelihood of selling the plant as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, is remote'.

Accounting treatment for bearer plants

A7. The ED proposes to account for bearer plants as PPE in accordance with the requirements in IAS 16. Therefore the ED proposes the following:

- (a) Before bearer plants reach maturity (ie before they are in the location and condition necessary to be capable of operating in the manner intended by management) they should be measured at accumulated cost like self-constructed items of PPE.
- (b) 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.

- (c) The recognition, measurement, derecognition and disclosure requirements of IAS 16 would be applied to bearer plants without modification or supplementation.

Accounting treatment for produce on the bearer plants

- A8. The ED proposes that the produce growing on the bearer plants would remain in the scope of IAS 41. Therefore the produce would be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows.

Transition requirements

- A9. The ED proposes the following transition requirements:
- (a) An entity would be permitted 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. The election would be available on an item-by-item basis.

Post-ED decision

The IASB tentatively decided to add the following clarifying sentence to the transition requirements in IAS 16 for bearer plants: “Any difference between the previous carrying amount and fair value shall be recognised in retained earnings.”

- (b) Early application of the amendments would be permitted.
- (c) The current deemed cost exemption provided for an item of PPE in IFRS 1 *First-time Adoption of International Financial Reporting Standards* would also be available for an item of bearer plants.

Appendix B: Action taken to meet the due process requirements

B1. This appendix shows how the IASB has complied with the due process requirements for final amendments to Standards as set out in the *Due Process Handbook* published in February 2013.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
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 Emerging Economies Group, 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	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	The IASB held public meetings from September 2012 to March 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, and will be updated again at its meeting in April 2014. It will also receive a copy of this agenda paper and perform a life cycle review

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
		held and confirmation that critical issues have been reviewed with them.	due process have been/are being addressed. 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.	before the amendments are finalised
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 effects of the ED was included in its Basis for Conclusions and in the agenda paper for the March 2013 IASB meeting (also circulated to the DPOC). An analysis of the likely effects of the final amendments will be included in the final Basis for Conclusions. There are unlikely to be any substantive changes to the effects analysis because the IASB is only making two relatively minor changes to the proposals in the ED. The IASB will review the effects analysis in the final amendments as part of the balloting process.
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 comment.	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 Emerging Economies Group, feedback from preparers and other interested parties on the

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
				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 Emerging Economies Group. 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.	This agenda paper provides a summary of all due process steps and is to be discussed by the IASB at this April 2014 meeting. This agenda paper will also be sent to the DPOC in April 2014 and the DPOC will undertake a life-cycle review before the final amendments are published.
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.	Paragraph 18 of this agenda paper considers the need for re-exposure of the amendments. There are only two relatively minor changes to the proposals in the ED. Consequently, it is unlikely re-exposure would reveal any new concerns. The staff recommend that the IASB does not re-expose the limited amendments.
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.	Paragraphs 21-22 of this agenda paper consider the effective date. The amendments are narrow in scope and relief from retrospective restatement is provided through an option to use the fair value of an item of bearer plants as deemed cost on transition. Consequently the effective date need not be set more than a year after the amendments are issued.

Drafting				
Drafting quality assurance steps are adequate.	Required	The Translations 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 translations staff will be consulted as part of the balloting process to take into account the need for language in the proposed document 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 will be consulted as part of the balloting process to take into account the need for language in the proposed document 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 staff have begun discussions with the editorial team about the timing of their review. The staff will be liaising with the editorial team and provide drafts for them to review in the finalisation of the amendments. The staff intend to send a draft of the amendments to external parties for fatal flaw review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft, mainly with editorial comments. The fatal flaw review process does not grant external parties the opportunity to question the IASB's technical decisions.
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 staff will make a draft of the amendments available on an internal site accessible by national standard-setters.
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. However the staff intend to send a draft of the amendments to external parties for fatal flaw review before finalisation.

Publication				
Press release to announce final Standard.	Required	Press release has been announced in a timely fashion. Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	To be completed in due course.
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.