STAFF PAPER

January 2014

IASB Meeting

Project	**Agriculture: Bearer Plants**
Paper topic	Feedback from comment letters on the June 2013 Exposure Draft

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Purpose of this paper

1. This Agenda Paper 14A summarises the main feedback received from comment letters in response to ED/2013/8 *Agriculture: Bearer Plants* (proposed amendments to IAS 16 and IAS 41) which was published for public comment in June 2013. The four month comment period ended on 28 October 2013.

2. This paper does not include any staff recommendations. The staff will provide more detailed feedback from comment letters on ED/2013/8 (the ED) and provide recommendations as the IASB discusses each issue during the redeliberation process.

Structure of this paper

3. This Agenda Paper 14A is set out as follows:

   (a) Respondents by type and geography

   (b) User outreach

   (c) Overall feedback and key issues raised by respondents to the ED

   (d) Responses to individual questions in the Invitation to Comment:

      (i) Scope of the proposed amendments (Question 1)

(ii) Application of IAS 16 *Property, Plant and Equipment* (Questions 2-5)

(iii) Disclosures (Questions 6-7)

(iv) Transition and first time adoption (Questions 8-9)

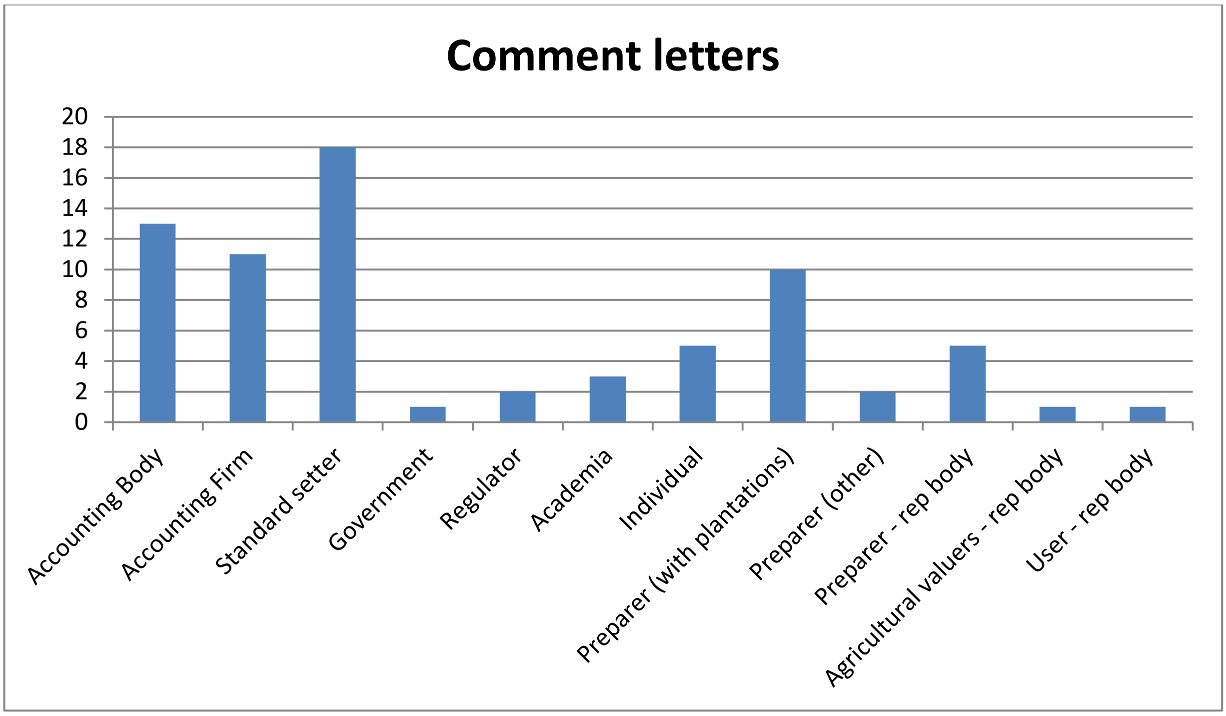
(v) Other issues raised by respondents (Question 10)

Respondents by type and geography

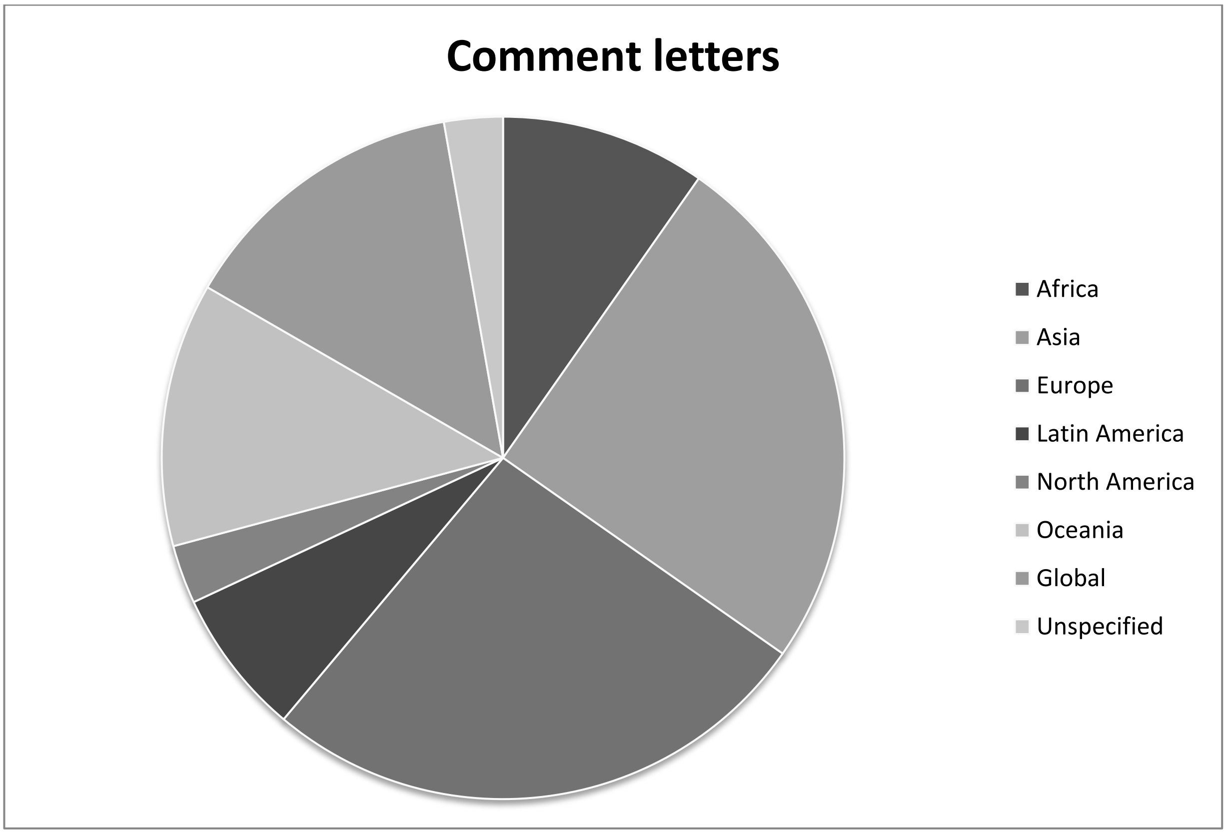
4. The IASB received 72 comment letters on the ED. These letters are summarised below by type of respondent and geographic region.

Type	Africa	Asia	Europe	Latin America	North America	Oceania	Global	Unspecified	Comment letters
Accounting Body	5	3	3			2			**13**
Accounting Firm	1		1				9		**11**
Standard setter		7	5	3	1	2			**18**
Government		1							**1**
Regulator		1					1		**2**
Academia		1		1		1			**3**
Individual			1	1		1		2	**5**
Preparer (with plantations)	1	4	5						**10**
Preparer (other)			1			1			**2**
Preparer - representative (rep) body		1	2			2			**5**
Agricultural valuers - rep body			1						**1**
User - rep body					1				**1**
Comment letters	**7**	**18**	**19**	**5**	**2**	**9**	**10**	**2**	**72**

Respondents by type



Respondents by geography



User outreach

5. The IASB did not receive any comment letters from investors and analysts on the ED and only received one comment letter from a user representative body. A limited response from users of financial statements is common on IASB consultation documents and for this reason additional targeted user outreach was performed by staff.

6. Prior to issuing the ED the staff received feedback from sixteen investors and analysts based in the United Kingdom, the Netherlands, Belgium, Singapore, Australia, South Africa and the United States who follow companies with bearer biological assets (BBAs).

7. The following is a summary of the main comments received from these investors and analysts:

   (a) Nearly all investors and analysts would prefer BBAs to be accounted for in a similar way to property, plant and equipment (PPE), rather than at fair value with changes in fair value recognised in profit or loss. The main reasons for this include:

      (i) Information about operating performance and cash flows are more relevant to their forecasting and analysis. Therefore changes in the fair value of BBAs are eliminated from the figures used for their analysis.

      (ii) There are concerns about the reliability of fair value measurements of BBAs.

      (iii) Fair value information about BBAs is not very useful without fair value information about the related land, agricultural machinery, etc.

8. More detail on the comments received from users during the user outreach is available in Agenda Paper 8C for the IASB December 2012 meeting.

Overall feedback and key issues raised by respondents to the ED

9. The vast majority of respondents support the proposal to account for bearer plants in accordance with IAS 16, thereby permitting a cost model. The following were the three main issues raised (each raised by approximately half of respondents):

    (a) Extend the scope to other biological assets. Most of these respondents suggested extending the scope to livestock. Many of these respondents further suggested extending the scope to cover all biological assets predominantly used to produce agricultural produce. The ED currently follows a no-alternative-use model for plants only. (See paragraphs 12-17 below)

    (b) Do not require fair value measurement of growing produce. Most of these respondents suggested only requiring fair value less costs to sell to be measured at the point of harvest, or providing further exemptions from fair value measurement for cost-benefit reasons. Some respondents suggested accounting for produce under a cost model before harvest, like inventories/work in progress. (See paragraphs 49-56)

    (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 IAS 16.16(b)—ie when it reaches maturity. (See paragraph 29 below)

10. Only two respondents, a user representative group and an academic group, fully rejected consideration of a cost model for bearer plants. They thought all biological assets should remain at fair value less costs to sell to prevent loss of decision-useful information and decreased comparability (the latter because of increased optionality for preparers under IAS 16). The user representative group acknowledged that investors and analysts in the staff outreach said fair value information regarding BBAs was of limited use without fair value information for land, agricultural machinery etc (see paragraph 7). However, the user representative group 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. The user representative group further said the problem is not that the fair value measurements currently provided are not relevant or sufficiently reliable, it is that the information necessary to explain the fair value is not sufficiently descriptive for investors to establish or validate the credibility of the estimate.

11. In addition to paragraph 10, a few other respondents do not support the proposals because they think the IASB should not proceed with the amendment for one category of biological assets, ie bearer plants, before performing a comprehensive review of IAS 41 *Agriculture*. Furthermore, a few respondents expressed concern with one of the key reasons given by the IASB for excluding bearer plants from the scope of IAS 41, namely that biological transformation is no longer significant in generating future economic benefits once bearer plants reach maturity. These respondents noted that biological transformation is a continuing process in bearer plants and although the process of growth may have plateaued for mature bearer plants, degeneration, production and procreation continue. One respondent noted that grape vines yield progressively better quality produce towards the end of its life cycle indicative of continued biological transformation.

Responses to individual questions in the Invitation to Comment

Scope of the proposed amendments (Question 1)

Introduction

12. The ED proposes to restrict the scope of the amendments to bearer plants, ie those plants that are only used as BBAs (no-alternative-use model). Bearer plants would be accounted for in accordance with IAS 16 and all other biological assets, including the produce growing on bearer plants, would remain in IAS 41.

13. A bearer plant would be defined as a plant that is used in the production or supply of agricultural produce, that is expected to bear produce for more than one period

and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Feedback

14. Approximately half of respondents supported restricting the scope to bearer plants, this included all plantation companies. Nearly all other respondents supported extending the scope to bearer livestock, for example dairy cows and animals held for breeding. Support came from many jurisdictions, and particularly from standard setters in those jurisdictions, global accounting firms and preparers/representative bodies in the bearer livestock industry. However, some of these respondents suggested, to avoid delaying this limited scope project, livestock should be dealt with as a second phase project. The following points summarise the main reasons given in support of extending the scope to livestock:

    (a) There is no conceptual basis for singling out bearer plants and the approach is contrary to principles-based Standards. The reasoning for accounting for bearer plants in accordance with IAS 16 in paragraphs BC16-BC21 of the ED applies equally to bearer livestock. Excluding livestock would result in a different accounting treatment for economically similar biological assets, reducing consistency and comparability of financial information.

    (b) Entities with bearer livestock and users of their financial statements share the same concerns about IAS 41 fair value information as entities with bearer plants and users of their financial statements (ie relating to complexity, reliability and profit volatility—see paragraph BC5 of the ED).

    (c) A cost model is not too complex to implement for bearer livestock (observed by the IASB in paragraph BC14 of the ED). Many entities across the world have established practices of applying the cost model for internal reporting purposes or under national GAAP/for tax reporting. Many of the complexities of applying the cost model to livestock, for example cost allocations, also apply to some bearer plants.

(d) The existence of an active market for many types of livestock or the fact that the cost model is more difficult to apply to livestock does not alter their nature. Bearer livestock should be accounted for in the same way as bearer plants.

(e) Entities generally can distinguish between those species of livestock used as BBAs and those used as consumable biological assets (CBAs). Plus, if any bearer livestock is sold for its meat this generally takes place at the end of its life, and the revenue on sale (after estimating costs of disposal such as transport costs to abattoir) is insignificant in comparison to the revenue from bearing produce.

15. Approximately half of the respondents that supported extending the scope to livestock (see paragraph 14) supported a no-alternative-use model for both plants and livestock for the same reasons given by the IASB in paragraphs BC11-BC13 of the ED. However, the other half supported a predominant-use/business model approach (ie biological assets that are primarily used, rather than only used, as BBAs). The following points summarise the main reasons given in support of a predominant-use model:

(a) It is not difficult to apply. The need for additional judgement and reclassifications between IAS 16 and IAS 41 (observed by the IASB in paragraph BC12 of the ED) is not a persuasive reason to reject the predominant-use model. Such judgement and reclassifications are no more difficult than currently required by other IFRS, for example reclassification between investment property and property held for own use, or between items held for rental purposes and inventory. Plus, under the no-alternative-use model, similar judgement and reclassifications would still be required, for example determining if scrap sales are no longer expected to be incidental.

(b) It would better reflect the manner in which future cash flows are expected to be derived from biological assets. This would improve financial reporting and is consistent with classification and measurement of financial assets in IFRS 9 *Financial Instruments*. If an entity’s business model is to hold biological assets for productive use over more than one period and they are not managed on a fair value basis, it does not seem appropriate to make fair value measurement mandatory.

(c) Limiting the scope to BBAs with no alternative use could introduce an arbitrary division in accounting for BBAs. This would reduce comparability. It may also result in situations where the accounting treatment does not reflect the underlying substance of the biological asset or the company's business model.

16. Some respondents observed that IAS 16 does not restrict the definition of PPE to items that are not intended to be sold, except as scrap and so, for consistency, such a restriction should not be in the definition of a bearer plant. A few respondents thought that the terminology ‘scrap’ is inappropriate because it would contradict an entity's objective to maximize the sale value from the bearer plant at the end of its producing life. One suggestion made was to refer to ‘insignificant residual value’ rather than ‘incidental scrap sales’.

17. The following points summarise other suggestions for expanding the scope of the ED made by a few respondents:

(a) Include CBAs used as inputs into the production process in the scope (vertically integrated operations). For example where an entity uses CBAs as raw materials to produce other products, for example fruit used to make fruit juice or timber used to make paper (raised by two respondents in Brazil).

(b) Consider an exemption from IAS 41 for:

(i) agricultural activity with an operating cycle of less than one year, for example annual crops. One respondent noted similar practical expedients were included in the recent exposure drafts for leases (short term lease) and revenue recognition (short term financing component).

(ii) produce growing on the bearer plants (addressed separately under paragraphs 49-56).

Application of IAS 16 (Questions 2-5)

Accounting for bearer plants before maturity (Question 2)

Introduction

18. The ED proposes that before bearer plants are placed into production (ie before they reach maturity and bear fruit) they should be measured at accumulated cost. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.

Feedback

19. Virtually all respondents that commented on Question 2 supported measuring bearer plants under an accumulated cost model before they reach maturity. However, several respondents said more guidance was required (see paragraphs 27-33).

Accounting for root crops (Question 3)

Introduction

20. Some root crops, such as sugar cane, are perennial plants because their roots remain in the ground to sprout for the next period's crop. The ED notes that under the proposals if an entity retains the roots to bear produce for more than one period, the roots would normally meet the definition of a bearer plant. The ED further states that in most cases the effect of accounting for the roots separately under IAS 16 would not be material. The ED does not propose to add specific guidance for root crops.

Feedback

21. Virtually all respondents that commented on Question 3 agree that root crops that remain in the ground to sprout for the next period's crop would normally meet the definition of a bearer plant. However, a few respondents said this should be specified in the final amendments because otherwise it is not clear.

22. Many respondents disagreed with the statement in the ED that in most cases the effect of accounting for the roots separately would not be material, particularly for large scale famers growing root crops with relatively long useful lives.

23. Most respondents agreed that no additional guidance is required for root crops. Nearly all of those who requested guidance said it was necessary to explain how to allocate costs between the roots (bearer plants—at accumulated cost) and the stems (produce—fair value through profit or loss) to avoid diversity in practice. Some respondents observed that it would not be appropriate to capitalise all cultivation costs up to the first harvest because this would result in 'double counting' of costs relating to the stems. This is because the stems would be measured at fair value through profit or loss when they start to grow.

Accounting for bearer plants after maturity (Question 4)

Introduction

24. The ED proposes to include bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for mature bearer plants subject to the requirements in IAS 16.

Feedback

25. Nearly all respondents supported permitting entities to choose either the cost model or the revaluation model for mature bearer plants and most agreed with including bearer plants in the scope of IAS 16. However a few respondents thought bearer plants should remain in IAS 41 with reference made to requirements in IAS 16. Their reasons included the merits of keeping all agricultural activity together in IAS 41 and also because it was easier to add specific guidance in IAS 41 for bearer plants without it affecting other PPE (see paragraph 33).

26. The following points summarise the comments from the few respondents who did not support permitting entities to choose either the cost model or the revaluation model for mature bearer plants:

(a) The final amendment should only allow the cost model for bearer plants. Allowing entities an option to use the revaluation model is inconsistent with part of the rationale for the proposed amendments, ie that producing fair value information is complex, subjective and has limited use by users of the financial statements. However, a few of these respondents also noted that since the revaluation model can only be used for items of bearer plants/PPE whose fair value can be measured reliably (IAS 16.31) they were not unduly concerned by retaining a revaluation option.

(b) A cost model can be supported by cost-benefit reasons. However, the requirements in IAS 41 continue to be appropriate for bearer plants. Therefore, the final amendment should allow a choice between the cost model and the IAS 41 fair value model, rather than the revaluation model. One respondent expressed concern that paragraph BC50 of the ED seems to imply there is little difference between the fair value model in IAS 41 and the revaluation model in IAS 16, and highlighted some differences:

(i) Under the revaluation model bearer plants would also be subject to depreciation and impairment requirements, which can involve tracking the amount of impairment recognised in profit of loss and in other comprehensive income (OCI).

(ii) Under the revaluation model changes in the fair value of the entire plant would need to be split between OCI (for the bearer plant) and profit and loss (for the produce), rather than recognising all changes in profit or loss (under IAS 41).

Additional guidance (Question 5)

Introduction

27. The ED proposes that the recognition and measurement requirements of IAS 16 can be applied to bearer plants without additional guidance or modification.

Feedback

28. More than half of respondents thought that additional guidance was required. However, this only included one of the ten plantation companies.

29. Nearly all those who requested additional guidance asked for 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 IAS 16.16(b)—ie when it is deemed to have reached maturity. A few respondents suggested as a practical expedient the maturity date should be defined as the date of the first harvest of commercial value. The following points summarise the main reasons given for requiring guidance on when a bearer plant reaches maturity:

    (a) Determining when a bearer plant is in the location and condition to be capable of operating in the manner intended by management is likely to be more complex than for self-constructed PPE. For example, for PPE this point in time can be verified by test-runs and approval by management. However, bearer plants reach maturity gradually and the timing of maturity will depend on many factors, for example the weather and other environmental conditions.

    (b) Without guidance there will be significant diversity in practice. Some bearer plants bear produce several years before they reach a commercial level of produce. Plus they may not reach their maximum output until much later in their life and until this point are undergoing biological transformation. An example provided by one respondent was oil palms can bear commercially viable produce after approximately four years but at this time the yield may only be 25% of the full potential yield. The yield may reach 100% only in year seven. In years four to seven the yield improves as the oil palms undergo biological transformation. The respondent noted that it is unclear whether the tree reaches maturity in year four or seven, or sometime between these two years.

30. A significant number of respondents requested additional guidance in three further areas:

(a) The nature of costs that can be capitalised before maturity. Some respondents noted paragraphs IAS 16.16-22 are written for traditional PPE and additional examples more relevant for bearer plants should be included.

(b) Allocation of costs post maturity between the growing fruit and the bearer plant. Also how to determine what type of subsequent costs should be capitalised as bearer plants after maturity, for example if the expenditure increases the yield of the bearer plants.

(c) Transfers between IAS 16 and IAS 41 if the entity changes its intention for a bearer plant or if scrap sales are no longer considered incidental.

31. The following points summarise other suggestions for guidance made by a few respondents:

(a) Guidance on a normal level of wastage. Address the issue that many bearer plants will die before maturity, for example from the implementation of a planned thinning programme.

(b) Establishment of the unit of account for bearer plants, including consideration of infilling (ie the addition of plants within vacant areas in the plantation—which could be an ongoing activity) and accounting for shade trees (trees grown purely to provide shade for the bearer plants and that may have a different useful life from the bearer plants).

(c) Application of the revaluation model, for example how to determine the fair value of the bearer plant separately from the fair value of the produce. This is also necessary in order to determine which fair value gains go in OCI and which go in profit or loss.

(d) Methods of depreciating bearing plants. One respondent noted bearer plants share similarities with the assets under consideration in the IASB's project *Clarification of Acceptable Methods of Depreciation and Amortisation* and the IASB should ensure that project also provides a clear methodology for bearer plants.

(e) Scope issues. Deciding if the plant is in scope of IAS 16 or IAS 41 may be challenging in some instances:

(i) Plants with short lifecycles, ie less than one year, that bear produce either continuously or have several harvests. An example provided was a cucumber vine.

(ii) Plants whose future use is dependent on a future event. For example depending on the quality of the produce after the first harvest a plant may be kept for a second (or third) harvest. Examples provided were gum trees or banana trees.

(iii) Determining if scrap sales are incidental.

32. A few respondents said that it would be useful for the IASB to conduct outreach to identify the issues that have arisen in jurisdictions where the cost model is/was used under national GAAPs. Such outreach would enable the IASB to see where additional guidance is necessary and assess whether any existing guidance in those jurisdictions can be used.

33. A few respondents expressed concern about including additional guidance in IAS 16 for bearer plants to the extent it entails an interpretation of IAS 16, which might affect its application to PPE more generally. Some respondents noted such concerns would not arise if bearer plants remained in the scope of IAS 41 with reference made to the relevant requirements in IAS 16.

Disclosures (Questions 6-7)

Fair value disclosures for bearer plants (Question 6)

Introduction

34. The ED does not propose to include any additional disclosures about the fair value of bearer plants under IAS 16. Respondents were asked whether either of the following types of disclosures about bearer plants should be required under the cost model in IAS 16:

(a) Disclosure of the total fair value of the bearer plants, including information about the valuation techniques and the significant inputs/assumptions used.

(b) Disclosure of the significant inputs that would be required to determine the fair value of bearer plants, but without the need to measure or disclose that fair value.

Feedback

35. Virtually all respondents agreed the disclosures in paragraphs 34(a) and (b) should not be required. Many respondents said they would be inconsistent with the rationale for the proposals in the ED, ie that the cost of providing fair value information outweighs the benefits and bearer plants should be accounted for like PPE (paragraphs BC16-BC21 of the ED). Most respondents thought the current disclosures in IAS 16 were sufficient for bearer plants, including encouraged disclosure of the fair value of PPE/bearer plants when it is materially different from the carrying amount in IAS 16.79(d).

36. A few respondents noted that if fair value measurement is relatively easy for the entity to obtain and is considered useful for users, entities have the option to either disclosure that information or apply the revaluation model under IAS 16.

37. A few respondents acknowledged that cost information has limited predictive value and therefore that the disclosures in paragraph 34(b) would be useful for users. However, some of these respondents said users with a basic knowledge of agriculture would already be aware of and be able to acquire information about the most significant inputs used to determine the fair value of bearer plants. Plus some noted that requiring such disclosure may result in boilerplate disclosures with little additional information value for users.

Other disclosures (Question 7)

Introduction

38. Many investors and analysts consulted during the user outreach performed by the staff said that instead of using the fair value information about bearer plants they

use other information, for example, disclosures about productivity, including age profiles, estimates of the physical quantities of bearer plants and output of agricultural produce. They currently acquire this information via presentations made to analysts, from additional information provided by management in annual reports (for example, in the Management Commentary) or directly from companies. The ED does not propose to include any additional disclosures for bearer plants under IAS 16.

39. Currently IAS 41.46(b) requires the following disclosure for all biological assets:

> If not disclosed elsewhere in information published with the financial statements, an entity shall describe:
>
> (a) the nature of its activities involving each group of biological assets; and
>
> (b) non-financial measures or estimates of the physical quantities of:
>
> (i) each group of the entity's biological assets at the end of the period; and
>
> (ii) output of agricultural produce during the period.

Feedback

40. Most respondents agreed additional disclosures should not be required for bearer plants in IAS 16. However, in contrast to the very limited support for the disclosures in Question 6 above, a significant minority of respondents acknowledged that disclosures about productivity and future cash flows are useful to users, for example about the age profile, growth cycle, area under production, yield, risks etc. Some respondents supported mandating such disclosures, although many of these noted that these disclosures should be permitted to be presented outside the financial statements. Some respondents observed that this type of disclosure is currently required for all biological assets under IAS 41.46(b) and that IAS 41.46(b) should continue to apply to bearer plants under IAS 16.

41. Several respondents said additional disclosures should only be required if they provide useful information to users without unduly increasing costs. Other respondents thought disclosures like those in paragraph 38 should be encouraged but not mandated. The following points summarise the main reasons given against mandating disclosures of the type in paragraph 38:

(a) They would be difficult to audit.

(b) There is no basis for singling out bearer plants for additional disclosure when they are not required for PPE, for example disclosure of productivity ratios is not required for manufacturing companies.

(c) The need for this kind of disclosure in the notes to the financial statement should be addressed as part of the conceptual framework/disclosure project.

(d) Whilst relevant to users it does not belong in financial statements. Non-financial info that is significant and relevant to an understanding of the business is best included in Management Commentary, which is outside the scope of IFRSs.

(e) Agricultural activity is diverse and companies are likely to apply different non-financial metrics to analyse their business. To require disclosure of specific types of information would increase cost and burden unnecessarily, and may result in companies producing excessive information which is not relevant to their business.

(f) Entities have the option to disclose this information if they consider it is useful for users of their financial statements. Most entities with bearer plants already provide this information outside the financial statements.

42. The IASB did not receive any comment letters from investors and analysts and only received one comment letter from a user representative body. Therefore, requests for specific types of disclosures were limited. Agenda Paper 8C for the IASB December 2012 meeting covers the user outreach performed by the staff and includes a list of the information that investors and analysts told us would be useful to them.

Transition and first time adoption (Questions 8-9)

Transition provisions (Question 8)

Introduction

43. The ED proposes to permit an entity to use the fair value of an item of bearer plants as its deemed cost at the start of the earliest comparative period presented in the first financial statements in which the entity applies the amendments to IAS 16. The election would be available on an item-by-item basis. The ED also proposes to permit early adoption of the amendments.

Feedback

44. Virtually all respondents supported the proposals without change. However, a few respondents suggested using fair value less costs to sell as deemed cost because this is the measurement basis under IAS 41. A few respondents also asked for clarity in the following areas:

    (a) Clarification on how to account for differences in the carrying value on transition if fair value, rather than fair value less costs to sell, is used as deemed cost. For example would costs to sell be recognised in opening retained earnings at the beginning of the earliest period presented?

    (b) Clarification that fair value must be determined in accordance with IAS 41/IFRS 13 *Fair Value Measurement*.

45. A few respondents said the election to use fair value as deemed cost should not be available on an item-by item basis. These respondents either thought the election should be applied to all bearer plants consistently or that it should be applied by type/class of bearer plant. One respondent said an item-by-item election would not be consistent with the requirement in IAS 16 to apply the revaluation model to entire classes of PPE.

46. A few respondents said the IASB should provide sufficient implementation lead time to allow entities that wish to apply the amendments retrospectively to collect the necessary cost information, which may be time consuming for bearer plants with relatively long life cycles.

First time adoption (Question 9)

Introduction

47. The ED proposes that the deemed cost exemption provided for an item of PPE in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should also be available for an item of bearer plants.

Feedback

48. Virtually all respondents who commented on Question 9 supported the proposals unchanged.

Other issues raised by respondents (Question 10)

Accounting for produce growing on bearer plants

Introduction

49. The ED proposes that the produce growing on bearer plants should remain in the scope of IAS 41 and be measured at fair value through profit or loss during growth.

50. IAS 41 includes a presumption that fair value can be measured reliably for a biological asset and under the proposals this presumption would apply to produce growing on a bearer plant. This presumption can be rebutted on initial recognition if quoted market prices are not available and alternative fair value measurements are determined to be clearly unreliable. If the presumption is rebutted, IAS 41 requires entities to measure biological assets at cost less any accumulated depreciation and any accumulated impairment losses. In determining cost, accumulated depreciation and accumulated impairment losses, an entity is required to consider IAS 2 *Inventories*, IAS 16 and IAS 36 *Impairment of Assets* (see IAS 41.30).

Feedback

51. The Invitation to Comment in the ED did not include a specific question about accounting for produce growing on bearer plants. However almost half of respondents, including all plantation companies, commented that they did not support the proposals in this area. Some of these respondents acknowledged they understood the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges.

52. The following points summarise the main suggestions for how to account for produce growing on bearer plants provided by respondents:

    (a) Produce should be measured at fair value less costs to sell only at the point of harvest because of the practical difficulties of measuring fair value during growth (see paragraph 53 below).

    (b) Produce that is harvested continuously should be measured at fair value less cost to sell only at the point of harvest, rather than during growth, for cost-benefit considerations. The practical challenges are greater for produce harvested continuously than for other CBAs, for example produce harvested periodically or annual crops. A few respondents said produce harvested continuously typically has a short growth period, meaning the time lag between period end and harvest of any item of fruit is short. For example, tea leaves typically take a few days to mature and oil palm fruit a few months. Hence, these respondents think measuring the produce at fair value less costs to sell at the point of harvest would be unlikely to have a significant impact on the decision usefulness of financial information.

    (c) Produce should be accounted for in the same way as inventory/work in progress and measured at the lower of cost or net realisable value in accordance with IAS 2. This treatment would be consistent with the proposal to account for bearer plants like machinery. Some respondents disagreed with the observation in IAS41.B43 by the IASC Board that 'it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets'. These respondents noted several national GAAPs previously/currently account for produce at cost.

(d) A bearer plant and its produce should be treated as one asset (one unit of account) prior to harvest because they usually undergo biological transformation simultaneously and are economically linked prior to harvest.

53. The following points summarise the main reasons given in opposition to measuring produce at fair value through profit or loss during growth:

(a) Allocation of cultivation costs between the bearer plants and produce, and measuring the fair value of the produce on its own, would be costly, complex and subjective.

(b) Fair value information about the produce would not useful to users of financial statements because it is highly judgemental and very sensitive to changes in assumptions. Requiring changes in the fair value less cost to sell to be recognised in profit or loss would distort profits and create profit volatility.

(c) Although active markets may exist for some livestock before maturity, for example calves and lambs, active markets do not typically exist for other produce before maturity. This makes determination of fair value difficult and unreliable.

(d) It is impracticable to estimate growing produce by physical inspection, particularly in large plantations containing millions of trees which are not homogeneous in terms of age, effects of land topography, soil condition, exposure to rainfall, etc.

(e) Timing of ripening, the ultimate quality/size of the produce, and crop failure are highly variable and would be difficult to estimate because they depend on factors like weather, diseases, natural disasters, etc.

(f) Fair value measurement and separate accounting for produce are not used in internal reporting.

(g) Specific examples of problems from fair value measurement given by respondents:

   (i) Rubber trees. Estimating the volume of latex sap underneath the bark of a rubber tree is impracticable.

   (ii) Oil palms: Each tree holds a mix of unpollinated and pollinated flowers, and ripening fresh fruit bunches at varying stages of growth. The quantity of produce at each stage of growth can vary significantly amongst trees and between specific points throughout the continuous harvest cycle.

   (iii) Tea plantations. Depending on the colour, texture and size of the tea leaves, only some of them will be plucked, with some tea leaves remaining on the tree to be plucked later. Depending on subsequent development, some may not be plucked at all. The price of tea leaves is not readily available from the market and depends on the quality of the tea leaves. For example, older tea leaves may be worth more.

   (iv) Sisal plants: Virtually all leaves that will eventually be harvested from a given plant are already in formation when the plant is first harvested, ie all leaves are under development/in existence at any point in time. Therefore, under the proposals, the same IAS 41 adjustments would be made but the values and movements previously assigned to the plants in their entirety would be assigned in full to the growing produce.

54. The following points summarise the main comments given by respondents about the exception from fair value measurement in IAS 41.30 (this exception is described in paragraph 50 above):

(a) The final amendment should emphasise that the practical difficulties in measurement could lead preparers to apply IAS 41.10(c) and IAS 41.30 until the produce is harvested.

(b) As noted in Agenda Paper 4A of the IASB February 2013 meeting, the exception in IAS 41.30 is stricter than exceptions from fair value measurement in other IFRSs covering non-financial assets. The terminology used in IAS 41, 'fair value measurements are determined to be clearly unreliable', implies a higher hurdle than the language used in IAS 16/IAS 41, 'whose fair value can be measured reliably'. This higher hurdle is not justified.

(c) Consider requiring growing produce to be measured at fair value only when it can be measured by reference to an active market for the produce in its current state of development at the reporting date and/or permitting an accounting policy choice for growing produce to be measured at cost or fair value by class of biological asset.

55. Several respondents said further guidance would be required on how to measure the produce at fair value because the requirements in IFRS 13/IAS 41 are not sufficient. Other respondents said guidance would be required to help assess when produce starts to grow. For example, would an entity wait for physical evidence like blossom on a tree? If so, how would this be done when produce is not visible, for example latex inside the bark of a rubber tree?

56. A few respondents said that the IASB should also consider whether fair measurement is appropriate for produce whose value predominantly depends on acquired intellectual property rather than biological transformation (see paragraph 58(a)).

Further issues raised by respondents

57. A significant number of respondents said a comprehensive review of IAS 41 should be performed. Therefore, that the IASB should reconsider whether, and when, fair value measurement is appropriate for all biological assets and, if so, how gains and losses should be recognised. Some said the comprehensive review should be performed as second phase to this limited scope project. Others said it should be performed instead of this limited scope project.

58. The following points summarise the other issues raised by two or more respondents:

(a) Address accounting for produce whose value predominantly depends on intellectual property, for example genetically modified seeds. Seeds with the desired germplasm traits (parent seeds) are bred through research and development activity. The parent seed is not normally sold separately, but is used to grow plants which bear seeds that are sold to farmers (commercial seeds). The proprietary germplasm contained within the seed is often protected by patents or plant variety rights. In general, this intellectual property accounts for the predominant part of the seeds' value. The respondents question whether fair value measurement of the seeds (both parent and commercial seeds) is appropriate because the increase in fair value during biological transformation predominantly depends on the intellectual property incorporated within the seeds, rather than growth.

(b) Add guidance on the accounting treatment of government grants that relate to both bearer plants and their produce, and in particular whether these grants would be covered by IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* or IAS 41.

(c) Consider whether the requirements in IAS 17 *Leases*, IAS 23 *Borrowing Costs* and IAS 36 *Impairment of Assets* are appropriate for bearer plants and/or whether additional guidance on their application to bearer plants is required.

(d) Drafting issues. A few respondents raised minor drafting issues. Staff will consider these during redrafting of the final amendments.