

STAFF PAPER

March 2014

IASB Meeting

Project	Agriculture: Bearer Plants		
Paper topic	Remaining issues raised by respondents to the Exposure Draft		
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Purpose of this paper

1. This Agenda Paper 13A asks the IASB to consider the remaining issues raised by respondents to ED/2013/8 *Agriculture: Bearer Plants* (the ED). These issues were included in the appendix to Agenda Paper 13A for the February IASB meeting.

Structure of this paper

2. This Agenda Paper 13A is set out as follows:
 - (a) Approach to this meeting
 - (b) Issue (1) Applying the revaluation model to bearer plants
 - (c) Issue (2) Accounting for government grants related to bearer plants
 - (d) Issue (3) Disclosures about productivity of bearer plants
 - (e) Issue (4) Transition provisions for existing IFRS users

Approach to this meeting

3. At its February meeting the IASB discussed the three main issues raised by respondents to the ED. All other issues raised on the ED were only raised by a small number of respondents. In the appendix to Agenda Paper 13A for the February IASB meeting the staff identified four of these other issues that they thought should be considered separately by IASB members because of their nature. These four issues are covered by this agenda paper. The staff is not proposing changes to the proposals in the ED for these four issues other than minor drafting changes for Issue 4.
4. Given that the staff is not proposing changes and these issues were only raised by a small number of respondents, the staff suggests that the IASB does not need to discuss these issues unless any IASB members have objections to the staff recommendations or queries. When introducing this paper the staff will ask if IASB members want to discuss any of the issues in this paper and only those issues raised will be discussed.

Question for the IASB

1. Does the IASB agree the staff recommendations in this paper?

Issue 1: Applying the revaluation model to bearer plants

Introduction

5. The ED proposes that entities would be permitted to choose either the cost model or the revaluation model for bearer plants once they reach maturity. The ED does not propose to add specific guidance on applying the revaluation model in IAS 16 *Property, Plant and Equipment* to bearer plants.

Issues raised by respondents

6. A few respondents did not support allowing entities an option to use the revaluation model. A few thought the final amendment should allow a choice

between the fair value model in IAS 41 *Agriculture* and the cost model instead. A few respondents asked for guidance on application of the revaluation model to bearer plants.

7. For more detail on these comments see paragraphs 25, 26 and 31(c) in Agenda Paper 14A for the January IASB meeting.

Staff analysis

8. Paragraphs BC39 and BC48 in the Basis for Conclusions accompanying the ED summarise the considerations of the IASB on permitting the revaluation model for bearer plants.
9. The IASB's principal decision underlying the ED is that bearer plants are similar to property, plant and equipment (PPE), for which the accounting is prescribed in IAS 16. Consistent with the reasoning for accounting for bearer plants as PPE¹, the staff thinks the same accounting policy options should be permitted for bearer plants.
10. The staff acknowledges that the IAS 16 revaluation model differs from the IAS 41 fair value model. In particular, the IAS 16 revaluation model would require:
 - (a) The produce and the bearer plant to be valued separately. Under IAS 41 only the fair value of the entire plant is required. Under the revaluation model the staff thinks a reasonable approach would be to subtract the fair value of the produce from the fair value of the entire plant. The residual would be the fair value of the bearer plant.
 - (b) Changes in the fair value of the entire plant to be split between other comprehensive income (OCI—for changes relating to the bearer plant) and profit and loss (for changes relating to the produce). Under IAS 41 all changes are recognised in profit or loss.
 - (c) Bearer plants to be subject to depreciation and impairment requirements, which can involve tracking the amount of impairment

¹In paragraphs BC16-BC21 in the Basis for Conclusions accompanying the ED.

recognised in profit or loss and in OCI. Such requirements are generally not applicable under IAS 41.

- (d) Revaluations to be made with sufficient regularity to ensure carrying amount does not differ materially from fair value at the end of the reporting period. IAS 41 requires fair value to be measured at each reporting date.

11. The staff acknowledges entities might find the revaluation model more complex to apply to some bearer plants than the IAS 41 fair value model. However the staff thinks that the requirements under the revaluation model are clear and there is no need to add specific guidance for bearer plants. Furthermore, the staff thinks that the vast majority of entities with bearer plants will use the cost model for the reasons in paragraph BC48—in particular that use of the revaluation model is prohibited if the fair value of bearer plants cannot be measured reliably.
12. The staff thinks that the differences between the IAS 41 fair value model and the IAS 16 revaluation model listed in paragraphs 10(a)-(d) should be well known by most interested parties. However, the staff suggests including them in the Basis for Conclusions accompanying the final amendment to respond to concerns raised by one respondent that the ED implies there is little difference between the IAS 41 fair value model in IAS 41 and the revaluation model in IAS 16.

Staff recommendation

13. The staff recommends:
 - (a) the revaluation model should be permitted for bearer plants (no change from the proposals in the ED);
 - (b) no additional guidance on applying the revaluation model to bearer plants should be added (no change from the proposals in the ED); and
 - (c) the differences in paragraphs 10(a)-(d) should be noted in the Basis for Conclusions accompanying the final amendments.

Issue 2: Accounting for government grants related to bearer plants

Introduction

14. The ED does not propose any changes to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* or to the requirements on government grants in IAS 41.34-38. However the ED adds a statement to IAS 41.2 that government grants related to bearer plants are excluded from IAS 41 and refers entities to IAS 20.

Issue raised by respondents

15. A few respondents asked for guidance on whether government grants related to bearer plants would be covered by IAS 20 or IAS 41.

Staff analysis

16. Consistent with the reasoning for accounting for bearer plants as PPE, the staff thinks government grants related to bearer plants should be accounted for under IAS 20 as they are government grants related to PPE. The staff also notes the treatment for government grants in IAS 41 is intended to apply to grants related to biological assets measured at fair value. IAS 41.37 states “If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 is applied”.
17. The ED clearly states government grants related to bearer plants are covered by IAS 20. Therefore, the staff thinks the reason why respondents requested guidance is because a government grant related to a bearer plant will also relate to the produce attached to the bearer plant. Produce will remain under the fair value model in IAS 41. Therefore the question may arise as to whether part of the grant should be in IAS 41.
18. The staff thinks a government grant related to agricultural activity involving bearer plants will usually be more clearly related to the bearer plant (which remains for many harvests) than the produce (which is harvested on an ongoing

basis). Therefore the staff thinks that all government grants related to bearer plants and their produce should be in the scope of IAS 20— except in the unusual situation that a government grant relates solely to a particular harvest of produce.

19. The staff does not think specific guidance is required because the issue of whether a government grant is in IAS 20 or IAS 41 must already arise, for example when a grant relates to a combination of regular PPE and biological assets.

Staff recommendation

20. The staff recommends that no additional guidance should be added on whether government grants related to bearer plants are covered by IAS 20 or IAS 41 (no change to the ED).

Issue 3: Disclosures about productivity of bearer plants

Introduction

21. The ED does not propose any additional disclosures for bearer plants under IAS 16. However, 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. Consequently, the IASB asked a question in the Invitation to Comment in the ED on whether additional disclosures, such as these, should be required.
22. IAS 41.46(b) requires the following disclosure for all biological assets in the scope of IAS 41:
- 46(b) 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.

Issues raised by respondents

- 23. A significant minority of respondents acknowledged that disclosures about productivity are useful to users. However only a few respondents thought such disclosures should be mandatory. A few respondents said IAS 41.46(b) should continue to apply to bearer plants under IAS 16.
- 24. For more detail on these comments see paragraphs 40-42 in Agenda Paper 14A for the January IASB meeting.

Staff analysis

- 25. Paragraphs BC35-BC38 in the Basis for Conclusions accompanying the ED summarises the considerations of the IASB on not requiring additional disclosure requirements for bearer plants.
- 26. Consistent with the reasoning for accounting for bearer plants as PPE, the staff does not think there is a clear basis for singling out bearer plants for disclosures about their productivity. For example manufacturing companies are not required to disclosure information about the productivity of their PPE.
- 27. The staff acknowledges that including bearer plants in IAS 16 will mean that IAS 41.46 will no longer apply to them. However, the staff thinks that this will have limited effect in practice because the disclosures in IAS 41.46(b) will continue to apply to the produce—which remains in IAS 41:
 - (a) **IAS 41.46(a) and (b)(ii).** The staff thinks the disclosures made by entities in accordance with IAS 41.46(a) and (b)(ii) would be the same regardless of whether those paragraphs refer to the entire plant or only the produce.
 - (b) **IAS 41.46(b)(i).** Under the proposals in the ED, IAS 41.46(b)(i) would apply to physical quantities of produce rather than physical quantities of

the entire plants. However, IAS 46(b)(i) does not specify the type of non-financial measures or estimates that an entity needs to provide, giving the entity flexibility. Therefore, the staff thinks it is likely entities would continue to disclose their chosen measures of bearer plants even if this paragraph only refers to produce.

28. Agricultural activity is diverse and the staff thinks it would be difficult to identify specific productivity disclosures that would provide useful information for users and cover all types of bearer plants. Furthermore, if the IASB decided to include productivity disclosures in IAS 16 for bearer plants (other than those in IAS 41.46), it would be difficult to justify requiring them for bearer plants and not other biological assets in IAS 41.

Staff recommendation

29. The staff recommends that no additional disclosure requirements are added to IAS 16 for bearer plants.

Issue 4: Transition provisions for current IFRS users

Introduction

30. 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 ED proposes to allow the election on an item-by-item basis.

Issues raised by respondents

31. 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 said the election to use fair value as deemed cost should not be available on an item-by-item basis. There were also a few requests for additional guidance and for the IASB to increase the implementation lead time.

32. For more detail on these comments see paragraphs 44-46 in Agenda Paper 14A for the January IASB meeting.

Staff analysis

33. Paragraphs BC41-BC42 in the Basis for Conclusions accompanying the ED summarises the considerations of the IASB on setting the transition provisions.
34. The staff thinks the amendments to IAS 16 should permit the use of fair value as deemed cost at the start of the earliest comparative period presented in the financial statements for cost-benefit reasons. The staff thinks ‘fair value’ not ‘fair value less costs to sell’ is the more appropriate measure for the following reasons:
- (a) By definition bearer plants are those plants not intended to be sold and so it does not seem appropriate to consider ‘costs to sell’.
 - (b) Using fair value is consistent with the revaluation model under IAS 16.
 - (c) Using fair value is consistent with the deemed cost exemption for PPE under IFRS 1 *First-time Adoption of IFRSs*.
35. The staff thinks that if an entity uses fair value as deemed cost for items of bearer plants, any differences between fair value and the carrying amount under IAS 41 (because of costs to sell) should be recognised in retained earnings. The staff thinks that adding the following sentence to the transition provisions would provide clarity “Any difference between the previous carrying amount and fair value shall be recognised in retained earnings”.
36. The staff thinks the election to use fair value as deemed cost should be available on an item-by item basis. The staff does not think using fair value for some bearer plants and cost for others on the date of initial application of the amendments would lead to lack of comparability. This is supported by paragraph BC43 in the Basis for Conclusions accompanying IFRS 1 —which explains why the IASB permits use of fair value as deemed cost on an item-by item basis for PPE held by first time adopters of IFRSs:

IFRS 1.BC43 Some expressed concerns that the use of fair value would lead to lack of comparability. However, cost is generally equivalent to fair value at the date of acquisition. Therefore, the use of fair value as the deemed cost of an asset means that an entity will report the same cost data as if it had acquired an asset with the same remaining service potential at the date of transition to IFRSs. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the targeted use of fair value as deemed cost for some assets. The Board regarded this approach as justified to solve the unique problem of introducing IFRSs in a cost-effective way without damaging transparency.

37. The staff thinks that when setting the effective date of the amendments there is no need to provide additional implementation lead time to allow entities to collect the necessary cost information. The deemed cost exemption in the ED was provided for this reason. Plus the staff note that all current IFRS adopters will have provided fair value information at the date of transition when applying IAS 41 in the prior year financial statements. The staff does not think that reconstructed cost information will provide better information for users for the reasons given in paragraph 36.

Staff recommendation

38. The staff recommends that no changes are made to the transition requirements in the ED. However, for clarity, the staff proposes to add the sentence in underline to paragraph 81I in the ED:

81I An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the first financial statements in which the entity applies *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in retained earnings.