

STAFF PAPER

December 2021

IASB® meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> ® Standard	
Paper topic	Towards an Exposure Draft—amendments to IFRS Standards and IFRIC Interpretations (Agriculture: Bearer Plants)	
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Introduction

1. This paper discusses whether and, if so, how to propose amendments to the *IFRS for SMEs* Standard to align Section 34 *Specialised Activities* of the *IFRS for SMEs* Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) (the amendment), which the International Accounting Standards Board (IASB) issued in June 2014.
2. The amendment requires an entity to account for bearer plants, such as grape vines, rubber trees and oil palms, separately from the produce from those plants. The IASB concluded an entity applying full IFRS Standards should account for bearer plants in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendment:
 - (a) includes the bearer plants within the scope of IAS 16, instead of IAS 41 *Agriculture*; and
 - (b) retains the produce growing on bearer plants within the scope of IAS 41.
3. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

4. The purpose of this paper is to ask the IASB to:
 - (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on the alignment of the *IFRS for SMEs Standard* with amendments to IFRS Standards; and
 - (b) decide whether and, if so, how to propose amendments to align the *IFRS for SMEs Standard* with the amendment.

Staff recommendation

5. The staff recommend the IASB propose amendments to the *IFRS for SMEs Standard* to align Section 34 of the *IFRS for SMEs Standard* with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), providing an undue cost or effort exemption on initial recognition for separation of the bearer plants from the produce growing on bearer plants. An SME would be required to account for a bearer plant on initial recognition separately from the produce growing on the bearer plant if the SME can measure the bearer plant and the produce growing on the bearer plant separately without undue cost or effort. Otherwise, the SME would continue apply the requirements in Section 34 of the *IFRS for SMEs Standard* to the entire plant.

Structure of the paper

6. This paper is structured as follows:
 - (a) question in the Request for Information (paragraph 7 of this paper);
 - (b) feedback and SMEIG recommendations (paragraphs 8–17 of this paper);
 - (c) staff analysis (paragraphs 18–25 of this paper); and
 - (d) staff recommendation and question for the IASB (paragraph 26 of this paper).

Question in the Request for Information

7. Question S10 of the Request for Information asks for views on aligning the *IFRS for SMEs* Standard with the amendment in Table A1 of the Request for Information, Table A1 included multiple amendments to IFRS Standards.

Feedback and SMEIG recommendations

Methods for obtaining feedback

8. Feedback on aligning the *IFRS for SMEs* Standard with the amendment *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) was gathered from comment letters and online survey.
9. The SMEIG met on 9 September 2021 to discuss the feedback on the Request for Information and develop recommendations to enable the IASB to decide on whether and, if so, how to align the *IFRS for SMEs* Standard with amendments to IFRS Standards and IFRIC Interpretations, including this amendment.
10. Additionally, in November 2021, the staff sought input from SMEIG members on an alternative approach to align Section 34 with this amendment (see paragraph 14 of this paper).

Feedback

11. Many respondents via comment letters and the online survey supported aligning Section 34 of the *IFRS for SMEs* Standard with the amendment but did not provide any specific reasons related to this amendment. Many of these respondents agreed with aligning the amendments listed in table A1 of the Request for Information on an overall basis and did not provide detailed comments on each amendment discussed in the Request for Information. Therefore, it is not clear whether their support for aligning this amendment was based on specific agreement or lack of detailed objection.

12. However, a small number of respondents via comment letters, expressed concerns on aligning Section 34 of the *IFRS for SMEs* Standard with the amendment because it might introduce complexity into the Standard. One national standard-setter said the current requirements in Section 34 provide a more appropriate way of determining which measurement model an SME applies to its biological assets in agricultural activity, compared to the requirement to measure bearer plants separately from the produce on those plants introduced by the amendment.

SMEIG recommendations

13. At the September 2021 SMEIG meeting, some SMEIG members did not support aligning Section 34 of the *IFRS for SMEs* Standard with the amendment. In their view, the amendment would be difficult for SMEs to apply. These SMEIG members said:
- (a) aligning with the requirement to measure bearer plants separately from the produce growing on bearer plants:
 - (i) would introduce complexity for SMEs and conflict with the simplicity principle. These members also said alignment might bring little benefit to users of SME financial statement.
 - (ii) would require additional resources to determine the fair value of the produce separately from the bearer plant. However, one SMEIG member said that many entities that apply the *IFRS for SMEs* Standard and have bearer plants are large SMEs, which might already have procedures to separate bearer plants and the produce from those plants.
 - (b) further simplification would be needed if the Standard is aligned with this amendment. For example, an option to account for the ‘entire’ bearer plant as a single asset.
14. In November 2021, the staff sought input from SMEIG members on an alternative approach to align the *IFRS for SMEs* Standard with the amendment, which is to propose alignment with the amendment providing an undue cost or effort exemption

when separating the bearer plants and the produce growing on them. Paragraphs 24–25 of this paper discuss this staff’s alternative approach.

15. Many SMEIG members who provided input supported the alternative approach and said:
 - (a) the rationale for bearer plants applying an IAS 16 approach is appropriate and large SMEs can still align with IFRS Standards; and
 - (b) it strikes a good balance between aligning with full IFRS Standards and achieving some degree of simplicity by dealing with challenges associated with the application of the amendment.

16. Some SMEIG members who provided input expressed concerns on the undue cost or effort exemption:
 - (a) the exemption creates too many choices for SMEs; and
 - (b) there may be operational challenges for SMEs to apply the concept of undue cost or effort.

17. One SMEIG member also commented that it is not clear whether there is likely to be a correlation between the circumstances when it is not possible to measure the bearer plant and the produce separately without undue cost or effort, and those when it is not possible to measure the entire plant at fair value without undue cost or effort. If so, the outcome is likely to be use of the cost model in all cases.

Staff analysis

18. Following the IASB’s decision to apply its alignment approach, with IFRS Standards as the starting point, in developing proposed amendments to the *IFRS for SMEs* Standard (refer to Agenda Paper 30 of this meeting), the staff have applied the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how alignment with the amendment should take place.

19. Relevance to SMEs requires consideration of whether SMEs have bearer plants and, if they do, whether alignment with the amendment would make a difference in the

decisions of users of financial statements prepared applying the *IFRS for SMEs* Standard. The staff think the amendment is relevant to SMEs because:

- (a) the *IFRS for SMEs* Standard includes the accounting for biological assets in Section 34. An entity shall use the fair value model in the Standard for biological assets for which fair value is readily determinable without undue cost or effort. The entity shall use the cost model in the Standard for all other biological assets.
 - (b) some SMEs have bearer plants.
 - (c) the alignment of the *IFRS for SMEs* Standard with the amendment would provide different information to users by separately accounting for bearer plants as property, plant and equipment.
20. However, the staff think aligning the *IFRS for SMEs* Standard with the amendment to separately account for the bearer plants and produce growing on bearer plants would add complexity for SMEs because it:
- (a) would require an SME to separate the bearer plant between:
 - (i) the bearer plant (apply Section 17 *Property, Plant and Equipment* of the *IFRS for SMEs* Standard; either the cost or the revaluation model for property, plant and equipment); and
 - (ii) the produce growing on the bearer plant (apply Section 34; fair value model if fair value is readily determinable without undue cost or effort, otherwise cost model).
 - (b) would not provide SMEs the same relief provided to the entities applying full IFRS Standards because the *IFRS for SMEs* Standard only requires produce growing on the bearer plant to be measured at fair value if readily determinable without undue cost or effort.
21. Feedback from stakeholders and SMEIG members indicates that SMEs may have difficulties measuring the fair value of some bearer plants and produce growing on bearer plants. In particular, that it would be costly and complex for SMEs to separately determine the fair value of produce growing on bearer plants and they may need the support of a valuation professional. Applying the requirements of Section 34

of the *IFRS for SMEs* Standard, if the fair value of the bearer plant together with the growing produce cannot be readily determinable without undue cost or effort, the bearer plant is measured applying the cost model.

Alternative approaches

22. In the light of the feedback discussed in paragraph 21 of this paper that it can be complex for SMEs to measure some bearer plants separately from the produce growing on them, the staff considered alternative approaches.

Providing an option to account for the entire bearer plant as a single asset

23. The staff considered but do not recommend the suggestion in paragraph 13(b) of this paper—that is providing an accounting policy option to account for the ‘entire’ bearer plant as a single asset. Although, the staff think this suggestion is sensible, the staff note the IASB aims to restrict accounting policy options in the *IFRS for SMEs* Standard because options generally increase complexity and reduce comparability.

Providing an undue cost or effort exemption on separation

24. To balance the costs and benefits of aligning with the amendment, the staff think the IASB could propose aligning the *IFRS for SMEs* Standard with the amendment, and provide the following relief; when SME determines its accounting policy for each class of its bearer plants on initial recognition:
- (a) if an SME can measure the bearer plant and the produce growing on bearer plant separately without undue cost or effort, the SME would be required to account for bearer plants separately applying Section 17 of the *IFRS for SMEs* Standard (using the cost or revaluation model).
 - (b) if an SME cannot measure the bearer plant and the produce growing on bearer plant separately without undue cost or effort, the SME would continue to apply the requirements of Section 34 of the *IFRS for SMEs* Standard to the entire plant.
25. The staff think aligning the *IFRS for SMEs* Standard with the amendment providing the undue cost or exemption discussed in paragraph 24 of this paper will provide a

faithful representation of the bearer plant and produce growing on the bearer plant, representing the substance of the bearer plant.

Staff recommendation and question for the IASB

26. In the light of the staff analysis in this paper, the staff recommend the IASB propose amendments to the *IFRS for SMEs* Standard to align Section 34 of the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), providing an undue cost or effort exemption on initial recognition for separation of the bearer plants from the produce growing on bearer plants, to bring cost–benefit balance for users and preparers of financial statements.

Question for the IASB

Does the IASB agree with staff recommendation to propose amendments to the *IFRS for SMEs* Standard to align Section 34 of the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), providing an undue cost or effort exemption on initial recognition for separation of the bearer plants from the produce growing on bearer plants?