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## IASB<sup>®</sup> meeting

Date	<b>January 2024</b>
Project	<b>Second Comprehensive Review of the <i>IFRS for SMEs</i><sup>®</sup> Accounting Standard</b>
Topic	<b>Agriculture: Bearer plants</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of this paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:
  - (a) consider feedback on the proposed amendments to align the *IFRS for SMEs* Accounting Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*); and
  - (b) decide whether to make any changes to these proposed amendments.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

## Staff recommendation

3. The staff recommend the IASB finalise the proposal in the Exposure Draft to align Section 34 of the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), but clarify that Section 34 does not apply to bearer plants that can be measured separately from the produce on them without undue cost or effort on an ongoing basis.

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## Structure of this paper

4. This paper is structured as follows:
  - (a) development of the proposals (paragraphs 5–13);
  - (b) proposals in the Exposure Draft (paragraphs 14–16);
  - (c) feedback on the proposals in the Exposure Draft (paragraphs 17–19);
  - (d) staff analysis (paragraphs 20–28);
  - (e) staff recommendation and question for the IASB (paragraph 29); and
  - (f) appendix: diagrams illustrating the accounting for bearer plants.

## Development of the proposals

### ***Bearer Plants (Amendments to IAS 16 and IAS 41)***

5. In 2014 the IASB issued *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), which requires bearer plants, such as grape vines, rubber trees and oil palms, to be accounted for as property, plant and equipment applying IAS 16. The IASB was told that measuring the fair value of bearer plants was costly and complex, and that bearer plants are used like property, plant and equipment in manufacturing operations. In response to these concerns, the IASB issued *Agriculture: Bearer Plants* to require an entity to account for bearer plants applying IAS 16, which permits a cost model, rather than requiring fair value measurement applying IAS 41. However, the produce growing on bearer plants remains within the scope of IAS 41.

### ***Comparison between IAS 41 and Section 34***

6. Prior to issuance of *Agriculture: Bearer Plants*, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell. In contrast, Section 34 of the *IFRS for SMEs Accounting Standard* requires SMEs to use the fair value model only for those biological assets for which fair value is readily

determinable without undue cost or effort. SMEs use the cost model for other biological assets.

### ***Feedback on the Request for Information***

7. The Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) asked questions about how to align the Standard with individual amendments to full IFRS Accounting Standards in the scope of the review. The IASB asked for views on aligning the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) to provide further relief from fair value measurement for SMEs with bearer plants.
8. Many respondents did not comment specifically on *Agriculture: Bearer Plants*, but overall agreed with aligning the Standard with the amendments to full IFRS Accounting Standards in Table A1 of the Request for Information, which included *Agriculture: Bearer Plants*. Therefore, it was not clear whether their support for aligning the Standard with *Agriculture: Bearer Plants* was based on specific agreement or a lack of a detailed objection. However, a few respondents expressed specific concerns about aligning the Standard with *Agriculture: Bearer Plants*, because SMEs might find separately measuring the fair value of produce on bearer plants costly and complex. Furthermore, separately measuring the bearer plant from the produce might provide little benefit to users of SMEs' financial statements, particularly if the SME uses the undue cost or effort exemption from fair value measurement in Section 34 for the growing produce.

### ***SMEIG recommendations***

9. At the September 2021 SMEIG meeting<sup>1</sup>, some SMEIG members did not support aligning the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) and expressed the following concerns:

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<sup>1</sup> Ref to the [September 2021 SMEIG meeting summary](#).

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- (a) aligning with the requirement to separately measure bearer plants from the produce on them:
- (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 statements.
  - (ii) would require additional resources to separately measure the fair value of the produce from the bearer plant. However, one SMEIG member said that many SMEs with bearer plants are large SMEs, which might already have procedures to separately measure bearer plants and the produce from those plants.
- (b) further simplification would be needed if the Standard is aligned with *Agriculture: Bearer Plants*. For example, an option to account for the ‘entire’ bearer plant as a single asset.
10. In November 2021, the staff sought advice from SMEIG members on the possibility of simplifying the requirements in *Agriculture: Bearer Plants* for SMEs by providing an undue cost or effort exemption from separately measuring the bearer plants from the produce on them.<sup>2</sup>
11. Many SMEIG members who provided input supported this simplification and said:
- (a) the rationale for bearer plants applying IAS 16 is appropriate and the simplification would enable the accounting by large SMEs to be aligned with full IFRS Accounting Standards; and
  - (b) it strikes a good balance between aligning with full IFRS Accounting Standards and achieving some degree of simplicity by dealing with challenges associated with the application of *Agriculture: Bearer Plants*.

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<sup>2</sup> This feedback was reported in [December 2021 Agenda Paper 30G: Towards an Exposure Draft—Amendments to IFRS Standards and IFRIC Interpretations \(Agriculture: Bearer Plants\)](#).

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12. Some SMEIG members who provided input expressed the following concerns on application of 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.
  
  13. One SMEIG member also commented that there may be a correlation between the circumstances when it is not possible to separately measure the bearer plant from the produce on it 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.

### Proposals in the Exposure Draft

14. Considering the feedback, the IASB proposed to align the Standard with *Agriculture: Bearer Plants*. However, the IASB proposed an exemption that an entity would not be required to separately measure the bearer plants from the produce on them if, at initial recognition, doing so would result in undue cost or effort.
  
15. Paragraph 34.2A of Section 34 of the Exposure Draft proposes:

34.2A This section does not apply to bearer plants that, at initial recognition, can be measured separately from the produce on them without undue cost or effort (see Section 17 *Property, Plant and Equipment*). However, this section applies to the produce on those bearer plants. If, at initial recognition, bearer plants cannot be measured separately from the produce on them without undue cost or effort, this section applies to the entire plant.
  
16. The IASB considered but rejected an alternative approach suggested by some respondents to allow SMEs an option to account for the ‘entire’ bearer plant (including the produce) as a single asset. This is not an option provided in full IFRS Accounting Standards and the IASB aims to restrict accounting policy options in the Standard because options reduce comparability and can increase complexity.

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Paragraphs BC208–BC209 of the Basis for Conclusions on the Standard explain the IASB’s reasons for restricting accounting policy options in the Standard.

## Feedback on the proposals in the Exposure Draft

17. The Invitation to Comment in the Exposure Draft did not include a specific question about the proposed amendments for bearer plants. However, Question 11 of the Invitation to Comment asked a general question whether respondents have any comments on other proposed amendments in the Exposure Draft.
18. Most respondents did not comment on the proposed amendments for bearer plants. However, a few respondents expressed concern that the benefits of separately measuring the bearer plants from the produce might not exceed the costs, even with the undue cost or effort exemption on initial recognition.
19. A few other respondents noted that bearer plants may not have produce on them at the time of initial recognition and so the question of whether produce can be measured separately at that time is hypothetical.

## Staff analysis

20. The staff analysis is set out as follows:
  - (a) cost-benefits assessment (paragraphs 21–25); and
  - (b) assessment on initial recognition (paragraphs 26–28).

### ***Cost-benefits assessment***

21. A few respondents expressed concern that the benefits of separately measuring the bearer plants from the produce might not exceed the costs, even with the undue cost or effort exemption on initial recognition.

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22. Paragraph 34.2A of the Exposure Draft proposes that an entity would not be required to separately measure the bearer plants from the produce on them if, at initial recognition, doing so would result in undue cost or effort.
23. Paragraphs 2.28-2.31 of the Exposure Draft (and paragraphs 2.14A-2.14D of the Standard) explain application of an undue cost or effort exemption to a specific requirement in the Standard. Paragraph 2.29 of the Exposure Draft states:
- 2.29 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on an entity's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME's financial statements would receive from having the information....
24. When assessing whether to use the undue cost and effort exemption for a particular bearer plant, an SME would determine whether the incremental cost or additional effort substantially exceed the benefits for financial statement users in its specific circumstances. Given this assessment, concerns raised by a few respondents that the benefits of separately measuring the bearer plants from the produce might not exceed the costs appear to have no grounds. Furthermore, most respondents did not comment on proposals for bearer plants indicating that they do not have similar concerns.
25. The IASB's principal decision underlying Agriculture: Bearer Plants was bearer plants should be treated as property, plant and equipment.<sup>3</sup> For this reason and the fact that most respondents did not have concerns about the proposals, the staff recommend the proposals for bearer plants should be finalised (subject to our to drafting suggestions in paragraphs 26–28) to ensure bearer plants are accounted for as property, plant and equipment unless the bearer plants cannot be measured separately from the produce on them without undue cost or effort.

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<sup>3</sup> Ref to paragraph BC38 of the Basis for Conclusions Accompanying IAS 16.

### ***Assessment on initial recognition***

26. A few respondents noted that bearer plants will not have produce on them at the time of initial recognition and so the question of whether produce can be measured separately at that time is hypothetical.
27. The staff think this is a valid point for bearer plants that do not have produce on initial recognition. Nevertheless, an SME would need to assess the costs and benefits at initial recognition of the bearer plant, even if the plant does not have produce on it, in order to determine whether to apply Section 34 or Section 16 to the bearer plant.
28. To respond to the feedback and provide clarify, the staff recommend paragraph 34.2A of the Exposure Draft is redrafted as follows (the term ‘ongoing basis’ is already used in Section 16 *Investment Property* of the Standard for the undue cost and effort assessment when determining whether to measure investment property at fair value):
- 34.2A This section does not apply to bearer plants that, ~~at initial recognition,~~ can be measured separately from the produce on them without undue cost or effort on an ongoing basis (see Section 17 *Property, Plant and Equipment*). However, this section applies to the produce on those bearer plants. If, ~~at initial recognition,~~ bearer plants cannot be measured separately from the produce on them without undue cost or effort on an ongoing basis, this section applies to the entire plant.

### **Staff recommendation and question for the IASB**

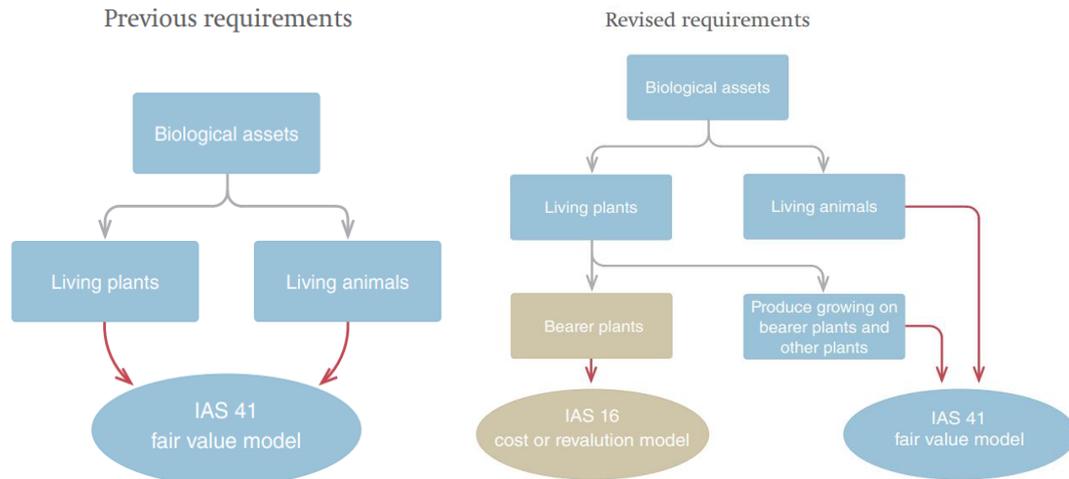
29. The staff recommend the IASB finalise the proposal in the Exposure Draft to align Section 34 of the Standard with *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), but clarify that Section 34 does not apply to bearer plants that can be measured separately from the produce on them without undue cost or effort on an ongoing basis (see suggested drafting in paragraph 27).

#### Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 29?

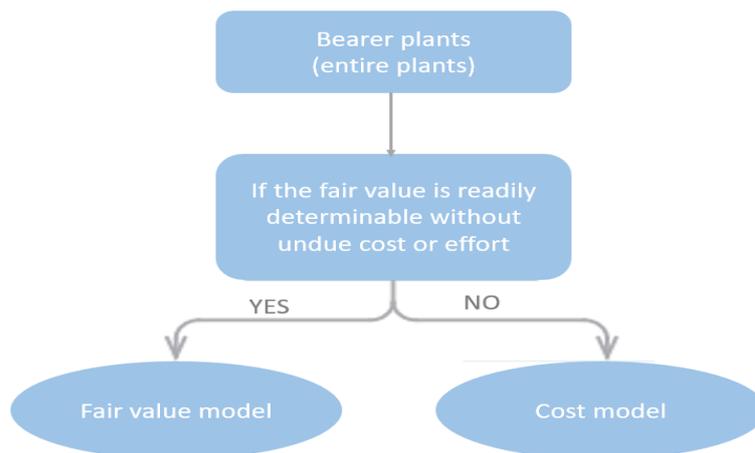
**Appendix: diagrams illustrating the accounting for bearer plants**

**Diagrams illustrating requirements applying full IFRS Accounting Standards before and after Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)**

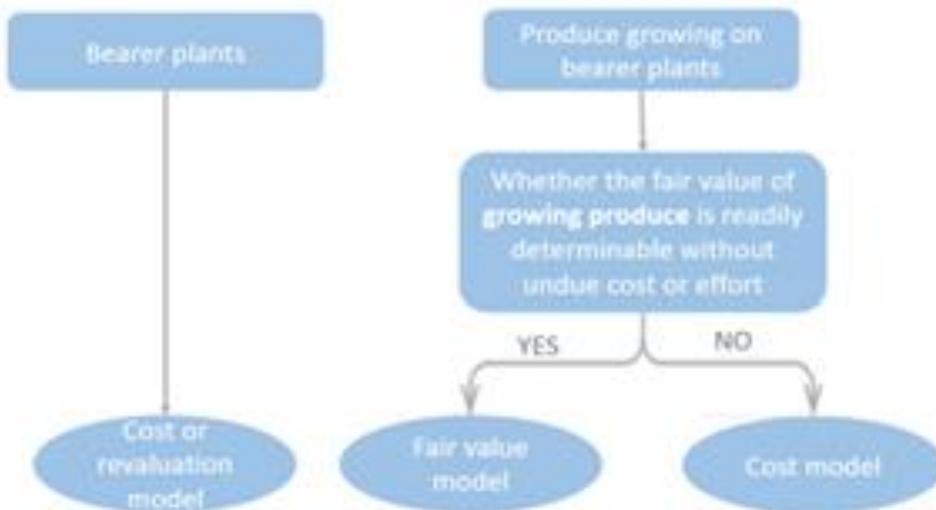


**Diagrams illustrating the proposed changes to requirements in Section 34**

**Current requirements applying Section 34**



Proposed requirements if bearer plants can be measured separately from the produce on them without undue cost or effort



Proposed requirements if bearer plants cannot be measured separately from the produce on them without undue cost or effort

