



Hans Hoogervorst  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

26 September, 2013

Dear Hans,

**Re: ED 'Proposed amendments to IAS 16 and IAS 41: Agriculture – Bearer Plants'**

We are pleased to comment on the exposure draft (ED) 'Proposed amendments to IAS 16 and IAS 41: Agriculture – Bearer Plants'.

We wrote to you in June 2012 and February 2013 regarding this project. On both occasions we explained that we disagreed with the IASB decision to pursue a definition of Bearer Biological Assets (BBAs) which is applicable only to plants and not to livestock and encouraged you to carry out a comprehensive review of IAS 41 rather than limit the scope of the amendments to (BBAs). It should therefore not come as a surprise that we object to the proposed amendments.

We consider that the scope of the amendments is too narrow and fails to include other biological assets which could also be more usefully valued in accordance with IAS 16. We are aware of cases where livestock is held purely for breeding purposes and not for sale and see no reason why such biological assets should not also be able to apply the IAS 16 accounting treatment, particularly since this would lead to greater consistency across agricultural entities. We consider a comprehensive review of IAS 41 should be undertaken starting from first principles.

We support the proposal to account for bearer plants as property, plant and equipment in accordance with the requirements in IAS 16, rather than in accordance with IAS 41.

Our detailed comments are set out in the appendix to this letter.

Should you have any questions in relation to this letter, please do not hesitate to contact either myself or Jennifer Guest [j.guest@frc.org.uk](mailto:j.guest@frc.org.uk).

Yours sincerely

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## **Appendix I - FRC's detailed answers to the questions in the Invitation to Comment – 'Proposed amendments to IAS 16 and IAS 41: Agriculture – Bearer Plants'**

### **Question 1 – Scope of amendments**

The IASB proposes to restrict the scope of the proposed amendments to bearer plants. The proposals define a bearer plant 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.

Under the proposals, if an entity grows plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, it must continue to account for those plants within the scope of IAS 41 at fair value less costs to sell in their entirety (for example, trees that are cultivated for their lumber as well as their fruit)

Do you agree with the scope of the amendments? If not why and how would you define the scope?

The FRC believes that the scope of the amendments should not be restricted to bearer plants but that the IASB should consider broadening the scope of the amendments to include other biological assets such as livestock. A wider scope could improve the quality of financial reporting by better reflecting the business model of agricultural entities and lead to greater consistency in financial reporting.

Business models involving bearer biological assets are economically similar, be they plants or other biological assets. Introducing a different accounting model for bearer plants versus other biological assets reduces comparability for the user.

We note that in paragraphs BC10 to BC15 of the ED the IASB identifies that the scope of the project was reduced due to the anticipated greater difficulty of application and complexity that would result from applying the model to a broader range of biological assets. However, we remain unconvinced that broadening the scope would necessarily lead to difficulties, indeed we consider that a broader scope could bring merits. We consider the benefits of improved comparability outweigh the potential costs/complexity.

Furthermore, the concerns about the reliability of measurement of fair value apply to all biological assets – not just bearer plants; so a broader scope for the amendments would therefore be more appropriate and lead to more consistent reporting for these types of agricultural entities.

### **Question 2 – Accounting for bearer plants before maturity**

The IASB 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.

Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend?

The FRC supports the use of the accumulated cost measurement model for immature plants within the limited scope of the amendment. The accounting treatment is more relevant and reliable for immature bearer plants and will provide useful information for users. However, as indicated in our response to question 1 – we would recommend that this accounting treatment be extended to other biological assets.

### **Question 3 – Accounting for bearer plants before maturity**

Some crops, such as sugar cane, are perennial plants because their roots remain in the ground to sprout for the next period's crop. Under the proposals, if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

The IASB believes that in most cases the effect of accounting for the roots separately under IAS 16 would not be material and the IASB does not therefore believe that specific guidance is required.

Do you think any additional guidance is required to apply the proposals to such perennial crops? If so, what additional guidance should be provided and why?

The FRC considers that it is clear from the definition of a bearer plant (to be introduced in IAS 41), that perennial plants such as sugar cane meet the definition.

However, the FRC suggests that to avoid divergence in practice when considering whether a bearer plant is immature or mature; a practical expedient is introduced to define the maturity date as the date of the first harvest for commercial value.

### **Question 4 – Accounting for bearer plants after maturity**

The IASB 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 requirement in IAS 16. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Do you agree that bearer plants should be accounted for in accordance with IAS 16? Why or why not? If not, what alternative approach do you recommend?

The FRC agrees that mature bearer plants should be accounted for under the cost model or the revaluation model of IAS 16. However, as indicated in our response to question 1 – we would recommend that this accounting treatment be extended to other biological assets because the concerns about the reliability of measurement of fair value apply to all bearer biological assets.

### **Question 5 – Additional guidance**

The IASB proposes that the recognition and measurement requirements of IAS 16 can be applied to bearer plants without modification.

Are there any requirements in IAS 16 that require additional guidance in order to be applied to bearer plants? If so, in what way is the current guidance in IAS 16 insufficient and why?

The FRC considers that no further guidance is needed in IAS 16.

## Question 6 – Fair value disclosures for bearer plants

Do you think either of the following types of disclosures about bearer plants should be required if they are accounted for under the cost model in IAS 16 – why or why not:

- (a) Disclosure of the total value of the bearer plants, including information about the valuation techniques and the key inputs/assumptions used; or
- (b) disclosure of the significant inputs that would be required to determining the fair value of bearer plants, but without the need to disclose the fair value of them?

The reason for allowing agricultural entities with bearer plants to be able to apply the accounting treatment in IAS 16, is because it provides more useful information for the user. If the IASB subsequently also requires these entities to provide fair value information this calls into question the premise of the proposed amendment and similarly would not be consistent with the disclosure requirements that apply to other items accounted for under IAS 16. The FRC considers that no additional fair value disclosures should be required for bearer plants.

## Question 7 – Additional disclosures

Many investors and analysts consulted during the user outreach said that instead of using 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.

Do you think any disclosures for bearer plants, apart from those covered in Question 6, should be required in addition to those in IAS 16? If so, what and why?

The FRC considers that requiring other disclosures for bearer plants would be too onerous for the preparer. The disclosure of non-financial information should not be required in the financial statements, but should be optional if preparers wish to provide this information for the benefits of users.

The FRC considers that the information referred to in this question is similar to productivity ratios for manufacturing companies, of which no disclosures are currently required by IAS 16. Furthermore, the information suggested in the question could, if required, prove difficult to audit. The FRC believes in proportionate financial reporting across entities.

## Question 8 – Transitional provisions

The IASB proposes to permit an entity to use fair value 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 IASB also plans to permit early application of the amendments to IAS 16 and IAS 41.

Do you agree with the proposed transition provision? If not, why and what alternative do you propose?

The FRC supports the transitional provisions proposed in the amendment. A full retrospective approach in accordance with IAS 8, with an option to measure bearer plants at fair value and use that as its deemed cost, seems to provide a pragmatic and workable solution for preparers.

#### **Question 9 – First-time adopters**

The IAS proposes that the deemed cost exemption provided for an item of property, plant and equipment is IFRS 1 First-time Adoption of *International Financial Reporting Standards* should also be available for bearer plants.

Do you agree with the proposed transition provisions for first-time adopters? If not, why and what alternative do you propose?

The FRC supports the deemed cost exemption in IFRS 1 for bearer biological assets.

#### **Question 10 – Other comments**

Do you have any other comments on the proposals?

We have no further comments.