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Exposure Draft ED/2013/8

Agriculture: Bearer Plants

Proposed amendments to IAS 16 and IAS 41

Comments to be received by 28 October 2013

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IAS 16 and IAS 41**

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft of proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* to include bearer plants within the scope of IAS 16.

IAS 41 requires all biological assets that are related to agricultural activity to be measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. However, there is a class of biological assets, known as bearer plants, that, once mature, are held by an entity solely to grow produce over their productive life. Mature bearer plants no longer undergo significant biological transformation and their operation is similar to that of manufacturing. Accordingly, this Exposure Draft proposes to account for bearer plants like property, plant and equipment in accordance with the requirements in IAS 16, rather than in accordance with IAS 41.

Next steps

The IASB will consider the comments it receives on the proposals and will decide whether to proceed with amendments to IAS 16 and IAS 41.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters in IAS 16 and IAS 41 that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **28 October 2013**.

Questions for respondents

Question 1—Scope of the 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?

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?

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?

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 requirements 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?

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?

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 fair 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 determine the fair value of bearer plants, but without the need to measure or disclose the fair value of them?

Question 7—Additional disclosures

Many investors and analysts consulted during the user outreach 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.

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?

Question 8—Transition provisions

The IASB 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 IASB also plans to permit early application of the amendments to IAS 16 and IAS 41.

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

Question 9—First-time adopters

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

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

Question 10—Other comments

Do you have any other comments on the proposals?

[Draft] Amendments to IAS 16 *Property, Plant and Equipment*

In the Introduction, paragraph IN5 is amended. New text is underlined.

Scope

IN5 This Standard clarifies that an entity is required to apply the principles of this Standard to bearer plants as well as to items of property, plant and equipment used to develop or maintain (a) biological assets and (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Paragraphs 3, 6 and 37 are amended, and paragraphs 22A and 81H–81I are added. New text is underlined and deleted text is struck through.

Scope

...

3 This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity other than bearer plants (see IAS 41 *Agriculture*). This Standard applies to bearer plants but it does not apply to the produce on the bearer plants;
- (c) ...

...

Definitions

6 The following terms are used in this Standard with the meanings specified:
A bearer plant is as defined in IAS 41 *Agriculture*.

...

Measurement at recognition

...

22A Before bearer plants are in the location and condition necessary to bear produce they should be accounted for in the same way as self-constructed items of property, plant and equipment. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to bear produce.

...

Revaluation model

...

37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

- (a) land;
- (b) land and buildings;
- (c) machinery;
- (d) ships;
- (e) aircraft;
- (f) motor vehicles;
- (g) furniture and fixtures; ~~and~~
- (h) office equipment; and
- (i) bearer plants.

...

Effective date and transition

...

81H *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*, issued in [date], amended paragraphs 3, 6 and 37 and added paragraph 22A. An entity shall apply those paragraphs for annual periods beginning on or after [date] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for all items of bearer plants, except as specified in paragraph 81I. Earlier application is permitted.

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.

[Draft] Amendments to IAS 41 *Agriculture*

In the Introduction, paragraphs IN1–IN2 and IN5 are amended. New text is underlined and deleted text is struck through.

Introduction

- IN1 IAS 41 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity, ~~a matter not covered in other Standards~~. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets.
- IN2 IAS 41 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. However, IAS 41 does not deal with processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn. IAS 41 also does not deal with the accounting for bearer plants. Bearer plants are accounted for as property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.
- ...
- IN5 IAS 41 does not establish any new principles for land related to agricultural activity. Instead, an entity follows IAS 16 ~~*Property, Plant and Equipment*~~ or IAS 40 *Investment Property*, depending on which standard is appropriate in the circumstances. IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses. Biological assets within the scope of IAS 41 that are physically attached to land (for example, trees in a timber plantation ~~forest~~) are measured at their fair value less costs to sell separately from the land.

Paragraphs 1–2, 4–5, 8, 24, 43 and 44 are amended. Paragraphs 5A–5C and 62 are added. New text is underlined and deleted text is struck through.

Scope

- 1 This Standard shall be applied to account for the following when they relate to agricultural activity:**
- (a) **biological assets, except for bearer plants;**
 - (b) **agricultural produce at the point of harvest; and**
 - (c) **government grants covered by paragraphs 34 and 35.**

- 2 This Standard does not apply to:
- (a) land related to agricultural activity (see IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*); ~~and~~
 - (b) bearer plants related to agricultural activity (see IAS 16). However, this Standard applies to the produce on those bearer plants;
 - (c) government grants related to bearer plants (see IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*); and
 - (~~b~~d) intangible assets related to agricultural activity (see IAS 38 *Intangible Assets*).
- ...
- 4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a <u>timber plantation forest</u>	Felled trees	Logs, lumber
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
<u>Tobacco plants</u> Bushes	Leaf	Tea, c Cured tobacco
<u>Tea bushes</u> ^(a)	<u>Leaf</u>	<u>Tea</u>
<u>Grape Vines</u> ^(a)	Grapes	Wine
<u>Oil palms</u> ^(a) Fruit trees	Picked fruit	Palm oil Processed fruit
<u>Rubber trees</u> ^(a)	<u>Latex sap</u>	<u>Rubber products</u>

(a) These biological assets will usually meet the definition of bearer plants and be within the scope of IAS 16. The produce growing on bearer plants, for example, grapes, tea leaves, fruit and latex sap, is within the scope of IAS 41.

Definitions

Agriculture-related definitions

- 5 The following terms are used in this Standard with the meanings specified:
- ...

Agricultural produce is the harvested product of the entity's biological assets.

A bearer plant is a plant that is:

- (a) used in the production or supply of agricultural produce;**
- (b) expected to bear produce for more than one period; and**
- (c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.**

A biological asset is a living animal or plant.

...

5A The following are not bearer plants:

- (a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
- (b) plants held for use in the production or supply of agricultural produce that are also intended to be harvested as agricultural produce or sold as living plants other than as incidental scrap sales (for example, trees that are cultivated both for their lumber and their fruit);
- (c) plants cultivated for sale only (for example, plants sold in a garden centre);
- (d) annual crops (for example, maize and wheat); and
- (e) produce growing on a bearer plant (for example, grapes growing on a vine).

5B When bearer plants are no longer capable of bearing produce they may be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

5C This Standard does not apply to bearer plants. However, it does apply to the produce on the bearer plants. Consequently, references to 'biological asset' in this Standard apply equally to the produce.

...

General definitions

8 **The following terms are used in this Standard with the meanings specified:**

...

Government grants are as defined in IAS 20 ~~Accounting for Government Grants and Disclosure of Government Assistance.~~

Recognition and measurement

...

- 24 Cost may sometimes approximate fair value, particularly when:
- (a) little biological transformation has taken place since initial cost incurrence (for example, for ~~fruit tree~~ seedlings in a timber plantation planted immediately prior to the end of a reporting period); or
 - (b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

...

General

...

- 43 An entity is encouraged to provide a quantified description of each group of biological assets, ~~distinguishing between consumable and bearer biological assets or between mature and immature biological assets~~, as appropriate. For example, an entity may disclose the carrying amounts of mature and immature biological assets ~~consumable biological assets and bearer biological assets~~ by group. An entity may further divide ~~the these~~ carrying amounts for livestock between ~~mature and immature assets~~ consumable biological assets and bearer biological assets (such a distinction will already be available for plants because bearer plants are accounted for in accordance with IAS 16). These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.

- 44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of livestock that are consumable biological assets are livestock intended for the production of meat, ~~and~~ livestock held for sale, ~~fish in farms, crops such as maize and wheat, and trees being grown for lumber~~. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced, ~~grape vines, fruit trees, and trees from which firewood is harvested while the tree remains~~. Bearer biological assets are not agricultural produce but, rather, are self-regenerating held only to bear produce.

...

Effective date and transition

...

- 62 *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*, issued in [date], amended paragraphs 1-2, 4-5, 8, 24, 43 and 44, and added paragraphs 5A-5C. An entity shall apply those paragraphs for annual periods beginning on or after [date] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.

Consequential amendments to other IFRSs

IAS 1 *Presentation of Financial Statements*

Paragraph 54 is amended. New text is underlined.

Information to be presented in the statement of financial position

54 As a **minimum**, the statement of financial position shall include line items that present the following amounts:

- (a) ...
- (f) **biological assets within the scope of IAS 41 Agriculture**;
- (g) ...

IAS 17 *Leases*

Paragraph 2 is amended. New text is underlined and deleted text is struck through.

Scope

2 ...

However, this Standard shall not be applied as the basis of measurement for:

- (a) ...
- (c) **biological assets within the scope of IAS 41 Agriculture held by lessees under finance leases (~~see IAS 41 Agriculture~~); or**
- (d) **biological assets within the scope of IAS 41 provided by lessors under operating leases (~~see IAS 41~~).**

IAS 23 *Borrowing Costs*

Paragraphs 4 and 7 are amended. New text is underlined and deleted text is struck through.

Scope

...

4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

- (a) a qualifying asset measured at fair value, for example a biological asset within the scope of IAS 41 Agriculture; or
- (b) ...

...

Definitions

...

7 Depending on the circumstances, any of the following may be qualifying assets:

- (a) ...
- (e) investment properties.
- (f) bearer plants.

...

IAS 36 *Impairment of Assets*

Paragraph 2 is amended. New text is underlined and deleted text is struck through.
--

Scope

2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**

- (a) ...
- (g) **biological assets related to agricultural activity that are measured at fair value less costs of disposal within the scope of (~~see IAS 41 Agriculture~~);**
- (h) ...

Approval by the Board of *Agriculture: Bearer Plants* (Proposed amendments to IAS 16 and IAS 41) published in June 2013

The Exposure Draft *Agriculture: Bearer Plants* was approved for publication by thirteen of the sixteen members of the International Accounting Standards Board (IASB). Mr Finnegan and Ms McConnell voted against its publication. Their alternative views are set out after the Basis for Conclusions. Mr Kabureck abstained from voting in view of his recent appointment to the IASB.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on *Agriculture: Bearer Plants* (Proposed amendments to IAS 16 and IAS 41)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Introduction

BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (IASB) when developing the amendments proposed in the Exposure Draft *Agriculture: Bearer Plants* (Proposed amendments to IAS 16 and IAS 41). Individual IASB members gave greater weight to some factors than to others.

Overview

BC2 The IASB observed that there is a class of biological assets, known as bearer plants, that, once mature, are held by an entity solely to grow produce over their productive life. The IASB's principal decision underlying this Exposure Draft is that bearer plants in this form are similar to property, plant and equipment, for which the accounting is prescribed in IAS 16 *Property, Plant and Equipment*. IAS 16 permits the use of either a cost model or a revaluation model.

Background

BC3 IAS 41 *Agriculture* requires that all biological assets related to agricultural activity are measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. IAS 41 defines 'biological transformation' as follows:

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

BC4 IAS 41 has a single accounting treatment for both bearer and consumable biological assets. IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes (see paragraph 44 of IAS 41).

BC5 Interested parties have told the IASB that fair value measurement is not appropriate for mature bearer biological assets because they are no longer undergoing biological transformation. The operation of mature bearer biological assets is seen by many as similar to that of manufacturing and, consequently, they believe that such assets should be accounted for in accordance with IAS 16. These interested parties also expressed concerns about the cost, complexity and reliability of fair value valuations of bearer biological assets in the absence of markets for those assets, and about the volatility from recognising changes in the fair value less costs to sell in profit or loss. Furthermore, they note that investors, analysts and other users of financial statements adjust the reported profit or loss to eliminate the effects of changes in the fair values of bearer biological assets.

BC6 Most respondents who mentioned agriculture in their responses to the IASB's 2011 Agenda Consultation favoured a limited-scope project for bearer biological assets to address the concerns in paragraph BC5. Only a small number of

respondents favoured a broader consideration of IAS 41 or a Post-implementation Review, or said that there is no need to amend IAS 41.

- BC7 Before the limited-scope project for bearer biological assets was added to its work programme, the IASB was monitoring the work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal that would remove bearer biological assets from the scope of IAS 41 and account for them in accordance with IAS 16. Those proposals have been discussed several times by national standard-setters, the IASB Emerging Economies Group (EEG) and the IFRS Advisory Council. Feedback from these meetings indicated strong support for the AOSSG/MASB proposals, for the IASB to start a limited-scope project for bearer biological assets, and also confirmed the views from other interested parties (see paragraphs BC5–BC6). The Issues Paper produced by the AOSSG Working Group containing the AOSSG/MASB proposals is included in the Agenda Papers for the May 2012 IASB EEG meeting (these Agenda Papers are currently available from: <http://www.ifrs.org/Meetings/Pages/EEG-meeting-May-2012.aspx>).
- BC8 In September 2012 the IASB decided to add to its agenda a limited-scope project for bearer biological assets, with the aim of considering whether to account for bearer biological assets like property, plant and equipment, thereby permitting use of a cost model. This was supported by the following reasons:
- (a) the limited-scope project addresses the main concerns about IAS 41 raised by respondents to the IASB's 2011 Agenda Consultation, as discussed in paragraph BC5, and has significant support among national standard-setters and other interested parties. Furthermore, the expected changes under the project are likely to reduce compliance costs for preparers without a significant loss of information for users of financial statements.
 - (b) the limited-scope project has the advantage of timeliness over a more comprehensive project. It can use the research performed by the MASB and would need little time at IASB meetings. A more comprehensive project would need to wait for space on the IASB agenda and, once started, would take several years.
 - (c) the project is consistent with the desire for a period of calm in terms of the issuing of new requirements by the IASB, because it only affects entities that operate in part of the agricultural industry and addresses an urgent need for those entities.
- BC9 The IASB decided that the project could proceed without a Discussion Paper and other optional due process steps, such as establishing a consultative group, holding public hearings and undertaking fieldwork. The IASB thinks that it has received sufficient information to develop an Exposure Draft from work performed by the MASB, as described in the AOSSG Issue Paper, meetings of national standard-setters, feedback from preparers on the IASB's 2011 Agenda Consultation and user outreach performed by IASB staff. Furthermore, the project only affects entities that hold bearer biological assets and is expected to

result in straightforward changes that are sought by both users and preparers of financial statements, explained in more detail in the effect analysis in paragraphs BC44–BC64.

Scope of the amendments

- BC10 The IASB decided that, before it could consider whether accounting for bearer biological assets under IAS 16 would produce more decision-useful financial reporting information for users of financial statements than the current requirements under IAS 41, it first needed to clearly define bearer biological assets for the purposes of the project. The IASB discussed four options when deciding on the scope of the amendments to IAS 41:
- (a) Option 1: no-alternative-use model. Limit the scope of the amendments to IAS 41 to biological assets that are only used in the production or supply of agricultural produce (ie only used as bearer biological assets) and that are expected to be used for more than one period.
 - (b) Option 2: predominant-use model. Limit the scope of the amendments to IAS 41 to biological assets that are used predominantly in the production or supply of agricultural produce (ie used primarily as bearer biological assets) and that are expected to be used for more than one period.
 - (c) Option 3: no-alternative-use model—plants only. This is the same as Option 1 except it would only include plants, not livestock.
 - (d) Option 4: predominant-use model—plants only. This is the same as Option 2 except it would only include plants, not livestock.
- BC11 The IASB’s first consideration when setting the scope of the amendments to IAS 41 was whether to follow a ‘no-alternative-use’ model or a ‘predominant-use’ model. The IASB observed that many types of livestock that are used as bearer biological assets by an entity also have a common alternative use as a consumable biological asset. For example, an entity may choose to rear a sheep for its wool (bearer attribute) and/or for its meat (consumable attribute). It was also observed that some trees are cultivated both for their lumber, for example, for furniture production (consumable attribute) and for their fruit (bearer attribute).
- BC12 The IASB observed that a predominant-use model would be more difficult to apply than a no-alternative-use model because it requires additional judgement to be applied in order to determine the predominant use, and would need to address the consequences of reclassifications between IAS 16 and IAS 41 if the predominant use changes. It also observed that, if the scope is restricted to biological assets that are only used as bearer plants, the need to apply this additional judgement and make reclassifications would be expected to be rare.
- BC13 The IASB further noted that, if a biological asset is intended to be sold as a living plant or harvested as agricultural produce after it has been used as a bearer biological asset for a period of time, apart from incidental scrap sales (for example if a plant is sold as firewood at the end of its productive life), fair value measurement would provide useful information about the future economic

benefits from the future sale of the asset. Furthermore, if a biological asset is commonly sold, there will often be an active market for that asset meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement. The IASB also noted that the concerns raised by respondents to the IASB's 2011 Agenda Consultation generally relate to plants that do not have an alternative use to the entity. For these reasons, the IASB decided to limit the scope to biological assets that are only used as bearer biological assets.

- BC14 The IASB's second consideration when setting the scope was whether livestock should be included within the scope of the amendments to IAS 41. The IASB observed that if so, the use of a cost model becomes more complex. Furthermore, there is usually an active market for livestock, meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement. The IASB noted that concerns raised by respondents to the IASB's 2011 Agenda Consultation mainly relate to plants, not livestock. Consequently, it decided to restrict the scope to plants.
- BC15 On the basis of the considerations above, the IASB decided on Option 3. The IASB further decided that the title of the Exposure Draft should be Bearer Plants, rather than Bearer Biological Assets, to better describe the scope of the amendments. 'Bearer plants' would be defined as plants that are only used in the production or supply of agricultural produce and that are expected to bear produce for more than one period.

Basis for accounting for mature bearer plants under IAS 16

- BC16 The IASB considered whether the current requirements under IAS 16 for property, plant and equipment are appropriate for bearer plants. The IASB believes that applying these requirements to bearer plants is supported by the reasoning in paragraphs BC17–BC20 and the cost-benefit considerations as further detailed in paragraph BC21.

Support for the use of IAS 16

- BC17 IAS 41 requires biological assets that are related to agricultural activity to be measured at fair value less costs to sell, based on the principle that biological transformation is best reflected by fair value measurement. However, mature bearer plants are fully grown and so biological transformation is no longer significant in generating future economic benefits. On maturity, bearer plants are used to grow produce over several periods until the end of their productive life. After this time they are usually scrapped. Consequently, future economic benefits from bearer plants only arise from selling the agricultural produce that they create.
- BC18 The IASB noted that while fair value measurement may provide an indication of the quality and productive capacity of the bearer plants at a point in time, it is less important to users of financial statements than fair value information about biological assets that may be realised through sale.
- BC19 Bearer plants meet the definition of property, plant and equipment. The use of mature bearer plants to produce agricultural produce is similar to the use of machinery to manufacture goods. The manner in which an entity derives

economic benefits from bearer plants and property, plant and equipment is very similar and that manner differs from biological assets that are harvested for sale. The progressive decline in the future earning potential of a bearer plant over its life is no different to other wasting assets, for example, plant and machinery.

BC20 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the decision-usefulness of the reported information. The land upon which the bearer plants are growing, the structures used to support their growth and the agricultural machinery etc, are usually measured in accordance with the cost model in IAS 16. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used in the business provides support for accounting for them in the same way.

Cost-benefit considerations

BC21 The IASB noted that, based on the responses to the IASB's 2011 Agenda Consultation and the outreach performed by the staff, the costs of measuring bearer plants at fair value appears to exceed the benefits to users. The IASB observed that:

- (a) in their responses to the IASB's 2011 Agenda Consultation, entities with bearer plants expressed concern about the cost, complexity and reliability of fair value valuations of bearer plants in the absence of markets for those assets and about the volatility from recognising changes in the fair value less costs to sell of the bearer plants in profit or loss.
- (b) nearly all investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants has either limited or no use to them. The main reasons given include:
 - (i) information about operating performance and cash flows are more relevant to their forecasting and analysis. Consequently, they eliminate changes in the fair value less costs to sell of bearer plants from the figures used for their analysis.
 - (ii) there are concerns about the reliability of fair value measurements, because valuations involve significant management judgement, have the potential for manipulation, and because assumptions vary significantly between companies.
 - (iii) fair value information about bearer plants is not very useful without fair value information about the related land, land improvements, agricultural machinery, etc.

Biological transformation

BC22 The IAS 41 fair value model is based on the principle that biological transformation is best reflected by fair value measurement. Mature bearer plants no longer undergo significant biological transformation and consequently a different accounting treatment under IAS 16 has been considered (see paragraph BC16–BC21). However, the IASB noted that the same

argument is not true for bearer plants before they reach maturity and bear produce. Until they reach maturity, bearer plants are in a growth phase and so undergo significant biological transformation. Furthermore, the IASB noted that the produce growing on the bearer plants is undergoing biological transformation until it is harvested (for example, grapes growing on a grapevine).

Accounting for bearer plants before they mature

- BC23 The IASB considered whether a fair value approach or a cost accumulation approach should be applied to bearer plants before they reach maturity.
- BC24 The IASB noted that, before they mature, bearer plants undergo biological transformation and this distinguishes them from self-constructed property, plant and equipment. Such biological transformation would not be reflected by a cost accumulation approach. The IASB further noted that the fair value approach would be consistent with the principle in IAS 41 that biological transformation is best reflected by fair value measurement.
- BC25 However, the IASB acknowledged that IAS 16 does not incorporate internal profit in the measurement of a self-constructed item of machinery and, by analogy, one could argue that biological transformation should not be included either. The IASB further noted that most of the investors and analysts consulted during the outreach performed by the staff say that the IAS 41 fair value information about bearer plants is either of limited or no use to them and that the measurement of the fair values of bearer plants is particularly subjective during the early years of the lifecycle of those bearer plants. For these reasons the IASB decided that bearer plants should be measured at accumulated cost before they reach maturity.

Accounting for produce growing on a bearer plant

- BC26 The IASB considered whether produce should be recognised at fair value less costs to sell only at the point of harvest or from the date that it starts to grow.
- BC27 The IASB observed that the produce is a consumable biological asset growing on the bearer plant. The growth of the produce directly increases the expected revenue from the sale of the produce. Consequently, fair value measurement of the growing produce provides useful information to users of financial statements about future economic benefits.
- BC28 The IASB acknowledged that measuring the produce growing on the bearer plants at fair value less costs to sell sometimes may be difficult to apply in practice. However it was noted that similar difficulties are encountered when measuring produce growing in the ground. Consequently, the IASB decided that it would be inappropriate to provide additional relief from fair value measurement for produce growing on a bearer plant and not also for other biological assets within the scope of IAS 41. The IASB noted that the limited-scope project was added to its agenda with the narrow objective of considering a scope amendment for bearer plants and is therefore not intended to address the fair value model in IAS 41. Consequently, the IASB agreed not to discuss the current exemption from fair value measurement under IAS 41 as part of this project.

- BC29 On the basis of the considerations above, the IASB decided that the produce should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This method would ensure that produce growing in the ground and produce growing on a bearer plant would be accounted for consistently.

Application of the IAS 16 requirements to bearer plants

Unit of account

- BC30 Agricultural activity is often a continuous process, meaning that older plants are continuously removed from service and replaced. The IASB noted that, if bearer plants are accounted for under a cost model, this continuous process needs to be made discrete. Consequently, the question arises as to what the unit of measure is—for example, is it the individual plant or some larger aggregation, such as a field or a planting cycle?
- BC31 The IASB noted that IAS 16 does not prescribe the unit of measure, or the extent to which such items can be aggregated and treated as a single item of property, plant and equipment. Consequently, applying the recognition criteria in IAS 16 to bearer plants would require judgement. This would give an entity flexibility, depending on its own circumstance, to decide how to aggregate individual plants for the purpose of determining a measureable unit of bearer plants. The IASB noted that accounting for an aggregation of plants would be similar to accounting for a large quantity of equipment that is acquired or constructed in batches. A specific example would be when a company constructs a large number of moulds for use within its business. Some aggregation of the moulds would usually be necessary for determining an item of property, plant and equipment. Consequently, the IASB decided that the requirements for the unit of account in IAS 16 would provide sufficient guidance for bearer plants without modification.

Other recognition and measurement requirements under the cost model

- BC32 The IASB considered whether the other recognition and measurement requirements under the cost model in IAS 16 were sufficient to cater for the unique costs of growing and caring for the bearer plants both before and after they reach maturity. The IASB discussed two areas for which additional clarification might be useful:
- (a) how to assess what is an abnormal amounts of wastage/mortality during the growth phase of the bearer plants; and
 - (b) how to determine when bearer plants are in the condition necessary for them to be capable of operating in the manner intended by management.
- BC33 The IASB noted that the clarification required by paragraph BC32(a) would be similar for a scenario in which the entity constructs a large number of fragile items of machinery for use within the business. The IASB also noted that the clarification required by paragraph BC32(b) would be similar for a factory

requiring an initial run-in period. Consequently, the IASB concluded that the current requirements of IAS 16 are sufficient to address these issues for bearer plants without further guidance.

- BC34 To better assess whether there are any other circumstances unique to plants that may require further clarification, the IASB decided to ask a question in this Exposure Draft seeking feedback on whether there are any requirements in IAS 16 that require additional guidance.

Disclosure requirements under the cost model

- BC35 The IASB considered the disclosure requirements under the cost model in IAS 16 and decided that they could be applied to bearer plants without modification.

- BC36 The IASB also considered whether any other disclosures should be required for bearer plants in addition to those in IAS 16. The IASB acknowledged that there is no clear basis for singling out bearer plants for fair value disclosures when such disclosures are not required for the rest of the property, plant and machinery involved in the process of growing the produce. Nevertheless, some IASB members were concerned that if entities move from a fair value model to a cost model for bearer plants, decision-useful information about the fair values of bearer plants and the assumptions used to determine those fair value measurements would be lost.

- BC37 The IASB noted that most of the investors and analysts consulted during the user outreach performed by the staff say that fair value information about bearer plants is either of limited or no use to them without fair value information about the related land, agricultural machinery, etc. Consequently, the IASB decided not to include any additional disclosures about the fair value of bearer plants in the proposals. However, in order to address the concerns raised by IASB members, as discussed in paragraph BC36, and to provide an opportunity for other users and interested parties to comment, the IASB decided to ask a question in the Exposure Draft requesting feedback on whether fair value information about bearer plants and/or information about the significant inputs used in valuation techniques should be required.

- BC38 During user outreach, many investors and analysts told the staff that instead of using the fair value information they use other information, for example, about yield, acreage, age of bearer plants etc. This information is usually obtained via the presentations made to analysts, the front of annual reports (for example, in the Management Commentary) or otherwise received directly from companies. Consequently, the IASB also decided to add a question on whether additional disclosures, such as these, should be required.

Revaluation model

- BC39 Under IAS 16, entities are permitted to choose either the cost model or the revaluation model for each class of property, plant and equipment. Consistently with the reasoning for accounting for bearer plants in the same way as for property, plant and equipment (see paragraphs BC16–BC21, the IASB decided that the same accounting policy options should be permitted for bearer plants. Consequently, the IASB proposes that the revaluation model in IAS 16 should be permitted for bearer plants.

Positioning of requirements

- BC40 The IASB observed that there was some benefit to keeping all of the requirements for agricultural activity together. However, the IASB noted that the proposals would mean that the requirements in IAS 16 would be applied to bearer plants with virtually no modification. Furthermore, bearer plants are used in the same way as property, plant and equipment within the business. Consequently, on balance, the IASB decided that bearer plants should be included within the scope of IAS 16 rather than keeping them within the scope of IAS 41, but making reference to paragraphs of IAS 16.

Transition requirements

Current IFRS preparers

- BC41 The IASB noted that if an entity currently measures its bearer plants at fair value less costs to sell and has not previously collected cost information, collecting this information and estimating the historic cost of those bearer plants in order to apply the cost model under IAS 16 may be costly. If bearer plants have long life cycles, entities could be required to look back several decades in order to obtain the necessary information. Consequently, for cost-benefit reasons, the IASB decided that the amendments to IAS 16 should permit the use of fair value as deemed cost for items of bearer plants at the start of the earliest comparative period presented in the financial statements.
- BC42 The IASB noted that the proposals address an urgent need for entities with bearer plants. The IASB also is aware that in some jurisdictions the current requirements for bearer plants are seen as an obstacle to IFRS adoption. Consequently, the IASB decided that the amendments to IAS 16 and IAS 41 should be available for early adoption.

First-time adoption of IFRS

- BC43 Consistently with the reasoning for accounting for bearer plants in the same way as for property, plant and equipment (see paragraphs BC16–BC21), the IASB decided that the deemed cost exemptions provided for property, plant and equipment in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be available for application to items of bearer plants.

Analysis of the effects of this Exposure Draft

- BC44 The following paragraphs describe the IASB's analysis of the likely effects that will result from the amendments proposed by this Exposure Draft (the 'proposals') to the requirements for bearer plants.
- BC45 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements, and the likely ongoing application costs and benefits of each new Standard—the costs and benefits are collectively referred to as 'effects'.

- BC46 The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities. The likely effects are assessed:
- (a) in the light of the IASB's objective of financial reporting transparency; and
 - (b) in comparison to the existing financial reporting requirements.
- BC47 In evaluating the likely effects of the proposals, the IASB has considered the following issues (see paragraphs BC51–BC64):
- (a) how the proposed changes are likely to affect how bearer plants are reported in the financial statements of those applying IFRS;
 - (b) whether those changes improve the comparability of financial statements between different reporting periods for an individual entity and between different entities in a particular reporting period;
 - (c) whether the changes will improve the user's ability to assess the future cash flows of an entity;
 - (d) whether the improvements to financial reporting will result in better economic decision-making;
 - (e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and
 - (f) whether the likely costs of analysis for users of financial statements, including the costs of extracting data, identifying how it has been measured and adjusting it for the purposes of including that data in, for example, a valuation model, are affected.
- BC48 Under the proposals entities would be permitted to apply either the cost model or the revaluation model, in accordance with IAS 16, for bearer plants. The IASB expects that most entities would choose the cost model rather than the revaluation model, because:
- (a) the revaluation model would eliminate only one of the concerns highlighted by entities responding to the IASB's 2011 Agenda Consultation—namely, it would remove the change in fair value from profit and loss. However, it would not eliminate the other concern, namely the cost and complexity of measuring bearer plants at fair value.
 - (b) most entities apply a cost model to agricultural land and machinery and the IASB expects that those entities would favour using a consistent approach for all assets used in the production of income, including bearer plants.
 - (c) IAS 16 only permits the revaluation model to be used if the fair value of bearer plants can be measured reliably. In their responses to the IASB's 2011 Agenda Consultation, many entities with bearer plants told us that fair value estimations are often complex and unreliable. If this is the case, use of the revaluation model would be precluded.

BC49 The effect analysis in paragraphs BC51–BC64 only considers the effects of applying a cost model in comparison to the current IAS 41 fair value model because the IASB expects that most entities with bearer plants would choose to account for bearer plants under the cost model in IAS 16 for the reasons explained in paragraph BC48.

BC50 If entities choose to account for bearer plants under the revaluation model in IAS 16, the only significant effect of the proposals would be to require changes in the revalued amount, which approximates fair value, in other comprehensive income. Currently, changes in fair value less costs to sell are recognised in profit or loss under IAS 41.

How the proposals are likely to affect how activities are reported

BC51 The proposals are expected to affect only the reporting of entities operating in a specific part of the agricultural industry, namely those entities with bearer plants.

BC52 If current IFRS adopters choose to apply the cost model to bearer plants under IAS 16 the main changes under the proposals will be as follows:

Effect	Fair value model under IAS 41	Cost model under the proposals	Impact
Financial position	Measured at fair value less costs to sell.	Measured at cost less any accumulated depreciation and any accumulated impairment losses.	Proposals are expected to reduce net assets.
Profit or loss	Changes in fair value less costs to sell are recognised in profit or loss.	The depreciation charge for each period, and any impairment loss, will be recognised in profit or loss.	The change in the fair value of bearer plants is often a significant amount so the proposals will reduce the volatility of profit or loss from the remeasurement of bearer plants.

How the proposals improve the comparability of financial statements

Comparability between entities

BC53 The IASB does not expect the proposals to reduce the comparability between entities because:

- (a) IAS 41 does not give entities a choice on how they account for bearer plants because all biological assets are accounted for under a fair value model. However, the IASB does not expect the proposal to allow a choice of accounting policy under IAS 16 to reduce the comparability between entities with bearer plants because most entities are expected to choose the cost model for the reasons explained in paragraph BC48.

- (b) entities are required to use valuation techniques to determine the fair value less costs to sell of bearer plants under IAS 41 in the absence of active markets. Fair value valuations are particularly subjective for bearer plants in comparison to other assets, especially when they have long life cycles, because of the variety of assumptions required (for example, selling prices of agricultural produce, future costs, expected growth rates and yields, environmental risks etc). Assumptions can vary significantly between companies and small changes in assumptions often lead to significant changes in fair value. For these reasons investors and analysts consulted during the outreach performed by the staff noted that it is currently difficult to compare the fair value information that is provided by different entities.

Comparability between reporting periods for an individual entity

- BC54 The IASB does not expect the proposals to significantly reduce the comparability between reporting periods for an individual entity choosing the cost model. This is because under IAS 41 the change in the fair value less costs to sell of bearer plants can fluctuate significantly between reporting periods as a result of small changes in assumptions. Furthermore, those changes in fair value can cause significant volatility in profit or loss. Many investors and analysts consulted during the user outreach performed by staff said that they eliminate the change in the fair value less costs to sell of bearer plants when comparing an entity's operating performance between reporting periods.
- BC55 Currently, bearer plants are accounted for in a different way from the land, land improvements and agricultural machinery used in the production process. In most cases entities account for these assets at cost under IAS 16. Consequently, accounting for the bearer plants under IAS 16 will improve comparability between the producing assets of the entity by accounting for similar assets in similar ways.

How the proposals will improve a user's ability to assess future cash flows

- BC56 IAS 41 currently requires bearer plants to be measured at fair value less costs to sell. Consequently, the IAS 41 fair value measurement applies to both the bearer plant and the produce growing on the bearer plant. Under the proposals only the produce growing on the bearer plants will be measured at fair value less costs to sell.
- BC57 The produce of the bearer plants is being grown for sale. Consequently, fair value changes in the produce have a direct relationship to the expectations of future cash flows that the entity will receive on sale. In contrast, the bearer plants are normally held by an entity for the whole of their useful life and then scrapped, so changes in fair value are not recognised as cash flows. Consequently, the IASB thinks that providing separate fair value information for the produce is likely to improve a user's ability to assess future cash flows.
- BC58 During the project the staff sought the views of investors and analysts that use the financial statements of companies with bearer plants. Many of these investors and analysts told the staff that they focus on cash flows and that the

fair value of bearer plants is not relevant to their analysis because the bearer plants themselves are not sold and, therefore, do not influence the entity's future cash flows. Furthermore, some of these users said that they would prefer a cost model for bearer plants as it provides a better basis to forecast future capital expenditure than a fair value model.

How the proposals will affect economic decision-making and the costs of analysis for users

- BC59 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the usefulness of the reported information. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used in the business provides support for accounting for them in the same way.
- BC60 Under the proposals, users of financial statements will generally receive cost information about bearer plants rather than fair value information. This is not expected to result in less relevant information for users of financial statements because nearly all investors and analysts consulted during the user outreach performed by staff said that the IAS 41 fair value information about bearer plants is of either limited or no use to them for the reasons in paragraph BC21.
- BC61 Many investors and analysts in the outreach sample told the staff that instead of using the fair value information they use other information, for example, about yield, acreage, age of bearer plants etc. This information is usually obtained via the presentations made to analysts, from additional information provided by management in annual reports (for example, in the Management Commentary) or otherwise received directly from companies. The Exposure Draft asks for feedback on whether such additional disclosures are important to users of financial statements. The IASB will use this feedback to consider if the information provided about bearer plants can be improved in comparison to the current information provided under IAS 41.

Effect on the compliance costs for preparers

- BC62 In their responses to the IASB's 2011 Agenda Consultation, preparers of financial statements expressed concern that, in the absence of markets for bearer plants, valuations are complex, time-consuming and costly, especially for entities that hold large plantations with varying maturities, yield profiles and locations. The proposals respond to this concern by permitting a cost model for bearer plants. However, entities still will be required to perform the following fair value measurements:
- (a) the produce growing on the bearer plants would still be measured at fair value less costs to sell. Several companies with bearer plants have told the IASB that this would be difficult and costly to apply in practice to certain types of produce. The IASB's reasoning for requiring the produce to be measured at fair value less costs to sell is set out in paragraphs BC26–BC29.
 - (b) bearer plants would be subject to an impairment test under IAS 36 *Impairment of Assets*. Consequently, if there is any indication that bearer plants are impaired at the reporting date, the entity would be required

to estimate the recoverable amount of the asset (or its cash-generating unit). The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

- BC63 Nevertheless, the IASB expects that the proposals will reduce compliance costs for the majority of entities because:
- (a) the IASB believes that measuring the produce at fair value less costs to sell would be less complex than measuring the bearer plants, including the produce, at fair value less costs to sell. This is because the produce is growing on the bearer plants only for a short period and so the valuation of produce will not involve forecasting over long time periods. Furthermore, there is usually an active market for the harvested produce, whereas there is rarely an active market for bearer plants.
 - (b) IAS 41 currently requires entities to determine the fair value less costs to sell of bearer plants at each reporting date. Under the proposals an entity applying the cost model in accordance with IAS 16 would be required to estimate the recoverable amount of bearer plants (or the relevant cash-generating unit) only if there are indicators of impairment at the reporting date. Consequently, fair value measurements under the proposals will be less frequent.
- BC64 The IASB is seeking feedback via the Exposure Draft on whether any additional disclosures (besides the disclosures in IAS 16) are important for investors if bearer plants are accounted for under a cost model. While this is only a question, not a current proposal, any additional disclosures may increase compliance costs.

Alternative views

Alternative view of Patrick Finnegan and Patricia McConnell

- AV1 Mr Finnegan and Ms McConnell voted against the publication of the Exposure Draft *Agriculture: Bearer Plants* (ED) because they believe that the proposal to account for bearer plants in accordance with the requirements in IAS 16 *Property, Plant and Equipment* rather than with those in IAS 41 *Agriculture* will eliminate information about the fair value changes in bearer plants and the underlying assumptions used to estimate those changes. Information about the fair values of all biological assets including bearer plants is critical both to managing agricultural activities and to investing in entities that engage in those activities. Without such information, investors are unable to assess changes in expectations of future net cash inflows to an entity engaged in agricultural activity. The fact that published price quotations have developed throughout the world for orchards and plantations that include bearer plants demonstrates the importance of fair value information to those who invest in agricultural activities.
- AV2 IAS 41 prescribes the accounting for agricultural activity, that is, the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets. The underlying principle of IAS 41 is that fair value measurement best reflects the biological transformation of biological assets. It requires measurement at fair value less costs to sell (referred to hereafter as fair value) from initial recognition of biological assets up to and including the point of harvest, other than when fair value cannot be measured reliably on initial recognition.
- AV3 The Exposure Draft *Agriculture: Bearer Plants* (ED) proposes to change the measurement for one subset of biological assets, bearer plants, from fair value to a cost-based measure. Bearer plants are plants that are used only in the production or supply of agricultural produce and are expected to bear produce for more than one period. 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 bearer plants. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41, including bearer animals.

The importance of fair value information for biological assets

- AV4 Fundamentally, IAS 41 is a Standard on accounting for biological transformation. Biological transformation of bearer assets occurs both prior to maturity and after maturity. A cost model ignores biological transformation when it occurs. That is why IAS 41 requires fair value measurement. The Basis for Conclusions of IAS 41 states: “Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity.” Mr Finnegan

and Ms McConnell see no reason to abandon that principle with respect to bearer plants. Consequently, they do not agree that prior to maturity, bearer plants should be measured at accumulated cost. They do not believe that accounting for bearer plants in the same way as for self-constructed items of property, plant and equipment will provide users of financial statements with information that is useful to an understanding of the agricultural entity's performance for the period or of its productive capacity at a point in time.

AV5 While maturing, bearer plants are undergoing biological transformation. Mr Finnegan and Ms McConnell continue to believe that fair value measurement for the biological transformation process provides the best information about bearer assets' quality and quantitative changes during their growth period. They also believe that the fair value of bearer plants at maturity provides the best measure of an entity's resources being placed into the production of produce at maturity. Investors need that information to assess management's stewardship of the resources invested in the production process and the performance of the entity using those resources. Consequently, they believe that bearer plants must be measured at fair value while maturing because fair value provides users of financial statements with the best information about an important aspect of an agricultural entity's performance and management stewardship.

AV6 They also reject the view that biological transformation of bearer assets is no longer a key element to understanding the future net cash flows to an entity once such assets reach maturity. By definition, biological transformation is not limited to merely the growth process to maturity, but also includes the cycles of production and degeneration, which are critical phases in the life cycle of bearer assets. Fair value measurements of bearer assets throughout their lives provide information about the effectiveness and efficiency of the production process, and about the capability of such assets to generate net cash inflows into the future. In contrast, depreciation of the cost of a mature bearer asset only approximates the biological transformation of a bearer asset throughout its productive life and has only an indirect relationship, at best, to changes in future net cash inflows.

Effects of the use of fair value measurement

AV7 Mr Finnegan and Ms McConnell acknowledge that measuring bearer plants at fair value may sometimes be difficult. In particular, the IASB has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. However, Mr Finnegan and Ms McConnell note that IAS 41 contains an exception from fair value for biological assets for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable on initial recognition. They believe that this exception is sufficient to deal with the concerns about the reliability of fair value measures of bearer plants during the early years of their life cycle. They also note that entities throughout the world have been applying IAS 41 in a wide variety of agricultural activities since 2003. In fact, some national accounting standards required or recommended measurement of bearer assets at fair values even before IAS 41 was issued. They do not believe that measuring fair value of bearer plants, in general, is any more difficult than

measuring fair value for other biological assets such as bearer animals. Furthermore, they believe that applying a cost measure to bearer plants may be equally as difficult in some situations. Fair value measurements are required in assessing bearer plants for impairment, and surely those who are urging a reversion to a cost model for bearer assets would not suggest that impairment should be ignored because fair value measurement may sometimes be difficult. Moreover, the proposal in the ED would permit fair value measurements as a pure accounting policy choice. Mr Finnegan and Ms McConnell believe that accounting should reflect underlying economic circumstances and should not merely be left to choice. The existing fair value exception in IAS 41 is based on circumstances (measurement reliability), and is not an accounting policy choice.

AV8 In addition to concerns about the reliability of fair value measures, entities with bearer assets expressed concern about the volatility that arises from recognising changes in the fair value of the bearer plants in profit or loss and said that users of financial statements adjust reported profit or loss to eliminate the effects of changes in fair values of bearer biological assets. Mr Finnegan and Ms McConnell accept the view that the use of fair value for bearer assets makes the analysis of profit or loss and financial position more difficult. At the same time, they note that price volatility is an indicator of risk, and risk assessment is part of an analyst's job. Mr Finnegan and Ms McConnell note that sound financial statement analysis will always adjust reported profit or loss and financial position for the effects of unusual or non-recurring changes in reported information. However, if critical information about changes in the economic benefits arising in an agricultural operation is not reported, such analysis is impaired or not possible at all.

AV9 Mr Finnegan and Ms McConnell believe that rather than ignore the fair value volatility, which a cost model does, volatility should be addressed as a matter of financial statement presentation—such as by putting the fair value changes in other comprehensive income. They note that under the proposal in the ED, the bearer assets will be within the scope of IAS 16 and revaluation will be permitted. If an entity were to choose revaluation, the change in the revaluation amount (which approximates fair value) would be reported in other comprehensive income. Consequently, they believe that requiring fair value measurement during the entirety of the bearer plant's life cycle with the fair value changes reported in other comprehensive income would be consistent with permitting revaluation of the bearer asset. Furthermore, Mr Finnegan and Ms McConnell believe that such a change would preserve relevant information for investors through prominent display in the primary financial statements, while addressing the concerns of those who believe that fair value changes distort profit or loss.

Current proposals are not improvements to IFRS

AV10 Mr Finnegan and Ms McConnell believe that if the IASB requires bearer assets to be measured at accumulated cost, then at a minimum, the fair value of the bearer plants should be a required disclosure, including information about the valuation techniques and key inputs/assumptions used. The proposals in the ED would only provide an option to report fair value information, but not require it. Consequently, critical information would be eliminated from the financial

statements of entities engaged in agricultural activities using bearer assets. Mr Finnegan and Ms McConnell believe that such a proposal cannot be justified as an improvement to financial reporting. In January 2013, the Trustees of the IFRS Foundation approved a new *Due Process Handbook* that specifies, among other things, the criteria for new Standards or major improvements. The main criteria (in addition to pervasiveness of the issue) are (1) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports, and (2) the importance of the matter to those who use financial reports. Mr Finnegan and Ms McConnell believe that, from a user perspective, there is no deficiency in the accounting for and disclosures about bearer assets in IAS 41 and that fair value information is important (indeed essential) to those who use the financial reports of entities engaged in agricultural activity.

- AV11 In the user outreach performed by the staff, most investors and analysts said that fair value information about bearer plants is of either limited or no use to them *without* fair value information about the related land, agricultural machinery, etc. Rather than meeting the needs of users by providing this additional fair value information to make the fair value of bearer plants more useful, the IASB has chosen to withdraw the requirement to provide the fair value of bearer plants. In the view of Mr Finnegan and Ms McConnell this solution does not adequately address the needs of users of financial statements.
- AV12 A better solution would be for the IASB to require the fair value of bearer plants in combination with the fair value of the land to which such plants are attached. One of the weaknesses in IAS 41 is that it does not require the use of fair value to measure land to which bearer plants are attached. This is a weakness because the value of bearer plants is inextricably tied to the value of the land. By understanding the value of the bearer plants and the land, investors know the true potential of an entity's future net cash inflows. A historical cost model for either or both is incapable of providing such information.
- AV13 As just discussed, Mr Finnegan and Ms McConnell do not believe the current proposals represent an improvement to IFRSs and, in fact, represent a step towards lowering the quality of the information available in the financial statements of entities engaged in agricultural activities. The proposals therefore fail to meet the IASB's own criteria for a new or amended Standard.