

Meeting documentation

# World Standard-setters Meeting

## Smaller group Meeting Agriculture





# **World Standard-setters Meeting**

Monday 23 and Tuesday 24 September 2013  
The Grange City Hotel (London)

**Smaller group discussion}**  
Agriculture

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International Financial Reporting Standards

# Agriculture Bearer Plants (Proposed amendments to IAS 16 and IAS 41)

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## Overview

Current requirements for agricultural activity

```

    graph TD
      BA[Biological assets] --> P[Plants]
      BA --> A[Animals]
      P --> IAS41([IAS 41  
Fair value through  
profit or loss])
      A --> IAS41
  
```

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## Overview

Proposed requirements for agricultural activity

```

    graph TD
      BA[Biological assets] --> P[Plants]
      BA --> A[Animals]
      P --> BP[Bearer plants]
      P --> PGP[Produce growing on  
bearer plants]
      P --> OP[Other plants]
      BP --> IAS16([IAS 16  
Cost or revaluation  
model])
      PGP --> IAS41([IAS 41  
Fair value through  
profit or loss])
      OP --> IAS41
  
```

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## Background

### IAS 41 principle

- Biological transformation is best reflected by fair value measurement
- IAS 41 defines 'biological transformation' as follows:
  - comprises processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset
- IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes

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## Background

- **Consumable biological assets (CBAs)**—harvested as agricultural produce or sold as biological assets
  - livestock used for production of meat
  - livestock held for sale
  - crops such as maize and wheat
  - trees grown for lumber
- **Bearer biological assets (BBAs)**—other than CBAs
  - livestock from which milk is produced
  - grape vines, apple trees, oil palms, rubber trees
  - trees from which firewood is harvested while tree remains

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## Background

### Concerns about IAS 41

- Class of biological assets (BBAs) held solely to grow produce over productive life
  - on maturity no longer undergo significant biological transformation
  - operation similar to manufacturing

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## Background

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### Limited-scope project (started September 2012)

- Considers whether to account for BBAs like PPE
  - ✓ thereby permitting use of a cost model

### External input

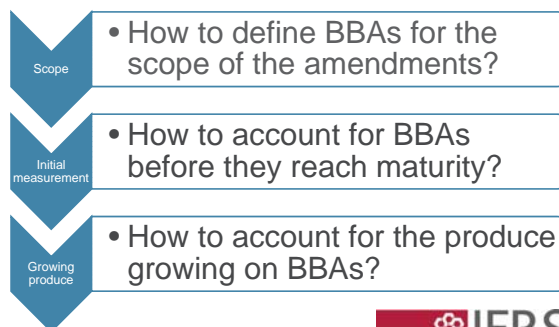
- Builds on work by Asian-Oceanian Standard-Setters Group (AOSSG) and Malaysian Accounting Standards Board (MASB)
- Strong support by national standard-setters (IFASS), IASB's Emerging Economies Group (EEG) and IFRS Advisory Council
- Addresses main concerns about IAS 41 raised by respondents to IASB's 2011 Agenda Consultation

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## Three main issues

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## Scope of the amendments

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- **Option 1: no-alternative-use model**
  - Only used in production of agricultural produce (ie only used as BBAs)
- **Option 2: predominant-use model**
  - Used predominantly in production of agricultural produce (ie used primarily as BBAs)
- **Option 3: no-alternative-use—plants only**
- **Option 4: predominant-use—plants only**

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## Scope of the amendments

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### IASB decision was Option 3

- Title of Exposure Draft is Bearer Plants, rather than BBAs, to better describe the scope
- A **bearer plant** is plant that meets all of the following:
  - used in production or supply of agricultural produce
  - expected to bear produce for more than one period
  - not intended to be sold as a living plant or harvested as agricultural produce
    - except incidental scrap sales

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## Scope of the amendments

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### The following are not bearer plants:

- Plants to be harvested as agricultural produce
  - ✓ trees grown for lumber
- Plants both to produce agricultural produce and to be harvested as agricultural produce or sold (other than as scrap)
  - ✓ trees used for lumber and fruit
- Plants cultivated for sale only
  - ✓ plants in a garden centre
- Annual crops

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## Accounting for bearer plants before maturity

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### Fair value approach

- ✓ Biological transformation distinguishes bearer plants from self-constructed PPE
- ✓ Biological transformation is not reflected by a cost accumulation approach
- ✓ Consistent with IAS 41 principle

### Cost accumulation approach

- ✓ IAS 16 does not incorporate internal profit in measurement of a self-constructed PPE
- ✓ Users in outreach sample said fair value information about bearer plants is of limited use
- ✓ Consistent with IAS 16 approach (by analogy)

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## Accounting for bearer plants before maturity

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### IASB decision

- IAS 16 cost accumulation approach like self-constructed items of machinery
  - ✓ unit of account
  - ✓ initial recognition and measurement
- Question in Exposure Draft to see if further guidance is required



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## Accounting for the produce

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- **Fair value at harvest**
  - Avoids significant practical difficulties, but...
- **Fair value during growth (IASB decision)**
  - Consistent treatment for produce growing in the ground and produce growing on bearer plants
  - Provides useful information about future economic benefits from sale
  - Consistent with IAS 41 principle—essentially a CBA growing on a bearer plant



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## Summary of proposals

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### IASB's principal decision underlying proposals:

- Bearer plants are similar to PPE, for which the accounting is prescribed in IAS 16

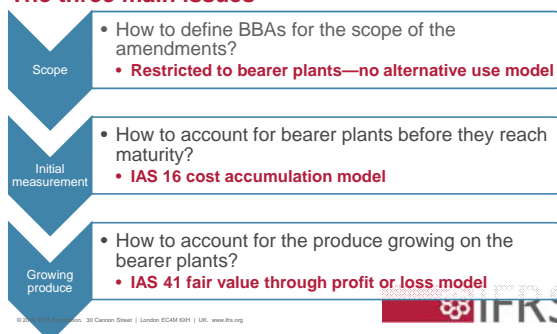


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## Summary of proposals

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### The three main issues



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## Summary of proposals

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### Bearer plants to be included in IAS 16

- Requirements of IAS 16 would be applied to bearer plants without modification, including:
  - ✓ revaluation model permitted
  - ✓ no additional disclosures for bearer plants
- Bearer plants would be PPE so other Standards apply as normal:
  - ✓ IAS 17 Leases
  - ✓ IAS 23 Borrowing costs
  - ✓ IAS 36 Impairment of Assets
  - ✓ etc



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## Other decisions

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### Produce to remain under IAS 41

- Requirements of IAS 41 would continue to apply to produce without modification:
  - Fair value through profit or loss
  - IAS 41 disclosures for the produce
  - Presumption fair value can be measured reliably can be rebutted on initial recognition if
    - ✓ quoted market prices are not available
    - ✓ alternative fair value measurements are clearly unreliable



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## Transition

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### Current adopters

- Apply amendments to IAS 16 and IAS 41 retrospectively
  - but can elect to measure an item of bearer plants at fair value at beginning of earliest period presented
    - and use as deemed cost at that date
    - item by item election

### First-time adopters

- Deemed cost exemptions in IFRS 1 for PPE



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## Timetable

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- Exposure Draft was issued in June 2013
- Comments to be received by **28 October 2013**
- Final amendments expected first half 2014
- Early application permitted



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## Thank you

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NOTES