



European Financial Reporting Advisory Group ■

**ED/2013/8 *Bearer Plants***

**Feedback statement**

November 2013

## Summary of contents

	<b>Page</b>
<b>Introduction</b>	3
Objective of this feedback statement	3
Background of this project	3
EFRAG’s draft comment letter	3
Comments received from constituents	4
EFRAG’s outreach initiative	5
<b>Feedback statement</b>	6
Scope of the amendments	6
Accounting for bearer plants before maturity	7
Accounting for bearer plants after maturity	8
Additional guidance	9
Fair value disclosures for bearer plants	10
Additional disclosures	11
Transition provisions	12
First time adopters	13
Other comments	14

## Introduction

### Objective of this feedback statement

EFRAG published its final comment letter on the IASB ED/2013/8 *Bearer Plants* on 25 October 2013. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by the members of EFRAG's Technical Expert Group (EFRAG TEG) during its technical discussions.

### Background of the project

In June 2013, the IASB published the Exposure Draft *Agriculture: Bearer Plants* ('the ED'). The ED proposes to amend IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* and to include plants, carrying a single bearer attribute, within the scope of IAS 16. The ED proposes to account for bearer plants in a same way as property, plant and equipment, rather than using the fair value model in IAS 41.

IAS 41 currently requires all biological assets related to agricultural activity, regardless of the way they are used, to be measured at fair value less costs to sell based on a single principle that biological transformation is best reflected by fair value measurement. This principle was criticised as not being appropriate for bearer biological assets, because they do not further undergo biological transformation and, once they reach maturity, are productive assets that are used in a similar way as plant or machinery.

Further details are available on EFRAG's project [web page](#) and on the IASB's project [web page](#).

### EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the ED on 17 July 2013. EFRAG noted that it supported the project and believed that bearer plants before and after maturity should be accounted for under IAS 16. EFRAG believed that this amendment had a potential to bring useful information to users of the financial statements.

In its letter, however, EFRAG noted that the scope of the amendment was too narrow and it should cover bearer animals also. This could improve the quality of financial reporting by better reflecting the business model of entities.

EFRAG noted that the growing phase of different bearer plants may differ significantly and therefore recommended, as a practical expedient, to define the maturity date as the date of the first harvest of commercial value.

EFRAG noted also that disclosures required by IAS 16 were appropriate for bearer plants and that additional disclosures should not be required in the financial statements.

### **Comments received from constituents**

EFRAG received six comment letters that were considered in the EFRAG TEG conference call on 23 October 2013. Those comment letters are available on EFRAG's website.

The comment letters received came from one preparer and five national standard-setters. The following table provides a list of respondents:

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*List of respondents*

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- CL01 Financial Reporting Council (UK FRC)
- CL02 Accounting Standards Committee of Germany (DRSC)
- CL03 R.E.A. Holdings PLC
- CL04 The Dutch Accounting Standards Board (DASB)
- CL05 The Danish Accounting Standards Committee (FSR)
- CL06 Comissão de Normalização Contabilística (CNC)

Almost all the constituents that replied agreed that the main principle of IAS 41 was not appropriate for bearer plants and that the cost model or the revaluation model of IAS 16 applied to bearer plants would provide more useful financial information.

## EFRAG’s outreach initiative

In September 2013, EFRAG staff carried out outreach activities to find evidence on whether the proposed amendments would properly depict the economics of the businesses; and whether the scope of the amendments was appropriate.

EFRAG staff contacted twenty seven (27) entities across Europe representing different industries. Six companies provided input and replied to our questions. These companies are listed in Appendix 1 to this paper. That exercise was focused on practical application of the new requirements and intended to collect solely facts and objective data on the application difficulties encountered by the participants.

The following table provides an overview of the respondents by industry.

### *Respondents by industry*

Nestec S.A.	Food and beverage
Anglo Eastern Plantations plc.	Agriculture
Sipef	Agriculture
Marine Harvest ASA	Fish farming
Asian Bamboo AG	Agriculture
Diageo plc.	Food and beverage

The majority of the respondents supported the proposed amendments to IAS 41. They agreed that despite the fact that bearer biological assets are not similar in nature to equipment or machinery, the similarities in the way they are used provide support for accounting for them under IAS 16. Respondents provided also the following opinions on the amendment:

- the ED had not included a clear guidance on determining when bearer plants are mature (i.e. the cut-off date for accumulation of direct costs); the respondents believed that a definition of the ‘maturity date’ should be included;
- the scope of the amendments was too narrow. Two respondents disagreed with the IASB’s decision to limit the scope of the amendment to bearer plants only, rather than bearer biological assets in general;
- the additional disclosure requirements regarding fair value would involve significant judgement.

The detailed findings of the field-test are described in the report on the results of the field-test that was released in October 2013. The report is available on EFRAG’s website.

## Scope of the amendments

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG believed that broadening the scope of the amendments could improve the quality of financial reporting by better reflecting the business model of entities.

EFRAG noted that the IASB has limited the scope of the amendments to bearer plants, without sufficiently exploring the merits that a broader scope could bring. EFRAG suggested that:

- the business models involving bearer biological assets are economically similar in that bearer biological assets do not undergo further biological transformation and that the entity mainly sells the produce;
- the scope should rely on the predominant use of the biological assets;
- the concerns about the reliability of measurement of fair value apply to all bearer biological assets and not just to bearer plants.

#### *Constituents' comments*

Five constituents agreed with EFRAG's suggestion that a broader scope would provide more useful information to users of financial statements. One constituent agreed with the limited scope proposed by the IASB.

### EFRAG's response to respondents' comments

Given the support from constituents and the fact that no new arguments were raised against EFRAG's tentative position, EFRAG maintained its recommendation that the IASB should consider broadening the scope.

## Accounting for bearer plants before maturity

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG agreed that active markets for immature plants often did not exist. Consequently, EFRAG agreed with the idea that the IAS 16 cost-accumulation model is more relevant and reliable for immature bearer plants, and would provide useful information.

However, EFRAG noted that the growing phase of bearer plants differs depending on the type of plant and may not be similar at all to the construction phase of property, plant and equipment.

EFRAG believed that assessing whether bearer plants are mature is less straightforward, as they mature gradually depending on season, weather and other factors. EFRAG also noted that some specific bearer plants like the roots of perennial plants (e.g. bamboo, sugar cane and herbs) grew along with the first agricultural produce, and are left behind after the first harvest to allow the agricultural produce to grow back during the following season.

Consequently, to avoid divergence in practice, EFRAG recommended, as a practical expedient, to define the maturity date as the date of the first harvest of commercial value. It would ensure consistent application of the standard in practice.

#### *Constituents' comments*

Most of the constituents agreed with EFRAG to use the accumulated cost measurement model for bearer plants and animals. Constituents also agreed that clarification of a term 'maturity date' is required. To assess a maturity date, the date of the first harvest for commercial value was proposed as a practical expedient. One constituent argued that entities should have a choice to apply either a fair value model or a cost model to biological assets.

### EFRAG's response to respondents' comments

EFRAG noted the positive feedback from constituents regarding the accounting for bearer plants before maturity and kept its initial opinion in the final comment letter.

## Accounting for bearer plants after maturity

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG agreed with the IASB that bearer plants, after reaching maturity, do not undergo further significant biological transformation and that generally bearer plants were used in a similar way to use of property, plant and equipment.

EFRAG supported the IASB proposals to apply the cost model or the revaluation model of IAS 16 to bearer plants after they reach maturity.

#### *Constituents' comments*

Constituents agreed that bearer plants should be accounted for under the cost or the revaluation model of IAS 16.

### EFRAG's response to respondents' comments

EFRAG noted the positive feedback from constituents regarding the accounting for bearer plants before maturity and kept its initial opinion in the final comment letter.



## Additional guidance

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG believed that the accounting models of IAS 16 can be applied to bearer plants without significant modifications. EFRAG noted however, that the IASB should perform an additional verification step to ensure that this is the case. In addition, there were a number of aspects specific to bearer plants on which the IASB would need to provide additional guidance or clarification, as indicated under '*Accounting for bearer plants before maturity*' and '*Accounting for bearer plants before maturity statements*'.

#### *Constituents' comments*

Two constituents agreed that that additional guidance was not needed to apply IAS 16 requirements to bearer plants (and animals).

### EFRAG's response to respondents' comments

EFRAG noted the feedback from constituents regarding the need of additional guidance and kept its initial opinion in the final comment letter.

## Fair value disclosure for bearer plants

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG believed that requiring additional disclosures would not be appropriate as this would be inconsistent with the basic premise underlying the amendments. EFRAG noted that the current fair value measurement model under IAS 41 has the following shortcomings:

- is generally determined based on a model that requires a significant degree of management judgement, as active markets for such assets are not often available;
- users of financial statements tend to eliminate reported profits and losses related to the fair valuation of bearer plants; and
- the changes in fair value will never be realised as the bearer plants themselves are generally not sold, except for scrap.

Furthermore, new requirements would not be consistent with the disclosure requirements that apply to other items accounted for under IAS 16.

#### *Constituents' comments*

Constituents agreed in general with EFRAG's suggestion that fair value disclosures for bearer plants would not be appropriate as it would be inconsistent with both the basic premise of the amendments and with the requirements applicable to other item accounted for under IAS 16.

### EFRAG's response to respondents' comments

EFRAG noted the support of constituents for its preliminary view regarding additional fair value disclosures and therefore maintained it in the final comment letter.

## Additional disclosures

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG disagreed that additional disclosures of non-financial information should be required in the financial statements.

EFRAG agreed that non-financial data, such as age profiles or physical estimates, may be useful for investors and other users of financial statements. However, EFRAG disagreed with the idea that this information should be disclosed in the financial statements of an entity. EFRAG also noted that there was a potentially infinite range of non-financial metrics and non-GAAP measures that exist about the activities of entities in general. Therefore, EFRAG stated that general purpose financial statements were not the right place for providing comprehensive information on all aspects of an entity, and that they should concentrate on financial information.

#### *Constituents' comments*

Most respondents supported EFRAG's conclusions. They noted that a better place for such additional disclosures would be the management commentary or the business review section of the annual report.

One constituent, however, supported the IASB's view and argued that non-financial data would provide useful and relevant information.

### EFRAG's response to respondents' comments

EFRAG agreed that non-financial data provides useful and relevant information. However, such additional disclosures would best be placed in the management commentary or business review section of the annual report. Therefore, EFRAG kept its initial opinion in the final comment letter.

## Transition provisions

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG supported the retrospective approach as it would improve comparability between financial statements.

Furthermore, EFRAG did not object to the option that allows an entity to use fair value as the deemed cost of bearer plants when the amendments were first applied, as this would provide for continuity in the financial statements of the reporting entity.

#### *Constituents' comments*

The constituents that commented on this issue, agreed with EFRAG's view.

### EFRAG's response to respondents' comments

EFRAG noted the support of constituents for its preliminary view regarding transition provisions and therefore maintained it in the final comment letter.

## First-time adopters

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG supported retrospective application of the new requirements for the first-time adopters of IFRS.

IFRS 1 provides a relief for the first-time adopter that implements IAS 16. EFRAG agreed that first-time adopters should be allowed to apply the deemed cost approach to any item of bearer plants at the date of transition to IFRS also.

#### *Constituents' comments*

Respondents agreed in general with EFRAG's comments or did not object to the deemed cost exemption provided for bearer plants.

### EFRAG's response to respondents' comments

EFRAG considered the respondents' support and kept its opinion in the final comment letter.

## Other comments

### EFRAG's tentative views and respondents' comments

#### *EFRAG's tentative position*

EFRAG did not have additional comments.

#### *Constituents' comments*

One constituent disagreed with the proposal to measure produce growing on bearer plants at fair value in accordance with IAS 41. This constituent argued that fair value of growing produce cannot be measured accurately due to a number of necessary assumptions, significant judgement and huge difficulties to perform physical inspections of crops that fruit continuously.

This constituent argued also that the accounting models for crops growing on bearer assets (tree crops) and crops growing on ground (row crops) should be different as only tree crops are recurring; this argument should lead to recognition of work in progress for tree crops in a similar way as work in progress for manufacturing plants.

### EFRAG's response to respondents' comments

EFRAG considered the feedback from constituents and in its final comment letter emphasised that the IASB should consider accounting issues related to measurement of produce growing on bearer biological assets.