CNC **COMMISSION DES NORMES COMPTABLES**

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Correspondant	Your references	Our references	Date
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Dear Sir, Madam,

Invitation to comment – IASB ED *Agriculture: Bearer plants*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Bearer plants* issued by the IASB (the "Boards") on 26 June 2013 (hereinafter the "ED").

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?

If the IASB intends to proceed with the proposed amendments, we recommend refining the definition of a bearer plant to address the following areas of uncertainty: 'Incidental scrap sales' is a key term of the proposed definition, but is not defined. The example given by the IASB is that of trees sold for firewood at the end of their productive life, which is reasonably simplistic. If the IASB proceeds with the proposed amendments, we believe additional guidance would be needed to assist entities in determining:

- What constitutes 'scrap sales'? For example, would it include ad-hoc sales before the productive life has ended, such as selling trees removed while thinning?
- How would an entity determine whether any scrap sales are incidental?

- Since the criterion requires that a plant not be intended for sale as a living plant or harvested as agricultural produce, except for incidental scrap sales, is an entity's intention not to sell sufficient (including assessments of past practice)?

It is not clear from the proposed definition of a bearer plant how an entity would determine whether a plant is used in the production or supply of agricultural produce. For example, some plants, which are currently considered consumable, are harvested twice solely to improve the yield of the second harvest. Would the fact that it produces more than one harvest be sufficient to meet this criterion? We believe additional clarification would be particularly important for plants that have rootstock that survives for more than one year and could bear produce more than once.

For example, after harvest of bananas, the plant may be cut down to its base and re-grown the next year to produce more bananas. Would the banana palm or the rootstock be considered the bearer plant? In addition, how would the possibility that the plant may be removed after one season if it's bearing poor quality fruit affect this assessment?
The definition requires that a plant be expected to bear produce for more than one period. It is not clear from the exposure draft whether this refers to an annual period, an interim period, a season or a production cycle (i.e. through to harvest). We would encourage the IASB to provide clarification.

Even if the period is clarified, a specific plant's expected productive life may be difficult to determine. Is it based on the biological capability to produce? Or should the entity's intentions be considered? For example, some entities choose to replace a plant after a few harvests because the yield declines, but biologically the plant is capable of bearing more produce. We would encourage the IASB to provide additional guidance.
We agree that distinguishing between bearer and consumable biological assets will require the use of judgement for those plants that could be both bearer and consumable assets.

According to paragraph BC12 of the exposure draft, the decision to restrict the application of the proposed amendments to those plants that are only used, rather than predominantly used, in the production and supply of agricultural produce may result in fewer reclassifications between IAS 16 *Property, Plant and Equipment* and IAS 41. Unless the IASB expects an entity to reassess whether the definition of a bearer plant is still met, it's not clear why 'fewer reclassifications' be a relevant consideration?

Question 2—Accounting for bearer plants before maturity

The IASB proposes that before bearer plants are placed into production (i.e. 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?

In our view, the requirements in IAS 41 continue to be appropriate for biological assets and are well understood in practice. However, in some cases, the perceived benefit to users of fair value measurements of biological assets may not outweigh the cost to preparers. For this reason, we could support the use of a cost model provided:

- entities are given the option to apply the fair value model in IAS 41;
- prior to harvest, bearer plants and the produce growing on the plants are treated as one asset (with one unit of account); and
- additional application guidance is provided regarding how to determine 'cost' for biological assets.

The proposed amendments and the discussion in the Basis for Conclusions seem to assume that the point in time when a plant is capable of producing (which is referred to as 'maturity') marks a distinct end to all bearer plants' biological transformation. This assumption underpins the view that bearer plants are similar to items of machinery used to manufacture goods and therefore use of IAS 16 (including cost accumulation prior to harvest) is appropriate (see paragraphs BC17 and BC19). However, in our experience, the life cycle of plants varies widely and it can be difficult in practice to identify when maturity is reached. Furthermore, the proposed amendments assume that improvements in productivity and quality of produce do not occur after maturity. However, many plants mature with age and cultivation. Biological transformation continues after a bearer plant begins to produce and includes degeneration, as is discussed in paragraphs 5 and 7 of IAS 41.

Given the differences between biological assets and assets within the scope of IAS 16 and the variety of plants to which the proposed requirements would apply, we believe additional guidance would be needed for entities to appropriately determine cost for bearer plants.

Paragraph BC25 suggests that reflecting the increased value of a bearer plant due to the biological transformation a bearer plant undergoes is equivalent to capitalising internal profits on an item of self-constructed machinery. We do not believe these notions are the same. The former acknowledges that the bearer plant has changed because of the biological transformation and, in its transformed state, the future economic benefits the entity can derive from the asset have changed. Conversely, internal profits might be derived, for example, by selling an asset between divisions of the same entity based on external pricing, rather than at cost. Such profits would be artificially created by pricing. Therefore, in our view, reflecting a change in the value of the bearer plant due to biological transformation is not the same as capitalising internal profits.

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?

As discussed in the responses to question 1, the BASB believes additional guidance would be needed, including how to determine:

- which root systems for perennial plants would be considered bearer plants;
- when such assets are 'mature'; and
- appropriate allocation methods to allocate costs incurred between the roots and the produce.

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?

We agree to include bearer plants in the scope of IAS 16 although we would prefer entities to be given the option to apply the fair value model in IAS 41. However, if the IASB chooses to proceed with the proposed amendments as written, we would support the proposal to allow a choice of cost model or revaluation model to be applied to bearer plants after maturity, subject to our comments in response to Question 5, and taking into account our concerns about how to determine when a bearer plant is mature.

We disagree with the views expressed in paragraph BC57 of the exposure draft, which states that changes in fair value of bearer plants are not recognised as future cash flows and do not provide users with information that helps them assess future cash flows simply because an entity has no intention to sell the bearer plant. A change in the productive capacity, or the change in the prices for the future output of a bearer plant, do provide useful information.

The separation of bearer plants from the produce growing on those plants is counterintuitive as such produce is biologically and economically linked to their bearer plants prior to harvest.

We acknowledge that similar arguments could be given for other assets or components of assets, e.g., a building physically attached to land or parts in a machine. If, for example, an entity decides to revalue the building, there is still a large part of the valuation of the building that relates to its 'location'. However, this could be argued to be a characteristic belonging to the land. Similarly, a significant element of the value of a bearer plant could be its location, but this could be argued to be a characteristic of the land, not the bearer plant.

However, for parts in a machine, the parts could be replaced or put in another machine and continue to derive future economic benefits. This is not the case for produce growing on a bearer plant that is removed before it is ready for harvest. It is unlikely that such immature produce would provide economic benefits separated from the bearer plant. Furthermore, unlike the land, buildings, machines or parts, both a bearer plant and the produce growing on it are usually undergoing biological transformation simultaneously and the effect of their inter-relationship is more complex.

Separating these assets for accounting purposes and requiring different accounting treatments for each, as is proposed, will be practically challenging and may increase complexity for some entities. Currently, the fair value measurement of bearer plants is typically calculated using approaches based on income generated. The different stages of maturity of the produce and the allocation of the costs related to both the bearer plants and to the produce, could make valuing the produce on its own challenging. Entities would need to develop new models to measure fair value, which could include measuring the bearer plant and produce growing on it together and then allocating the fair value between those assets.

We are, however, concerned that constituents may misunderstand the impact of changing to the IAS 16 revaluation model. As currently written, paragraph BC50 of the exposure draft implies that there is little difference between the fair value models in IAS 41 and IAS 16. However, in our view, the former is a model that recognises value changes as part of periodic performance; the latter is one that recognises valuation adjustments as a form of capital maintenance.

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?

At present, IAS 41 considers each living plant to be a separate biological asset, only grouping these assets based on key attributes to facilitate fair value measurement. IAS 16 currently provides guidance on unit of account, but it is not clear how this would apply to bearer plants. For example, would an entity be required to determine parts of a bearer plant for depreciation purposes in accordance with paragraph 43 of IAS 16?
We disagree with the discussion in paragraph BC31 of the exposure draft, which states that aggregating all moulds into one item of property, plant and equipment constitutes a new larger unit of account. In our view, it is a practical expedient based on materiality, of

aggregating like items, and typically has little effect on capitalisation, depreciation or impairment.

In relation to the proposed paragraph 22A of IAS 16: what costs could be capitalised? As a plant is growing, would expenses related to water, fertiliser, greenhouses, etc. be capitalised because they're costs incurred that are directly attributable to bringing the asset to the location and condition necessary?

Determining an appropriate depreciation method for an asset that continues to undergo biological transformation after it is capable of producing. This is currently unclear when entities apply the cost model in accordance with IAS 41.30 and, we understand, results in some entities charging little or no depreciation on their bearer biological assets.

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?

We do not believe such disclosures should be required.

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?

Such a requirement would be consistent with paragraph 46 of IAS 41, which currently requires an entity to disclose in the financial statements 'non-financial measures or estimates of physical quantities of (a) each group of the entity's biological assets at the end of the period; and (b) output of agricultural produce during the period'.

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?

We have no objections to the proposed transition provisions.

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?

We have no objections to the proposed transition provision for first-time adopters.

Question 10—Other comments

Do you have any other comments on the proposals?

The ED proposes to amend IAS 23 *Borrowing Costs* to include bearer plants (before maturity) as a qualifying asset. Assuming the IASB proceeds with the proposed amendments, this would be an appropriate consequence. However, we would encourage including additional guidance on: when to commence/cease capitalisation for bearer plants (e.g. when maturity is reached); and how to deal with borrowings that relate to both a bearer plant and the produce growing on it (i.e. would these be classified as specific borrowings? Would an entity need to apportion the borrowings between these assets?)

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye,
Chairman BASB.