



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

28 October 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of Agriculture: Bearer Plants

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We support the proposal to account for bearer plants as property, plant and equipment in accordance with the requirements in IAS 16, rather than in accordance with IAS 41. We agree with the observations that bearer plants in general after reaching maturity do not undergo further significant biological transformation. We agree that most bearer plants are used in a way that is very similar to the use of property, plant and equipment. We believe that the accounting models of IAS 16 can be applied to bearer plants. However, given that the growing phase of different bearer plants may differ significantly we recommend that the maturity date (i.e. the cut-off date for accumulation of direct costs) should be defined to avoid divergence in practice.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Associate Director of Standard Setting at winniechan@hki CPA.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC

Encl.

Hong Kong Institute of CPAs

Comment on IASB Exposure Draft of Agriculture: Bearer Plants

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?

Yes, we agree with the scope of the amendments limited to bearer plants as proposed by the IASB.

However, we would note that the comments in paragraph BC11 concerning “many” bearer livestock having a common alternative use are an over-generalization of the realities of modern large-scale farming enterprises (such as dairy farms or battery chicken farms) and their selective breeding and culling business models. In fact, the observation that mature “bearer” biological assets are little different from a factory production line would apply equally well to many modern livestock operations which operate on a scale large enough to be adopting IFRSs for their financial reporting.

Therefore, although we accept the limitation of the scope of this amendment, it is on the basis of reducing the complexity of the drafting and, it appears, the lack of demand from livestock producers to move away from the fair value model, and not because we agree with the comments in BC11.

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?

We support the use of an accumulated cost measurement model for immature plants within the limited scope of the amendment.

We agree that active markets for immature plants often do not exist. We agree with the

proposal that the IAS 16 cost-accumulation model is more relevant and reliable for immature bearer plants, and will provide useful information.

However, we consider that more guidance should be provided for determining when bearer plants are mature (i.e. the cut-off date for accumulation of direct costs). Unlike construction of property, plant and equipment, we believe that assessing whether bearer plants are mature is less straightforward. We suggest that a definition of the maturity date should be provided to avoid divergence in practice.

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?

We agree that perennial plants such as sugar cane meet the definition of a bearer plant. We note that the roots of perennial plants grow along with the first agricultural produce, and are left behind after the first harvest to allow additional crops of agricultural produce to grow on subsequent seasons. Given that the growing phase of different bearer plants may differ, as noted in Q2, we believe that a definition of the maturity date should be provided to ensure consistent application of the standard in practice.

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 that mature bearer plants should be accounted for under the cost model or the revaluation model of IAS 16. We agree that most bearer plants are used in a way that is very similar to the use of property, plant and equipment.

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?

We believe that the accounting models of IAS 16 can be applied to bearer plants. However, as noted in our response to Questions 2 and 3, we believe that a definition of maturity date should be produced to reduce diversity in practice.

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 consider that no additional fair value disclosures should be required for bearer plants. The reason for allowing the bearer plants to be able to account for under IAS 16 is because it provides more useful information for the user. A requirement for additional fair value disclosures would be inconsistent with the basic premise underlying these amendments.

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?

We consider that the disclosure of non-financial information should not be required in the financial statements. The information suggested in the question could, if required, prove difficult to audit. We believe that the disclosure of non-financial information should be optional if preparers wish to provide this information for the benefits of users.



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 support the transitional provisions proposed in the amendment as it provides a pragmatic solution for preparers.

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 support the deemed cost exemption in IFRS 1 for bearer biological assets.

Question 10—Other comments

Do you have any other comments on the proposals?

We do not have any further comments.

~ End ~