

October 28, 2013

Submitted electronically via www.ifrs.org

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

Dear Sirs,

Re: Agriculture: Bearer Plants (ED/2013/8)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Agriculture: Bearer Plants", issued in June 2013.

The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including financial statement users, preparers, auditors, and academics. Additional information about the AcSB can be found at www.frascanada.ca.

The views expressed in this letter take into account comments from our outreach to Canadian stakeholders, individual members of the AcSB and its staff. However, they do not necessarily represent a common view of the AcSB, its committees, or staff. Formal positions of the AcSB are developed only through due process.

We commend the Board in its efforts to improve the accounting for bearer biological assets. However, we think that the proposals are too narrow in scope. We think that all bearer biological assets have the same fundamental characteristics. Accordingly, we think that all bearer biological assets should be accounted for under IAS 16.

Detailed responses to the questions posed in the Exposure Draft are provided in the Appendix.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact myself, or Peter Martin, Director, Accounting Standards at + 1 416 204-3276 (email pmartin@cpacanada.ca) or Greg Edwards, Principal, Accounting Standards at +1 416 204-3462 (email gedwards@cpacanada.ca).

Yours truly,

A handwritten signature in blue ink, appearing to read "Linda F. Mezon". The signature is fluid and cursive, with the first and last names being more prominent.

Linda F. Mezon, FCPA, FCA
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Appendix

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?

While we agree with the proposals, we think that the proposed amendment is too narrow in scope. We think that all bearer biological assets (BBA) have the characteristics noted in the proposed definition of a bearer plant. All bearer assets are (a) used in the production or supply of agricultural produce, (b) expected to bear produce for more than one period, and (c) are not intended to be sold or harvested as agricultural produce, except for incidental scrap value. The same conceptual arguments for treating bearer plants as property, plant and equipment apply to BBA that are animals. We think that arbitrarily parsing BBA into different categories runs counter to principles based standards. Accordingly, we think that all BBA should be accounted for under IAS 16.

The basis for conclusions notes that restricting the proposals to certain bearer plants is based on (a) the issue submitted to the IASB being framed in the context of plants, and (b) an understanding that application of a cost method to BBA is more complex than a fair value model. We are currently developing a domestic standard on Agriculture for use by non-publicly accountable enterprises. The research we have undertaken indicates that (a) financial statement users think that all BBA have the same characteristics and should be accounted for as property, plant and equipment, and (b) while there are some additional complexities to applying a cost model to bearer animals they are manageable and not onerous.

In the event that cost is difficult to obtain for a specific type of bearer animal, IAS 16 permits a revaluation model. The proposed scope limitation prevents a company from using cost for bearer animals; extending the IAS 16 treatment to all bearer biological assets would still permit the use of the revaluation model by those entities that prefer this approach.

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 agree that a bearer plant is similar to an item of property, plant and equipment, for the reasons cited in the Basis for Conclusions. Accordingly, we agree with the view that a bearer plant, prior to being placed into production, should be accounted for in the same way as self-constructed machinery.

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 think that the proposed definition of a bearer plant would result in roots used to bear produce for more than one period being treated as bearer plants. We do not think the definition will result in diversity of practice on this matter. Accordingly, we agree with the view that no additional guidance is required to apply the proposals to such perennial plants.

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 with the view that bearer plants are similar to property, plant and equipment, for the reasons cited in the Basis for Conclusions, and accordingly should be accounted for under IAS 16.

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 agree that IAS 16 can be applied to bearer biological assets without modification or additional guidance, for the reasons cited in the Basis for Conclusions.

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 think that this information should be required for bearer plants accounted for under the cost model. Such disclosures are not required for other items of property, plant and equipment that use the cost model as set out in IAS 16.

The Exposure Draft proposals are largely based on the difficulties involved in determining the inputs to estimate fair value for bearer plants, as well as financial statement users stating that they do not find fair value information of significant benefit. Requiring disclosure of the fair value or the significant inputs required to determine fair value means doing the same work as is required under current requirements. Accordingly, we think that requiring such disclosure would fail the cost constraint in paragraphs QC35-QC39 of the Conceptual Framework and defeat the purpose of the proposals.

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?

See the response to Question 6 regarding consistent application of disclosures to similar items.

We think that this raises fundamental questions about the type of information that should be included in notes to the financial statements. We do not think that this discussion should occur as part of a narrow scope amendment to a standard. We think that this should be addressed as part of the conceptual framework project.

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 agree that an entity that had not previously collected cost information could find it onerous to retrospectively determine historical cost, particularly for bearer assets with long-life cycles. Accordingly, we agree with the proposals to allow 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.

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?

If it is the case that bearer plants are to be accounted for as an item of property, plant and equipment then the provisions in IFRS 1 related to property, plant and equipment should also be applicable to bearer plants. Accordingly, we agree with the proposal.

Question 10—Other comments

Do you have any other comments on the proposals?

We think that the definition of ‘agricultural produce’ should be revisited, specifically as it relates to what is considered produce.

Agricultural produce is defined as the harvested product of the entity’s biological asset. This definition is not consistent with the requirement to account for unharvested consumable biological assets as noted in proposed paragraph IAS 41.5C and paragraph IAS 41.2(b) and discussed in paragraphs BC26-29.

Also, we think that it is unclear at what point the definition of agricultural produce is met. For example, the growing cycle for a grape vine is generally as follows: pruning, growth of new shoots, growth of buds, blossoms, and then growth of fruit. Another example is produce that is part of the plant, such as sap contained within a sugar maple tree. In both cases it is unclear when agricultural produce exists.

We think that the proposals should be clarified to address these issues.