

31 December 2013

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – AGRICULTURE: BEARER PLANTS

The Institute of Singapore Chartered Accountants (ISCA), formerly the Institute of Certified Public Accountants of Singapore, appreciates the opportunity to comment on the above Exposure Draft (ED) issued by the International Accounting Standards Board (IASB) in June 2013.

To solicit meaningful feedback for this ED, ISCA sought views from its members through a one-month public consultation and the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

Our comments on the pertinent areas of the ED are as follows.

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?

We do not agree that the scope of the proposed amendments should be restricted to only bearer plants. We are of the view that the scope of the proposed amendments should be extended to all bearer biological assets including bearer livestock.

IAS 16 currently defines property, plant and equipment (“PPE”) as tangible items that are held for use in production or supply of goods and are expected to be used during more than one period. Furthermore, we note that IAS 16 allows for PPE to have a residual value which is defined as the estimated amount that an entity would currently obtain from disposal of the PPE at the end of its useful life. Both bearer plants and bearer livestock are in substance not dissimilar to PPE because they are used in the production or supply of agricultural produce, are expected to bear produce for more than one period and are not intended to be sold as living assets or harvested as agricultural produce, except for incidental scrap sales. Hence, we believe that the scope of proposed amendments should include both bearer plants and bearer livestock. Furthermore, we are of the view that the benefits of improved comparability across bearer biological assets and agricultural entities outweigh the potential costs and complexity.

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 with this accounting treatment for bearer plants before they reach maturity.

However, we note that IAS 16 currently contains guidance on the accounting treatment of capitalisation of costs for inanimate assets or equipment such as buildings and machinery. The nature of costs incurred in the growth stage through to maturity of a bearer biological asset may be significantly different from the nature of costs incurred in constructing PPE. Therefore, we recommend that IASB provides guidance on the costs that can be capitalised for bearer biological assets from their growth stage through to maturity. This will provide clarity and consistency in practice.

In addition, another issue that we anticipate is the possible diversity in the interpretation of ‘maturity’ of bearer biological assets. Some users may interpret ‘maturity’ as the point when the bearer biological asset reaches full yield potential while some users may interpret ‘maturity’ as the point when bearer biological asset yield their first agriculture produce. Accordingly, we recommend that IASB considers providing clarification and guidance in determining the point in time when bearer biological assets reach maturity.

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 under the proposals of the ED, if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

For perennial crops with little or no woody growth, we believe that additional guidance or examples may be necessary in determining the point of time whereby the bearer perennial plant transforms from growth stage to maturity stage. This will help encourage more consistent application 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?

Yes, we agree that bearer plants should be accounted for in accordance with IAS 16 because bearer biological assets essentially meet the definition of PPE and their measurement model should not differ from the requirements of 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?

Other than the guidance we have proposed to IASB in questions 2 and 3, we do not believe that any other additional guidance is required.

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 believe that the existing disclosure requirements in IAS 16 should apply if bearer plants are to be accounted for under IAS 16. Hence, we do not support the proposal for additional fair value disclosures for bearer plants when they are accounted for under the cost model in IAS 16. Furthermore, we understand from paragraph BC 21(b) that nearly all investors and analysts consulted during the IASB outreach commented that the IAS 41 fair value information about bearer plants had limited or no use to them.

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 do not support the inclusion of any additional disclosures for bearer plants, over and above the existing disclosure requirements under IAS 16.

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 with the proposed transition provisions as a practical way to apply the proposed 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?

We agree with the proposed transition provisions for first-time adopters.

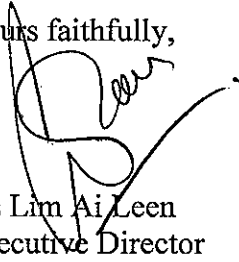
Question 10 – Other comments

Do you have any other comments on the proposals?

We do not have any other comments on the proposals.

Should you require any further clarification, please feel free to contact Mr Benjamin Oh, Manager, Technical Standards Development and Advisory, from ISCA via email at benjamin.oh@isca.org.sg.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Lim Ai Leen', written over a large, stylized 'B' that is part of the signature itself.

Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance