



Grupo Latinoamericano  
de Emisores de Normas  
de Información Financiera  
Group of Latin-american  
Accounting Standard Setters

October 28, 2013

**International Accounting Standards Board**

30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft (ED/2013/8) on Agriculture: Bearer Plants - Proposed amendments to IAS 16 and IAS 41**

Dear Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS<sup>1</sup> welcomes the opportunity to comment on the Exposure Draft on Agriculture: Bearer Plants - Proposed amendments to IAS 16 and IAS 41 (the “ED”).

This response summarizes the views of our country-members, in accordance with the following due process.

**Due-process**

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in July 2013. All country-members had the opportunity to designate at least one member to participate in this TWG, and the following countries did so: Argentina (coordinator of this TWG), Bolivia, Brazil, Colombia, Costa Rica, Mexico, Uruguay and Venezuela.

Individually, all TWG members summarized the answers from their respective countries. Subsequently, the answers presented in each country’s summary were compared and discussed before preparing a consensus response.

**Overall comments**

We wholeheartedly support the Board’s initiative in relation to the issue, widely applicable in the economic activities of our region, and therefore of substantive importance for the preparation and evaluation of financial information related to agricultural activities.

If you have any questions about our comments, please contact [glenif@glenif.org](mailto:glenif@glenif.org).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jorge José Gil'.

**Jorge José Gil**

Chairman  
Group of Latin American Accounting Standard Setters (GLASS)

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<sup>1</sup> The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Mexico (Vice Chairman), Brazil (Board); Colombia (Board), Guatemala (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, El Salvador, Panama, Paraguay, Peru, Dominican Republic, Costa Rica (Observer) and Honduras (Observer).



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## GLASS' Comment Letter on Agriculture: Bearer Plants - Proposed amendments to IAS 16 and IAS 41

As instructed in the ED, we have answered the 10 questions included in the draft. Please see our responses and related comments below.

### 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?

*In our region there is unanimous agreement with including bearer plants within the scope of the ED, although we believe it is necessary to point out that many participants of the TWG believe the proposed scope should be expanded as explained in the following paragraph.*

*The majority of the countries in our region request, and the entire group considers acceptable, extending the scope of this differential treatment to bearer animals that, in essence, are similar to bearer plants and for which their fair value and its changes over time are not generally considered relevant for the understanding of the underlying business.*

*In general there is agreement with the idea that bearer plants and animals are biological assets that require a different treatment due to the practical difficulties with obtaining reliable measurements of their fair value over their productive life, together with the perception that fair value is not particularly relevant for the management of the entities owning them.*

*In general information about fair value and its changes, in addition to not being relevant for users of financial information, is difficult to obtain due to the absence of active markets for those assets over their full productive life and therefore requires the use of complex measurement models to determine their fair value.*

### 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.



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Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend?

*Majority Position:*

*In our region there is a high degree of agreement that bearer biological assets should be measured at cost less accumulated depreciation and impairment over their productive life and presented together with Property, Plant and Equipment in the Statement of Financial Position.*

*Minority Position:*

*Some believe that measurement at cost upon reaching maturity is inappropriate.*

*Some also object to the presentation of biological assets within the scope of the ED in the Statement of Financial Position as Property, Plant & Equipment.*

*Those holding the minority position with respect to the described measurement assert that measurement at cost upon reaching maturity implies not recognizing the biological development and presenting financial information (in the statement of financial position) that is far removed from reality and provides distorted information for third-party users of financial information.*

*Those opposed to measuring bearer plants at cost upon reaching maturity (a minority of the TWG, although others accept the alternative without considering it preferable) propose measuring the biological assets within the scope of the ED at fair value for the period between the end of the initial phase with little or no biological development and the date maturity is reached allowing a commercial production of its produce.*

*In such case, during the initial phase (assuming no significant biological development according to paragraph 24 of IAS 41) measurement should be at cost; during the development phase (e.g. commencing when fair value can be reliably measured) measurement should be at fair value with changes in profit or loss. During the production phase the last fair value of the development phase should be considered as the “deemed cost”, and from that point forward depreciation and, as applicable, impairment of the deemed cost should be recognized.*

*With respect to presentation, some prefer presenting bearer plants in Biological Assets, adequately separating those measured at fair value from those measured at cost. This separation can be made in the Statement of Financial Position or in the Biological Asset footnote disclosures. The proposal is based on the distinct characteristic of biological assets as compared to the traditional components of Property, Plant and Equipment. The fact that such assets are measured at cost does not change their primary characteristic, and as a result such assets should be presented according to their characteristics, as decided by the IASB in the IFRS for SMEs standard.*

**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



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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?

*In this question two aspects are considered: one is the materiality of the investment to be considered as a plantation in this type of biological assets characterized by not having visible aerial stems, and the other is the need for additional guidance.*

*With respect to the materiality of this asset, we do not agree with the proposal in the ED since in those countries having experience with plants that after harvest do not have a visible significant structure (as in the case of sugar cane) we confirm that the amounts involved are sufficiently important to assert that financial information that does not present it as a separate asset would be incorrect. In other words, what should be recorded in the account for bearer plants is the amount spent on planting, which should be depreciated over the productive life of the plant.*

*With respect to additional guidance, we understand that the definition of bearer plants is sufficiently clear for the identification of the plants within the scope of the ED, and therefore no additional guidance is required for biological assets belonging to this category.*

#### **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?

*As explained in our response to Question 2, the majority position is agreement with the measurement model included in IAS 16 associated with the use of cost less depreciation and applicable impairment. Those considering that bearer plants should be accounted for pursuant to IAS 16 as another component of PP&E, consider that the revaluation model can be elected for those assets and prefer the presentation proposed in the ED as Property, Plant and Equipment.*

*Nevertheless, we reiterate the minority position expressed in Question 2 that it would be inappropriate to present bearer plants with Property, Plant and Equipment, and that such assets should be included in Biological Assets, properly segregated from those measured at fair value.*

*The separation can be done in the Statement of Financial Position (as in the procedures adopted in the IFRS for SMEs) or disclosed in the notes related to the composition of Biological Assets.*

#### **Question 5—Additional guidance**

The IASB proposes that the recognition and measurement requirements of IAS 16 can be applied to bearer plants without modification.



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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?

*The majority of the TWG members believe that no additional guidance for bearer biological assets is required.*

*Nevertheless, some have suggested including some guidance regarding the moment to discontinue the capitalization of costs.*

*Some have suggested that with respect to the period in which cost capitalization is discontinued, the following modification of paragraph 22A of IAS 16 would be useful:*

*“22A Before bearer plants are in the location and condition necessary to bear produce they should be accounted for in the same way as self-constructed items of property, plant and equipment. Consequently, references to ‘construction’ in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to bear produce. **Bearer plants must be in the location and condition necessary to produce their fruit when they have reached sufficient development and maturity to produce fruit in the volume and quality that allows commercialization.**”*

*This clarification is considered necessary because biological assets in this category can produce fruit in an earlier stage, but the quality and quantity produced is insufficient to cover even their variable production costs.*

*In the event the suggestion made in the preceding paragraph is accepted, professional agricultural technical assistance would certainly be required to accurately and clearly define when bearer plants have reached “sufficient development and maturity to produce fruit in the volume and quality that allows commercialization”.*

#### **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?

*A strong argument for not requiring measurement of these biological assets at fair value is due to the difficulty in obtaining reliable measurements without excessive cost or effort and in many cases with little or no relevance for the analysis of the business.*

*In this case it would make no sense to require the measurement of these biological assets at fair value for disclosure purposes. Measurement such as that described in option 2 would seem to be more reasonable than the one described as option 1.*

*It is possible that for users that are not familiar with the significant aspects of the activity a description of the more relevant variables for the determination of fair value and the methodology to be used by market participants in the cases in which the decision was to apply the revaluation model might be useful.*



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*Nevertheless, in those cases where the entity has adopted the cost model because fair value is not relevant for the understanding of the underlying business, such disclosures would be a significant burden for the entity.*

#### **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?

*In our opinion, there are insufficient arguments to require this additional disclosure by entities using biological assets within the scope of the ED.*

*For users with expertise in this topic, a description of the physical location of the plants, their quantity classified by varieties and ages, and the quantities of the production would be very relevant input, at least during the periods included in the presentation of the financial statements.*

*Nevertheless, this is considered over and above what is required for other activities in which the resources used and the physical production obtained are also relevant for the measurement of the efficiency in its use.*

#### **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 proposal of 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 agree with the proposal for first-time adopters.*



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**Question 10—Other comments**

Do you have any other comments on the proposals?

*We have no further comments on the proposals.*