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Hans Hoogervorst
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Email: commentletters@ifrs.org

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Dear Mr Hoogervorst

Exposure Draft ED 2013/8 – Agriculture: Bearer Plants

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB) Exposure Draft Agriculture: Bearer Plants ('the exposure draft').

We welcome the IASB's proposed amendment to measure bearer plants using either a cost or revaluation model under IAS 16 Property, Plant and Equipment ('IAS 16') rather than the fair value less costs to sell model under IAS 41 Agriculture ('IAS 41').

We agree with the principal reasoning provided by the IASB supporting this amendment; that is bearer plants, once mature, no longer undergo significant biological transformation. This is why bearer plants are similar to manufacturing plant and should, therefore, be subject to the same measurement requirements. In view of the above, we support the proposed amendments in the exposure draft, subject to the following comments.

We believe that the IASB should further consider the scope of this amendment and specifically that further consideration be given to whether the proposed amendments be extended to livestock that is held for production rather than for its own carcass, for example sheep for wool, chicken and ducks for eggs and dairy cattle for milk. The existence of an active market for bearer livestock that provides a reliable fair value does not alter the nature of these types of biological asset and hence we see no reason in principle why the rationale underlying the proposed amendment to the measurement of bearer plants should not also apply to bearer livestock. We do not see any immediately compelling reason to distinguish between these two types of biological assets.

Whilst we acknowledge the bearer livestock industry may, by nature, be more complex than bearer plants, for example because of predominant versus no alternative use considerations, we believe that the IASB should perform further research, outreach and deliberation on extending the proposed amendments to bearer livestock. This will assist in the determination of whether there are, in fact, obstacles of such significance that the same accounting principles cannot be applied to what are fundamentally very similar assets, i.e. bearer plants and bearer livestock. We do not find the reasons set out in the Basis of

Conclusions to not extend the proposed amendments to bearer livestock (being complexity, the probable existence of an active market for livestock and that respondents to the 2011 Agenda Consultation mainly commented on bearer plants) persuasive.

However, given the potential additional complexities that may arise with respect to bearer livestock and the requests from constituents for urgent action on bearer plants we would not object to the Board proceeding with the proposed amendment to measure bearer plants using either a cost or revaluation model under IAS 16 as an interim measure to be followed by a second phase of the project to further consider extending the amendments to bearer livestock.

We have considered the need for additional guidance required for measuring bearer plants at cost or revalued amounts, in addition to that already contained within IAS 16. Whilst overall we believe the guidance contained in IAS 16 is sufficient and can be applied to bearer plants with the use of judgement, we have made certain suggestions in the Appendix to this letter for the IASB to consider where we believe that additional examples or discussion could provide useful clarification.

We do not consider it necessary for the IASB to require any further disclosures relating to the fair value of bearer plants in addition to the existing requirements in IAS 16, nor to require any additional non-financial information in respect of bearer plants as such disclosures would be inconsistent with those required for other categories of property, plant and equipment.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

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?

We believe the scope of this amendment should be extended to livestock that is primarily held for production rather than for its own carcass, for example sheep for wool, chicken and ducks for eggs and dairy cattle for milk. We believe that such assets are similar in substance to bearer plants as defined in paragraph 5 of the exposure draft in that 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 a living asset or harvested as agricultural produce except for incidental scrap sales.

The existence of an active market for livestock that provides a reliable fair value does not alter the nature of these types of biological asset and hence we believe that the principal reason underlying the proposed amendment to the measurement of bearer plants should also be applied to bearer livestock. We do not find any compelling reason to distinguish between these two types of biological assets.

The application of the amendments to bearer livestock would also eliminate volatility in reported income arising from changes in fair value when the holder of the assets has no intention to change the use of its assets other than by sale for ancillary use at the end of its useful life. We note that in its consideration of a predominant use model or a no-alternative use model the IASB concluded that a predominant use model would be more difficult to apply because it requires additional judgement to be applied in order to determine predominant use and would need to address reclassifications for predominant use changes. We note that similar judgements are required under existing literature, for example a reclassification from property, plant and equipment to investment property and vice versa, or the reclassification of vehicle rental fleet to inventory and IFRS broadly requires the application of judgement. We also believe that there are similarities between the predominant use model and the concept of residual value which exists under IAS 16 and the existence of more than incidental scrap value to an asset is no different to a residual value which is more than incidental scrap value. We believe the principal reason for the amendment as provided by the IASB (i.e. bearer plants, once mature, no longer undergo significant biological transformation and hence their operation becomes similar to that of manufacturing) equally applies to bearer livestock.

Paragraph BC14 of the Basis for Conclusions of the exposure draft sets out the principal reasoning for excluding bearer livestock and cites complexity, the existence of an active market meaning that fair value is more likely to be reliable and easier to apply than cost and that respondents to the 2011 Agenda Consultation mainly related to bearer plants. We note that IFRSs currently require or permit many non-financial assets for which there may be an active market (for example investment property, vehicles and inventory) to be carried at cost and do not believe that the focus of respondents to the 2011 Agenda

Consultation on bearer plants is in itself sufficient reason to treat these assets differently from bearer livestock. For these reasons, we believe that further deliberation and targeted outreach is required before the IASB can reliably conclude that the application of the proposed amendments to bearer livestock is unduly complex.

We understand that considerations may be more complex for bearer livestock as livestock can often be used for alternative uses; for example, a sheep of the breeder variety could be farmed for its wool or used as a breeder prior to sale as a breeder or slaughter for its meat. Furthermore, external factors such as changes in milk quotas or extended periods of drought may impact a decision as to whether the assets will be held for breeding or consumption. We recommend, therefore, that the IASB conduct additional outreach as to whether bearer livestock should also be measured using either a cost or revaluation model under IAS 16, However, given the potential additional complexities arising from bearer livestock and the requests from constituents for urgent action on bearer plants we would not object to the Board proceeding with the proposed amendment on bearer plants as an interim measure to be followed by a second phase of the project to further consider extending the amendments to bearer livestock.

We note that bearer plants can be sub-categorised into those that are used only for production or supply of agricultural produce and those that are used for production or supply as well as sale as living plants. The bearer plants which an entity grows for sale as living plants are not in the nature of assets used for manufacturing and, accordingly, we consider it appropriate to distinguish between these two categories for the purpose of accounting. We therefore agree with the scope of the amendment applicable to bearer plants.

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?

We agree with this measurement approach and consider the analogy to ‘self-constructed items of machinery’ to be appropriate. However, in considering the sufficiency of the guidance in IAS 16 relating to the ‘elements of costs’ at the time of initial measurement and subsequent measurement, we have made certain observations under Question 5.

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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 do not concur with the IASB's comment that in most cases the impact of accounting separately for the roots of perennial plants would not be material. We understand from our outreach to the sugarcane industry, the roots (i.e. perennial plants) often constitute material balances, accounting for approximately one third of the total value of assets when measured at current replacement cost. Whilst we believe the existing guidance in IAS 16 is useful with regards to the accounting treatment for such perennial plants, especially since IASB has clarified that these would meet the definition of bearer plants, in order to provide additional clarity, we request the IASB consider providing guidance on how to differentiate between maintenance costs (i.e. costs that are required to keep the sprouts in healthy condition) and costs that are associated with any additional farming steps that need to be followed in the agricultural process linking the appropriate guidance on 'subsequent costs' and 'elements of cost' within IAS 16 to the accounting treatment of costs incurred on 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 accounting proposed by the IASB; however, as discussed under Question 5 below, we recommend that some additional guidance be included as to when the bearer plants are considered to be 'mature' and hence cost capitalisation ceases.

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, generally, the existing guidance in IAS 16 can be applied to bearer plants. However we note the following, in addition to our comment in Question 3 above, which the IASB may wish to consider:

IAS 16 currently contains guidance on the costs that can be capitalised upon purchase or construction of an item of property, plant and equipment, as well as on the appropriate accounting treatment of subsequent costs. Many bearer plants will require significant costs to be incurred during the growth stage after the initial costs of planting, as well as subsequent costs after their maturity – some of which may be capital in nature and some of which may not. For example whilst pruning costs are required to be incurred on grape vines on a regular basis, grafting procedures can significantly add value to the vines. As IAS 16 is currently written to be applied to physical 'bricks and mortar' type inanimate assets or equipment, the IASB may wish to consider including examples that are more relevant for bearer plants from their growth stage through to maturity in order to provide greater clarity.

Whilst we agree that, as stated in paragraph BC33 of the Basis for Conclusions of the exposure draft, the judgement on whether a bearer plant is 'in the condition necessary for them to be capable of operating in the manner intended by management' has similarities to that for a factory requiring an initial run-in period, a bearer plant approaching maturity may differ in that it is physically capable of producing some output but in significantly lower quantities or quality than will be the case later in its life. We believe it would be helpful to provide an example of when a bearer plant is deemed to be 'mature' in these circumstances

Further, we note that bearer plants share some salient features with the assets under consideration in the Board's limited scope project on Clarification of Acceptable Methods of Depreciation and Amortisation as the quantity and/or value of their produce may vary over the course of their lives. We recommend that the Board consider this in its re-deliberations to ensure that any amendments resulting from that project provide a clear and appropriate methodology for the depreciation of such bearer plants.

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 consider these disclosures should be required as this would impose an additional cost on reporting entities, there does not appear to be significant demand from users for such information and such disclosures are encouraged, but not required, under IAS 16 for other classes of property, plant and equipment. We do not see bearer plants as being sufficiently different in nature to other classes of property, plant and equipment to warrant incremental disclosures.

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 type of additional disclosures, as described in the question, are non-financial in nature and not required in general purpose financial statements.

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 and welcome the practical expedient provided to the preparers by allowing a choice to use the fair value as the deemed cost at the start of the earliest comparative period.

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 approach proposed in the exposure draft.

Question 10: Other comments

Do you have any other comments on the proposals?

The proposed consequential amendment to paragraph 37 of IAS 16 introduces ‘bearer plants’, as an additional separate class of assets. In conjunction with the requirement of paragraph 36 of IAS 16 to choose between a revaluation model and a cost model at the level of each class of assets, this could prove problematic as a diverse agricultural business may hold several classes of bearer plants which may display different characteristics, for example sugar cane and oil palm and may have valid reasons to apply a revaluation model to some, but not all, of these assets. For this reason, we recommend that the IASB clarify that each separate type of bearer plant can be a separate class of assets.

Bearer plants carried at cost under IAS 16 would have to be assessed for impairment under IAS 36 Impairment of Assets. In applying a value-in-use model under that standard there may be significant judgement involved for bearer assets; for example in differentiating between cash inflows or outflows that are expected to arise from improving or enhancing the asset's performance (i.e. yield enhancement expenditure) and expenditure that would be operating costs such as fertiliser. There could also be difficulties in determining cash inflows, in particular in estimating the price at which each future harvest might be sold. The IASB may wish to consider adding an additional example to IAS 36 to illustrate its application to bearer plants.

Paragraph 24 of IAS 41 includes two examples; however the examples are now substantially the same in that both relate to timber plantations albeit that one addresses a seedling and the other full grown trees. We recommend that the IASB amend the examples to better illustrate when cost may approximate fair value; for example by inclusion of an example of newly hatched fish.

We also note that the proposed amendments to IAS 16 are somewhat inconsistent in terms of whether bearer plants are a type of property, plant and equipment (as indicated by the proposed amendment to paragraph 37) or a different class of asset that are nonetheless to be treated as property, plant and equipment (as indicated by the proposed paragraph 22A). Based on the definition of a bearer plant in the proposed amendments to paragraph 5 of IAS 41, it seems that they are intended to meet the definition of property, plant and equipment (as the first two elements of that definition are consistent with the definition of property, plant and equipment in IAS 16) but that an additional criterion (on the intended means of disposal of the plant) must be met to be excluded from the scope of IAS 41. We recommend that this be made clear to avoid any indication that IAS 16 is applicable to assets that are not property, plant and equipment.

The inclusion of the third element of the definition of a bearer plant (with which, for the reasons stated in our response to Question 1, we agree) also introduces a possible issue that the exposure draft does not address. If an entity's intentions or business model were to change such that a bearer plant is intended to be sold as a living plant, it would seem that the plant would no longer be excluded from the scope of IAS 41. We believe that the amendments to IAS 16 or IAS 41 should address whether a transfer from property, plant and equipment to biological assets is required in this circumstance, if so how it should be accounted for (presumably in a manner consistent with a transfer from property, plant and equipment to investment property that will be carried at fair value) and how this would interact with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (if, for example, a discontinued operation holds bearer plants).