

23 October 2013

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2013/8 – AGRICULTURE: BEARER PLANTS – PROPOSED AMENDMENTS TO IAS 16 - PROPERTY, PLANT AND EQUIPMENT AND IAS 41 – AGRICULTURE

In response to your request for comments on ED/2013/8 – *Agriculture: Bearer Plants – Proposed Amendments to IAS 16 – Property, Plant and Equipment* and IAS 41 – *Agriculture*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O’Flaherty (Chairman of the Accounting Practices Committee)
Prof Danie Coetsee (Deputy Chairman of the Accounting Practices Committee)



GENERAL COMMENTS

Whilst we welcome the International Accounting Standard Board's (IASB) review of the accounting for bearer plants, we do not agree with the proposed amendments.

The exposure draft does not provide a sufficient basis for differentiating between bearer plants and other biological assets. As we note in our response to Question 1 below, biological transformation is a continuing process in bearer plants, and therefore does not provide a justification for accounting for these items differently from other biological assets.

A feature of biological assets is that biological transformation continues throughout the life of the plant. As growth of the bearer plant does not cease, we believe that additional guidance is required to determine whether a bearer plant has reached maturity, and on the allocation of costs as a result. In addition, this feature of bearer plants is unique, and therefore we believe that any guidance that is issued should be contained in IAS 41 rather than IAS 16.

Rather than create different accounting for similar assets, we recommend that the IASB should permit an accounting policy choice in IAS 41 – *Agriculture*, to account for biological assets at either cost or fair value. Please refer to our response to Question 1 below for further detail.

Should the IASB proceed with these amendments, we have however, addressed the specific questions raised below.

SPECIFIC COMMENTS

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?

Should the IASB proceed with the proposed amendments, we do not agree with the proposed scope exemption to IAS 41, as noted under General Comments above.

The basis for conclusions of the exposure draft does not provide a sufficient distinction between bearer plants and bearer animals. Animals such as a dairy cows for example, if applied to the definition of a bearer plant, would be termed a bearer biological animal as these dairy cows are principally held to bear milk for more than one period and is not intended to be



sold or harvested as agricultural produce except for incidental scrap sales. Dairy farmers do not intend to sell the cows as their principal business would be to harvest the milk produced by the cow over a certain period.

The basis for conclusions of the exposure draft states that interested parties have expressed a view that fair value is no longer an appropriate measurement for mature bearer biological assets as they no longer undergo biological transformation. Biological transformation is a continuing process in bearer plants which is evident in the example of fruit trees which would display continual biological transformation as demonstrated by the increased yield of produce over its life cycle. Additionally, grape vines would yield higher quality produce towards the latter part of its life cycle and therefore is indicative of continued biological transformation.

Moreover, the exposure draft considers whether users regard cost or fair value as decision useful for bearer plants, but does not consider whether the cost basis would be equally decision useful for other biological assets.

Based on the research performed at the time of issuing IAS 41, and the research performed for bearer plants, it appears that both cost and fair value measurement models have merits. This may be dependent on the growth cycle of the asset. For example, trees that are used for lumber may have a growth cycle of 10 to 30 years. There is no market for the growing trees, therefore the fair value is determined based on a discounted lumber price, which does not reflect the eventual realisation. Fair value may not be an appropriate measurement basis for these assets.

We are also not of the view that the exemption should be included in IAS 16 – *Property, Plant and Equipment*, as guidance provided within this standard may not be completely indicative of the continued biological transformation that may arise for bearer biological assets. We believe that the exemption should be included in IAS 41 and that a measurement choice be granted in IAS 41 between applying a fair value based model or a cost based model. This would be similar to the principles set forth in IAS 40 – *Investment Property*. We therefore recommend that an option to use either cost or fair value should be available for all bearer biological assets. For example, under the proposed exposure draft, those trees that would be regrown from the stump and qualify under the definition of a bearer plant would be accounted for under a cost based model (which would be currently scoped out of IAS 41) and those trees which would be utilised as agricultural produce would be accounted for under a fair value based model (due to being scoped within IAS 41).

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 there are economic similarities between self-constructed machinery and bearer plants and that it will be appropriate to measure bearer plants at accumulated cost before they reach maturity. Should the IASB proceed with the proposed amendments, the current



principles of IAS 16 state that the recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. However, we are concerned that there may be some difficulty in establishing when costs should cease to be capitalised. This is due to continued biological transformation which may take place and therefore the complexity to determine whether the bearer plant is mature in order to apply the principles of IAS 16 to identify the necessary location and condition to bear the produce as intended.

For example, a tea bush that has a life cycle of 50 years may produce tea leaves in year 10 which would fall under the scope of IAS 41 and hence the requirements therein would apply, however the tea bush would continue growing and produce more tea leaves over its life cycle. The concern arises as to whether a portion of the tea bush should be depreciated once the tea bush first produces leaves, or whether costs should be allocated between the tea leaves that will be harvested and the remainder of the tea bush. We therefore propose to the IASB, should they proceed with the proposed amendments, to provide guidance to define “maturity” of bearer plants, as well as the factors that can be used to identify the “matured” state.

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 agree with the assumption made by the IASB indicating that the effect of accounting for the roots separately under IAS 16 would in all cases be immaterial.

In order to measure the bearer plant at cost, it is necessary to allocate any costs incurred post-maturity between the bearer plant and the produce. For example, any costs of water, fertiliser and labour incurred once the root is in the process of producing sugar cane are incurred both to sustain the root, and to grow the cane. As there will be an on-going allocation of costs, we believe that any assumption about the materiality of the roots should be supported by further research.

Should the IASB proceed with the proposed amendments, we recommend that additional guidance should be provided on the appropriate allocation basis. Any guidance should be equally applicable to tea bushes, and to certain tree plantations where the trunk may be harvested, with the stump and roots remaining in the ground to re-grow.



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 do not agree with the proposal for bearer plants to be included within the scope of IAS 16.

Biological assets, including bearer plants, share certain economic characteristics with self-constructed property, plant and equipment under IAS 16 as they are grown by the entity with the aim of producing a separate output. However, all biological assets are also subject to continuing biological transformation. This is true of both mature and immature biological assets. For example a fruit tree once it starts to bear produce would be termed as a mature biological asset under these proposals and hence all costs would cease to be capitalised at this point. However the produce that is yielded from the said tree would increase over time and therefore would be an indication that significant biological transformation continues to be prevalent, which would rebut the presumption above.

Should the IASB issue an amendment relating to bearer plants, we believe that the amendment should be included in IAS 41. This would ensure that all guidance related to agriculture is contained in a single standard.

As noted in our response to Question 1 above, we propose that a measurement choice be granted in IAS 41 between applying a fair value based model or a cost based model. This would be similar to the principles set forth in IAS 40 whereby preparers of financial statements are presented with an option to account for their investment property under a cost model or a fair value model.

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?

Should the IASB proceed with the amendment as proposed we believe that there are a number of issues that need to be considered in our view with regard to recognition and measurement and the related need for additional guidance.

We believe that the guidance provided in IAS 16 is insufficient in order to assess when the bearer biological asset is available to be used in its intended location to bear produce. This is due to continued biological transformation that may take place on bearer biological assets.

Additionally the allocation of costs between those costs which may be capitalised under IAS 16 and those costs which relate to agricultural produce as scoped into IAS 41 may present additional complexities. For example a fruit farmer may spray insecticide or other chemicals to his/her trees. What is the basis that should be used to allocate these costs between the tree



stumps, under the proposed amendments to IAS 16, and the fruit on the tree accounted for under IAS 41.

Due to bearer biological plants being scoped into IAS 16, borrowing costs should be considered as to whether application should be allowed.

Alternatively we propose that that IASB consider including the measurement of bearer biological plants within IAS 41 and that the guidance proposed under IAS 16 be brought within the IAS 41 standard to account for these assets. This has been highlighted in our response to Question 1 above.

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 think that additional fair value disclosures should not be required for bearer plants.

The objective of any disclosure should be to enhance users understanding of the future cash flows expected to arise from the bearer plants. Fair value disclosures would provide management’s estimates of fair value, and management’s inputs into the valuation. However, as described in our response to Question 7, we believe that information about the biological assets would be more useful as these disclosures would permit users to develop relevant estimates.

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?

Should the IASB determine that bearer plants, or other biological assets, may be measured using the cost basis, we believe that additional disclosures should be provided. These include disclosures that would indicate information about expected cash flows such as, growth profile, growth cycle/ average maturity, area under growth and quality information of the assets may be useful for users of financial statements.

However some of our constituents do not agree that additional disclosures are needed as these may not add value to the users of financial statements.



We therefore propose that the IASB should consider including the significance or materiality of the disclosure that should be needed in line with their thinking on the Feedback Statement from the Discussion Forum on Financial Reporting Disclosure issued in May 2013.

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. We note that, depending on the growth cycle of the bearer plant, the effect of the transition will continue over a number of years.

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?

Should the amendment be included in the scope of IAS 16, we do not believe specific guidance on first time adoption is necessary, as bearer plants would be included in the deemed cost exemption.

Should the IASB agree with our proposal to include the guidance in IAS 41, we recommend adding a deemed cost exemption for bearer plants.

Question 10—Other comments

Do you have any other comments on the proposals?

We recommend that an option to use either cost or fair value should be available for all biological assets and not only for bearer plants.

We do not have any other further comments.