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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Grant Thornton International Ltd
Grant Thornton House
22 Melton Street
London NW1 2EP

16 October 2013

Submitted electronically through the IFRS Foundation website (www.ifrs.org)

ED/2013/8 Agriculture: Bearer Plants - Proposed amendments to IAS 16 and IAS 41

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2013/8 *Agriculture: Bearer Plants - Proposed amendments to IAS 16 and IAS 41* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We support the ED's proposals to apply IAS 16 *Property, Plant and Equipment* rather than IAS 41 *Agriculture* to bearer plants. We believe that cost-based measurement is more consistent with a business model of cultivating plants to generate agricultural produce over more than one accounting period, and will generally be less burdensome for preparers. Most importantly, the Board's own outreach suggests that fair value information is of limited interest to financial statement users.

We note that IAS 16 also has the advantage of permitting the use of the fair value model, provided fair value is reliably measurable, if some entities decide this is more appropriate to their circumstances.

We also suggest that the Board should reconsider the scope of the proposed changes – in particular whether bearer livestock should also be accounted for in accordance with IAS 16.

Our responses to the questions in the ED's Invitation to Comment are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Responses to Invitation to Comment questions

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 acknowledge the arguments (in BC10-BC15) for limiting the scope of the proposals to bearer plants and adopting a non-alternative use model. However, we are not convinced that the scope should be this restrictive and suggest that the Board should reconsider whether a broader scope would achieve a greater cost and benefit improvement. Our reasons are that:

- we agree that fair value measurement is generally less burdensome and more reliable for livestock than for bearer plants. However, this should not be the only consideration in selecting the most appropriate measurement basis. The Board should also consider:
  - the decision-usefulness or otherwise of fair value information about livestock held for continuing use. The Board has indicated investors and analysts consulted during outreach make little or no use of fair value information about bearer plants but has not indicated whether users' views on fair value information about livestock are similar or different
  - the entity's business model. Recent thinking in the context of developing a new classification and measurement model for financial assets suggests a link between an entity's business model and the most appropriate measurement basis. If the entity's business model is to hold biological assets (whether plants or livestock) for productive use over more than one period, and those assets are not managed and evaluated on a fair value basis, it is questionable that fair value is the most appropriate measurement basis (at least on a mandatory basis)
- we are not convinced by the arguments in BC11 – BC13 for rejecting a "predominant use" model in favour of a "no-alternative use" model. In particular we question whether the need for additional judgement is a compelling reason to reject a broader scope. While we agree that a predominant use model would require more judgement we consider that this would be no more difficult or susceptible to inconsistent application than many other judgements in applying IFRSs. We suggest that the relevance and reliability of fair value information, and the cost-benefit assessment, should be the primary considerations in selecting the most appropriate measurement basis.

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.

We note that active markets for bearer plants before maturity are rare and measuring fair value may be complex and subject to significant estimation uncertainty.

We also note that determining the accumulated cost of immature plants also involves judgement and is subject to estimation uncertainty. In particular, determining the point at which bearer plants reach maturity may be less straightforward than determining when an item of self-constructed property and equipment is in the location and condition to be capable of operating in the manner intended by management. However, we believe that entities should be able to develop reasonable, practical expedients to implement a cost accumulation approach in the context of their business model.

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?

The question of whether the effect of accounting for the roots of a perennial plant separately under IAS 16 would or would not be material is best addressed by preparers.

However, we see no need for any particular further guidance. To operationalize the ED's proposals entities would need to allocate directly attributable cultivation costs between the roots (capitalised in accordance with IAS 16) and the growing produce during the maturing phase (to be measured at fair value in accordance with IAS 41). We believe that various reasonable allocation bases are available or could be developed to accomplish this.

Question 4: accounting for bearer plants before 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.

In particular, we think it is important that entities will continue to be permitted to measure all bearer plants at fair value (subject to reliable measurement). This will avoid placing additional burdens on entities that currently apply IAS 41 and determine that fair value measurement is more relevant and reliable, or more straightforward, in their particular circumstances.

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 do not believe that any additional guidance is necessary to apply IAS 16 to bearer plants. As noted elsewhere in our response, applying a cost-based model will require various judgements, estimate and allocations. However, we consider that IAS 16 provides a reasonable framework and sufficient guidance to enable entities to implement its principles based on their own circumstances.

We note that, in addition, to IAS 16, the ED's proposals would lead to other Standards also becoming relevant – notably IAS 23 *Borrowing Costs* and IAS 36 *Impairment of Assets*. Our assessment is that the principles in these Standards, while not developed with bearer plants in mind, are nonetheless capable of being applied to such assets without modification or additional guidance.

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?

No, we do not support the addition of disclosures about the fair value of bearer plants that are measured at cost.

The Board has indicated that investors and analysts consulted during outreach make little or no use of fair value information about bearer plants. Such a requirement would also increase the burden on preparers (over and above existing requirements).

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 believe that the Board should pay particularly close attention to the views of users when specifying disclosure requirements. However, the disclosures required in IFRSs should also be limited to matters that are within the legitimate scope of the notes to the financial statements. We note that the Board's Discussion Paper *A Review of the Conceptual Framework* sets out the current thinking about an appropriate scope for the notes (paragraphs 7.35 – 7.42).

The non-financial and forward-looking metrics listed are undoubtedly important. Nonetheless, pending clarification in an updated conceptual framework in due course, we believe that they are items of the type more appropriately provided outside the financial statements (for example in the management commentary or similar report).

We note that these types of metrics are not inputs to a cost-based measurement and that there is no requirement to disclose this type of information for other productive assets.

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 subject to the detailed comments below. We believe that the option to use fair value as deemed cost on transition would be considerably simpler than full retrospective application for entities that have not previously tracked the necessary cost information.

We note that the proposed relief is to use fair value, not fair value less costs to sell (the latter being the IAS 41 measurement). If this is the intention then we suggest that paragraph 81I is expanded to clarify that differences in carrying value on transition (ie costs to sell) are recognised in opening retained earnings at the beginning of the earliest period presented.

In addition we are not convinced that this transition provision should be available on an item-by-item basis, particularly for entities intending to use the IAS 16 revaluation model. An item-by-item approach would seem inconsistent with IAS 16's requirement to select the revaluation model for the entire class.

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.

Question 10: other comments

Do you have any other comments on the proposals?

We note that the IFRS Interpretations Committee and Board have deliberated an issue concerning the application of paragraph 25 of IAS 41, which refers to the use of a residual method as an example of a possible valuation technique to value biological assets that are physically attached to land. The IFRIC concluded that the underlying issue is broader than the fact pattern in the submission, in part because of the interaction with the highest and best use requirements of IFRS 13 (IFRIC update, March 2013). In May 2013, the Board concluded that the issue is not currently widespread but might be a matter to consider in the post-implementation review of IFRS 13 in due course.

We note that the ED does not amend paragraph 25. This may raise a question as to whether the guidance in this paragraph applies to bearer assets measured in accordance with IAS 16 (given that bearer assets are biological assets). Moreover, given that fair value measurement will continue to be available, the ED does not address or remove the issue as it relates to bearer plants.

We acknowledge that the limited scope amendments proposed in the ED are not the appropriate to vehicle to address these issues. We would nonetheless welcome clarification in due course.