Exposure Draft 2013/8: Agriculture: Bearer Plants

Dear Sir / Madam,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft, Agriculture: Bearer Plants.

We fully support the Board’s decision to propose an amendment to IAS 41 to exclude some biological assets from IAS 41, with the effect of reducing the use of fair value measurement.

We agree with the Board’s proposal to retain a no-alternative use model as opposed to a predominant-use model. According to this model, biological assets that are (i) used in the production or supply, (ii) expected to bear produce for more than one period, and (iii) not intended to be sold except for incidental scrap sales, are excluded from the scope of IAS 41 and included in IAS 16.

However, we believe that the scope should not be limited to bearer plants only, but should also include bearer livestock provided they comply with the no-alternative use model:

- Many investors, analysts and users of financial statements, as underlined in BC 5, consider that fair value measurement is not appropriate for biological assets. Those interested parties have expressed concerns about the cost, complexity and reliability of fair value valuation of bearer biological assets, and about the volatility induced in profit or loss. This leads many investors, analysts and users of financial statements to adjust the reported profit or loss to eliminate the effects of changes in fair value of bearer biological assets.
Even if an entity may choose to rear livestock (e.g. sheep) for its produce (e.g. wool) and/or its meat, we understand that the industry increasingly uses distinct species for produce and meat in order to improve productivity. Many entities sell species selected for delivering produce only at a later stage when they are not able to derive more economic benefits from produce than from sale. For such entities, the revenue derived from sale remains incremental compared to the revenue derived from produce. As such, we consider that the cost model under IAS 16, using amortization plan and residual value, would better reflect their business model.

The inclusion of bearer livestock would limit distortions between financial statements of companies within the same industry.

In addition, while we agree that mature bearer plants should be included within the scope of IAS 16, we believe that entities should not be permitted to use the revaluation model under IAS 16. Indeed the proposed amendment was principally initiated based on the consideration that fair value measurement was not appropriate for mature bearer plants.

Our answers to the questions raised in the Exposure Draft are shown in the appendix to this letter which summarises our concerns and opinion.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix: Detailed answers to questions raised in the Exposure Draft
Agriculture: Bearer Plants

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 agree with the Board’s proposal to retain a no-alternative use model as opposed to a predominant-use model. According to this model, biological assets that are (i) used in the production or supply, (ii) expected to bear produce for more than one period, and (iii) not intended to be sold except for incidental scrap sales, are excluded from the scope of IAS 41 and included in IAS 16.

However, we believe that the scope should not be limited to bearer plants only, but should also include bearer livestock provided they comply with the no-alternative use model:

- Many investors, analysts and users of financial statements, as underlined in BC 5, consider that fair value measurement is not appropriate for biological assets. Those interested parties have expressed concerns about the cost, complexity and reliability of fair value valuation of bearer biological assets, and about the volatility induced in profit or loss. This leads many investors, analysts and users of financial statements to adjust the reported profit or loss to eliminate the effects of changes in fair value of bearer biological assets.

- Even if an entity may choose to rear livestock (e.g. sheep) for its produce (e.g. wool) and/or its meat, we understand that the industry increasingly uses distinct species for produce and meat in order to improve productivity. Many entities sell species selected for delivering produce only at a later stage when they are not able to derive more economic benefits from produce than from sale. For such entities, the revenue derived from sale remains incremental compared to the revenue derived from produce. As such, we consider that the cost model under IAS 16, using amortization plan and residual value, would better reflect their business model.

- The inclusion of bearer livestock would limit distortions between financial statements of companies within the same industry.
In addition, we think that the Board should provide additional guidance on the concept of "incidental scrap sales". We consider that sales remain incremental and do not contradict the "no-alternative use model" as long as the business model of the entity is to derive substantially all economic benefits on bearer assets from produce and not from sales. The terminology "scrap" appears inappropriate since it seems to negate the entity’s objective to maximize the value it can obtain from the sale of bearer assets at the end of their producing life. We also believe that the word "scrap" is not suitable for livestock.

**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?

Yes, we agree with the Board’s proposal establishing that before bearer plants are placed into production (i.e. before they reach maturity and bear produce) they should be measured at accumulated cost.

However, we suggest defining more specifically the notion of maturity date in order to reduce divergence in practice. This could be done by amending proposed paragraph 22A as follows: "Before bearer plants are in the location and condition necessary to bear produce of commercial value and marketable volume, they should be accounted for in the same way as self-constructed items of property, plant and equipment."

**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?

No, we do not think that additional guidance is required to apply the proposals to perennial crops.
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 that mature bearer plants should be included within the scope of IAS 16. However we believe that entities should not be permitted to use the revaluation model under IAS 16 since the amendment was principally initiated based on the consideration that fair value measurement was not appropriate for mature bearer plants.

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 there is no need for 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?

As stated in BC 5, assessing the fair value of bearer plants is often complex and expensive. It also raises issues over the reliability of fair value measurement for assets for which there is often no active markets. In addition we note that most investors and analysts consulted during the user outreach performed by the staff say that fair value information about bearer plants is of limited or no use. Therefore, we believe that requiring fair value disclosures would significantly reduce the benefit of this amendment for preparers.
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?

No, we do not think that any disclosures for bearer plants should be required in addition to those in IAS 16. Since this amendment is based on the assumption that bearer plants meet the definition of property, plant and equipment under IAS 16, requiring additional disclosures for bearer plants only would create discrepancies with disclosure requirements applying to manufacturing companies.

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?

Yes, we agree.

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?

Yes, we agree.

Question 10—Other comments

Do you have any other comments on the proposals?

We do not have any other comments.