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November 25, 2013

Mr. Hans Hoogervorst
Chair
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Re: Comment Letter on Agriculture: Bearer Plants

Dear Mr. Hoogervorst,

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the International Accounting Standards Board's ("IASB" or "Board") Exposure Draft ("ED"), *Agriculture: Bearer Plants*.

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

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1 With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 121,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 142 countries, of whom more than 113,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 138 member societies in 60 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Bearer Plants Proposal: Our Concerns

Accounting vs. Economic Distinctions: Increase Rather Than Reduce Complexity for Investors

Currently entities are required to measure biological assets at fair value under IAS 41, *Agriculture*. The ED proposes to remove the requirement to fair value bearer plants, a type of biological asset. A bearer plant is defined as a plant used in the production or supply of agricultural produce, that is expected to bear produce for more than one period and is not **intended** to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.[3] The following summarizes the change in accounting:

	Current Accounting	Proposed Accounting
Biological Assets	Fair Value – Net Income	-
Bearer Plants	-	Amortized Cost or Fair Value – OCI
Biological Assets, Except for Bearer Plants	-	Fair Value – Net Income
Produce	Fair Value – Net Income	Fair Value – Net Income
Land	Cost or Fair Value – OCI	Cost or Fair Value – OCI

The ED utilizes arbitrary accounting rules not grounded in economic distinctions to define a bearer plant differently from other biological assets. It then replaces fair value through net income accounting for such bearer plants with optional accounting for such bearer plants (e.g. amortized cost or fair value through other comprehensive income) based upon management's stated intent or preference. Further, the ED does not require disclosure of fair value of the bearer plants if the amortized cost option is selected. The ED would, however, require that bearer plants be subject to impairment testing based upon fair values (i.e. fair values will still need to be determined by issuers).

The IASB proposal is intended to address concerns raised by preparers regarding the cost and complexity of the use of a fair value model to measure bearer plants. CFA Institute, however, contends that by making accounting rather than economic distinctions the proposal will increase complexity for investors. In addition, the provisions will result in the loss of decision-useful information, and (because of increased optionality for preparers) decreased comparability for investors in entities engaged in agricultural activities.

[3] If an entity grows plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, it would continue to account for those plants within the scope of IAS 41.

Optionality & Intent-Based Approaches: Reduce Transparency & Comparability
As touched upon above, entities applying IAS 16, *Property, Plant and Equipment,* for bearer plants would be allowed the option to use either the cost or revaluation model. We believe, as noted in the preceding section, that accounting should reflect the underlying economic circumstances and should not reflect management intent because management intent does not alter the value of an asset. An asset's value is not different because management expresses an intent to hold the asset or sell the asset. The value of such an asset still increases or decreases in value based upon market conditions – not management's expressed intent. Moreover, intent can change over time or with a change in management and this should not alter the valuation of the asset.

We think it important to highlight this point separately as we believe the proposal fails to recognize the fact that reflecting the assets in the financial statements at amortized cost does not change the underlying economics of the business, just the transparency and comparability of financial reporting for investors.

Amortized Cost & Amortization/Depreciation:
Not Economically Representative, Not Sufficiently Considered
We do not believe that recognizing bearer plants in the financial statements at amortized cost provides sufficient information regarding their value or the transformative nature of the biological assets. What an entity has paid for an asset is not what an asset is worth subsequent to the initial acquisition of the asset and certainly not when it comes to the transformative nature of biological assets. It is also unlikely that the asset will trade again at the initial acquisition price nor is it likely to add/provide the same amount of value through operations. For these reasons, we do not support an amortized cost option or approach.

Further, the ED does not appear to discuss what the amortization/depreciation basis for bearer plants recognized at amortized cost would be under the proposal. Given that IAS 16 was not developed to contemplate the accounting for biological assets such as bearer plants, investors are curious as to how depreciable lives and depreciation methods will be determined for such bearer plants under IAS 16 and what the amounts recognized in the financial statements based upon such estimates will represent/communicate to them economically.

We discuss below why reliability of an amortized cost measure should not be considered of greater importance than the relevance of fair value measurements.

Doesn't Address Underlying Concern
The ED also fails to address the underlying concern which is that such bearer plants reside on land, the fair value of which may indicate that the alternative use of the land (e.g. development) is more economically productive than the existing agricultural use. Failing to recognize or disclose such fair value measurements leaves investors at an information disadvantage when making buy or sell decisions in entities with investments in such bearer biological assets.

Rather than assisting investors in understanding the interconnected, and possibly inextricable, relationship between the value of the bearer plants and the related land upon which they are situated, the proposal seeks to remove valuable information. See below for further consideration of this issue.

Fair Value Information: Importance to Investment Decision-making

CFA Institute's support for fair value measurements, in a variety of contexts, stems from the transparency provided by fair value measures and their relevance and decision-usefulness to investment decision-making. Fair values reflect the most current and complete expectation (based on the combined judgment of those transacting in the markets for such assets) and estimation of the value of assets or obligations, including the amounts, timing, and riskiness of the future cash flows attributable to assets or obligations. As such expectations lie at the heart of all transactions, we believe market efficiency is enhanced if the information upon which such decisions are made is reported in the financial statements at fair value.

Fair Value Is Most Relevant Measure for All Biological Assets, Including Bearer Plants

Fair value measurements of bearer plants throughout their lives / biological transformation process provide the most relevant information about the qualitative and quantitative changes in bearer plants during this process and the capability of such assets to generate net cash inflows into the future. Further, it is useful to understanding an agricultural entity's performance during a period or of its productive capacity at a point in time and enables investors to assess management's stewardship of the resources invested in the production process. Further, fair value is used by management to manage the value of the business. We do not believe that any transactions in bearer plants are ever based on their amortized costs. It is, therefore, unclear how one would use such data.

Moreover, the life cycle of bearer plants – growth to maturity, production, and degeneration – is the same as other biological assets. Therefore, there should be similar accounting treatment for all biological assets, including bearer plants. We don't believe the Board has made a compelling case for a distinction to be made for bearer plants. We maintain that information about the fair values of all biological assets, including bearer plants, is critical both to managing agricultural activities and to investing in entities that engage in those activities. Without such information, investors are unable to assess changes in expectations of future net cash inflows to an entity engaged in agricultural activities.

Primacy of Relevance over Reliability

The ED notes that the Board has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. Some argue that a cost based measure is more reliable. As we note above, while the measure may be highly reliable, the amount recognized in the financial statements provides little, if any, economic meaning or utility to investors.

We believe that relevance (fair value) has primacy over reliability (cost). Principle #4 of our monograph the *Comprehensive Business Reporting Model* (CBRM) published in 2007, articulates the following:

> *Recognition and disclosure must be determined by the relevance of the information to investment decision making and not based upon measurement reliability alone.*

Further, entities across the world have been measuring bearer plants at fair value for years and we do not believe that measuring the fair value of bearer plants is any more difficult than measuring the fair value of other biological assets, such as, bearer animals. Finally, we would argue that even in a cost model fair value measurements are required in assessing bearer plants for impairment thereby requiring consideration of fair value on a routine basis.

We would also observe that IAS 41, Paragraph 30 provides an exemption to the use of fair values for biological assets, which cannot be measured reliably.

Need for Fair Value of Components & Combined Assets
As noted in the alternative view, the outreach performed by IASB staff indicated that users of financial statements believed that fair value information regarding bearer plants was of limited use **in the absence of** corresponding fair value information regarding land, agricultural machinery etc. Users, therefore, are asking for the fair values of both bearer plants and the associated land to make information more meaningful for users. By providing the choice to eliminate fair value information altogether, the proposal is moving in the opposite direction to the needs of users of financial statements (i.e. providing more fair value information).

CFA Institute maintains that investors not only need the fair value of bearer plants but the associated land as well. In most cases, the valuation premise of a biological plant would be to use the plant in combination with other assets, such as, the land as a group of assets, since using the asset in that way would maximize the value of that asset. Therefore, investors need the fair value of the combination of assets.

However, if the fair value of the raw land is maximized in a different way to its current use, the fair value of the land remains the most relevant measure for investors. This is because if the value of the land when used say for residential or commercial development uses is higher than its current use, the biological plants would be destroyed (or harvested and sold) and the land would be used for those other alternative uses.

To best serve investor needs entities should, therefore, be required to provide the fair value of the components (bearer plants and land) separately and as a combined whole so that they may be able to determine when the economics (i.e. highest and best use) of the assets change.

Volatility Resulting from Fair Value Measurements:
Not an Investor Concern, But a Faithful Representation the Underlying Economics
The ED notes that certain constituents have expressed concerns about the volatility resulting from recognizing changes in the fair value of bearer plants in profit or loss. We, however, do not believe this to be an issue. We do not believe that anything is gained by overlooking volatility that is a natural component of the market process. As the alternative view correctly notes, price volatility is an indicator of risk and risk assessment is an integral part of a financial analyst's job. It is, therefore, essential that changes in the economic benefits arising in an agricultural operation be reported so as not to hinder such financial analysis.

Further we would add, the proposal gives entities the option to continue measuring their bearer plants at fair value by applying a revaluation model under IAS 16 where changes in fair value would be recognized in other comprehensive income (for a revaluation increase or a revaluation decrease if there is a revaluation surplus in equity) rather than profit or loss. Other comprehensive income (OCI) being a concept that remains undefined, we believe there is no conceptual basis for the inclusion of such measurements through OCI. Splitting gains and losses between net income and OCI also increases diversity in reporting and complexity in addition to reducing understandability for readers of the financial statements.

Disclosures:
Investors Need & Want Fair Value Information
We are concerned that the ED will eliminate all information about the fair value changes in bearer plants and the underlying assumptions used to estimate those changes (for those entities that choose the cost model under IAS 16) as the cost model does not require the fair value disclosures needed under IAS 41.

Paragraph BC30 of the proposal notes that investors and analysts consulted in the user outreach performed by the staff say that fair value of bearer plants is of limited or no use to them without fair value of the related land, agricultural machinery etc. Paragraph BC 38 notes that during the user outreach many investors and analysts told the staff that instead of using the fair value information they use other information for example, about yield acreage, age of bearer plants, etc. The paragraph noted that such information is present in the front of annual reports or otherwise directly received from companies (i.e. it is unaudited).

While the Board decided not to include fair value disclosures based upon their interpretation of this outreach feedback, we believe the Board is overlooking the bigger picture associated with such comments which is that users want the fair value of the bearer plants and the related land. Further, the "other information" they are seeking is substantively the inputs to their own fair value estimates for bearer plants. The problem is not that the fair value measurements currently provided are not relevant or sufficiently reliable, it is that the information necessary to explain the fair value is not sufficiently descriptive for investors to establish or validate the credibility of the estimates. The comments reflect the need for better information regarding the nature and productive capacity of the bearer plants so as to better understand the fair value measurements.

Transition:
Further Optionality Concerns Investors
The ED proposes to allow an entity to use the fair value of a bearer plant 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 (i.e. fair value at the transition date). Or, an entity may use the original cost less amortization to the date of transition (i.e. historical amortized cost.) We understand the election would be available on an item-by-item (i.e. by bearer plant) basis.

We have concerns over the transition optionality provided under the proposal as this would create comparability issues not only between entities (i.e. historical amortized costs or fair value at the transition date) but within an entity (i.e. on an item-by-item basis). This transition provision combined with the optionality provided under IAS 16 exacerbates comparability issues.

Conclusion:
Proposal Does Not Improve Accounting for Bearer Plants from an Investor Perspective
We do not believe the current proposal is an improvement in the accounting for bearer plants. Indeed, we believe it would reduce the quality of decision-useful information provided to investors in entities engaged in such agricultural activities. The proposal seeks to eliminate from measurement and disclosure the most relevant information – fair value – for investors.

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Thank you again for the opportunity to comment on the ED. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

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