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Dear Hans,

ED/2013/8 Agriculture: Bearer Plants – Proposed Amendments to IAS 41 and IAS 16

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IASB's ED mentioned above. We appreciate the opportunity to comment on the proposals in this ED.

Generally, we support the idea of not measuring biological assets at fair value through profit or loss (less cost to sell) if they are no longer undergoing biological transformation and if there is no intention for them being sold or harvested as agricultural produce. We also support the idea of biological assets meeting that condition to be accounted for under IAS 16.

However, we are not yet convinced that the scope of the proposed amendments comprising bearer plants only is appropriate. Implicitly, the ED aims at dividing biological assets into two groups, one being measured at fair value through profit or loss less cost to sell under IAS 41 and the other being measured under IAS 16. We consider this appropriate, in particular against the background that the transformation process of a biological asset – being the main reason for its measurement at fair value less cost to sell – is of lesser importance and/or may even end. Given this, we provide the following example of other biological assets that would also warrant being accounted for differently from IAS 41, in particular not being measured at fair value:



Livestock: We believe that, under certain circumstances, livestock can be similar to bearer plants. This is the case if e.g. livestock is used for breeding. So far, though, livestock is not in the scope of the amendments. We doubt whether this is conceptually sound. We understand the arguments given in ED.BC11 et seq. that (a) liquid markets and, thus, fair values are usually available for livestock, or (b) that there might often be an alternative use for livestock as consumable biological assets, or (c) cost as an alternative to fair value would be too complex. However, we doubt that these arguments uniquely apply to livestock and why they do not equally apply to plants, too. Further, these arguments may not override the fundamental rationale for the proposals, which is that fair value is not appropriate because a (bearer) plant is no longer undergoing biological transformation and will henceforth be used for reproduction only, and which holds for certain livestock, too. To sum up, from a conceptual perspective, certain livestock (e.g. livestock for breeding) should also be in the scope of the proposed amendments and be treated similarly to bearer plants.

Having said this, we conclude with a very general suggestion: As the scope of IAS 41 and the measurement of biological assets are currently under review, this review should be undertaken from a wider perspective. i.e. should reconsider whether, and when, fair value measurement is appropriate for other biological assets and for agricultural produce. We propose and describe the example of seed production (see Appendix to this letter), which underlines that further and broader consideration would be necessary.

If you would like to discuss our views in more detail, please do not hesitate to contact me.

With kind regards,

Liesel Knorr

President



Appendix – Example of Seed production:

- If plants are grown to be harvested for their seed, we understand those plants are not in the scope of the ED. If so, they are still accounted for under IAS 41, i.e. measured at fair value through profit or loss less cost to sell. However, we believe that this is questionable and believe that the board should clarify this important but narrow question within the amendment.
- The predominant part of the seed business is depending on patent protected intellectual property (IP). Farmers in general use seeds for their production process which they are not allowed to reproduce. They have to acquire the seeds from third parties which own the relevant IP for the specific seed.
- The price that farmers pay for such seeds depends predominantly on the seed characteristics, e.g. whether the wheat that will grow out of the seed will have a much higher tolerance for a very dry and hot environment in the summer, yet be also resistant to very low temperatures (frost) in spring. Furthermore, the ability to cope with (or fit to) certain herbicides or fungicides – or, even better, with a “built in” ability to be resistant against certain pest infestation – determines the potential selling price for the seed producers.
- Thus, the price for those seeds depends much more on the ability of the seed resulting out of the implemented IP than on the fact that the seed was generated out of a harvested plant.
- Companies who own the relevant IP spend high amounts on research and development to generate new characteristics inherent in seeds to be suitable for use in another agricultural environment or to generate a higher crop yield. The costs for growing the seed (pure biological transformation) may be less than 5% of the overall selling price.
- Similarities might be found in the software industry. A CD-ROM (seed) is necessary to transport the IP (software programme/characteristics of the seeds) to the customer to be able to make use of it. As the predominant selling price is paid for the IP and not the CD-ROM, it has to be accounted for under IAS 38.
- Thus, for those plants to generate seeds (being a "biological asset" as defined by IAS 41) as well as for the seed itself (being an "agricultural produce" as defined by IAS 41), the general rationale that fair value best reflects the "effects of changes brought about by biological transformation" (IAS 41.B14) does not appear to be valid. Its economic use, which is deemed to be reflected by the fair value of the seed, does not depend on changes resulting from biological transformation, but rather on the value of that seed for the buyer when putting it into a subsequent agricultural production process. Consequently, as the scope of IAS 41 and the measurement of biological assets are currently under review, this review should be undertaken from a wider perspective. Given this example, such a wider, yet still limited review should reconsider whether, and when, fair value measurement is appropriate for other biological assets.