

The Secretary General
International Accounting
Standards Committee
166 Fleet Street
GB-London EC4A 2DY

Basel, January 14, 2000

Dear Sir,

CL 5

Comments on E65, Agriculture

We thank you for the opportunity to provide our comments on the Agriculture E65.

This Exposure Draft does not directly affect us, and consequently we limit ourselves to general remarks only. Nevertheless it is an important IAS-Draft, because it is the second one that attempts to apply (i) a ***full fair value*** approach to non financial assets with (ii) a ***direct recognition*** of all fair value changes in the ***income statement***. We ***strongly oppose*** this measurement and recognition method which does not reflect the interests of the users of financial reports.

The determination of fair values for biological assets is often very ***unreliable***. In the cases of only one or two harvests per year large price movements between harvests can be observed, caused by small trading volumes. In such cases, market prices are not a reliable basis for fair values of growing goods. Moreover, during their growth, biological assets cannot be assessed by a market price, because very often there is no market for “unfinished” commodities (e.g. green oranges).

Another difficulty arises from the fact, that even if a fair value could be determined, ***large risks*** are prevalent until harvest (recent example in Europe: growing timber). This is an important difference to financial assets and liabilities which are traded in regulated markets. Their default risk is much smaller. The potential of diseases and natural disasters mislead the user if fair values of biological assets are recognised in the balance sheet. The range goes from smaller percentages of lost assets to total damage of all biological assets of a company. This is especially the case in branches with very long growth periods (e.g. timber).

Even more, fair value will definitely create difficulties if ***all changes*** of fair values are directly recognised in the income statement. The fair value method originates from financial

products, which have a relatively small default risk. Applied to biological assets, in many cases price risks and the harvest risk will result in ***unrealistic income statements***. Also, we reaffirm our belief that realisation is an important criterion for the recognition of earnings, and the continued drive to recognise unrealised gains as income can only lead to imprudent and unreliable financial statements.

We hope that you will at least offer more appropriate, conventional alternative accounting treatments in the final standard.

Yours faithfully

F. Hoffmann-La Roche Ltd

Erwin Schneider

Alan Dangerfield