

Sir Bryan Carsberg

Secretary General, IASC

CL 12

AGRICULTURE

Dear Sir Carsberg,

I am pleased to submit you, on behalf of the Joint International Committee of CNDC and CNR, the following comments to the Exposure Draft “Agriculture”.

General considerations

We are pleased to respond to the IASC invitation to comment with respect to the Exposure Draft “Agriculture”.

First of all, we wish to express our appreciation of the proposed accounting approach.

Undoubtedly, the fair value method is a very appropriate accounting method to measure biological assets.

However, we believe that it is necessary to precede and integrate our comments with some major premises.

Firstly, it is opportune to stress that the applications we have proposed in our comments do not consider the EC IV Directive requirements. The accounting Directive sets out an historical accounting model and, consequently, it is not allowed to prepare financial statements according to other criteria.

Due to this, it is clear that most of the requirements within the Exposure Draft can not be applied not only by Italian financial statements preparers but also by most of European Union Members.

The responses included in the below document are based on logical considerations and on the possibility to represent faithfully companies transactions and events.

Secondly, We have addressed the following Exposure Draft as a part of a process intended to create a fair value accounting model.

It is obvious that some accounting treatments adopted by this Exposure Draft depend on the possibility to apply fair value to determine financial statements items.

This implies that some responses are unavoidably connected to the comments we provided in relation to the Discussion Paper “Financial Reporting Performance”. It is, at the same time, clear that if the discussion about the best way to measure enterprises performance followed other

treatments, the requirements adopted in this document should be reviewed, and consequently our responses as well.

Q1 – Scope: Further processing after harvest (paragraphs 4-7 and 36).

Do you:

- (a) agree that the final standard should not address the further processing ? If so, do you believe that the guidance in paragraphs 4 – 7 for distinguishing between agricultural activity and further processing is adequate; or*
- (b) believe that the final standard should address further processing ? If so, what method of accounting do you propose ?*

We believe that the document should not deal with further processing of agricultural produce - response (a). In addition, we would suggest to deal separately with those biological assets that appreciate in value through time.

Q2 – Biological assets: measure at fair value (paragraphs 21 – 36).

Do you believe:

- (a) all biological assets should be measured at each balance sheet date at fair value
agricultural produce should be measured at fair value at the point of harvest;*
- (b) biological assets should be measured at cost until harvested, and then
agricultural produce should be measured at fair value at the point of harvest; or*
- (c) all biological assets and agricultural produce should be measured at cost ?
if you prefer (b) or (c) above, please explain how cost would be determined.*

As previously stated, we believe the fair value is the best way to measure all biological assets – response (a). Rarely it could be not easy to measure biological assets. In those circumstances, it could be allowed to make use of contract prices as benchmark.

Q3 – Reliability of fair value measurement (paragraphs 21 – 31).

Do you believe that:

- (a) a reliable estimate of fair value can be determined for (i) biological assets and (ii) agriculture produce at point of harvest; and*
- (b) a reliable estimate of fair value can usually be determined, and even if at times, fair value cannot be determined to a very high degree of precision, neither can cost, and on balance and estimate of fair value should be required; or*
- (c) fair value sometimes cannot be determined reliably, and the cost basis should be used ? If this is your view, please identify circumstances in which fair value cannot be determined reliability and explain, in such cases, (i) how cost could be determined reliably and (ii) how cost of biological assets and agricultural produce is relevant to the users of the financial statements of an enterprise engaged in agricultural activity.*

We are of the opinion, as indicated in Question 4, that it is difficult that it is not possible to measure reliably biological assets. Even in situations in which it does not exist an active market for a biological asset, benchmark values are usually available.

As stated in the premise, we believe that fair value provides a very appropriate biological activities estimate. Besides this, the problem concerns the possibility to apply fair value to financial statements items. With regard to this, this response has to be integrated with what expressed in relation to Question 5 relating to the definition of fair value.

Q4 – Fair value change in net profit or loss (paragraph 22)

If biological assets are measured at fair value, do you believe that the change in fair value should be:

- (a) reported entirely in net profit or loss for the period;*
- (b) reported entirely in equity until the asset is sold or consumed, at which time it should be removed from equity and reported in net profit or loss for the period;*
- (c) reported entirely in equity until harvest, at which time it should be removed from equity and reported in net profit or loss for the period;*

- (d) *reported in net profit or loss only to the extent of the physical change component; the price change component should be reported directly in equity until the asset is sold or consumed (or possibly until harvest); or*
- (e) *reported entirely in equity and, thereafter, never reported in net profit or loss for any period ?*

We think answer (a) is the most appropriate.

However, it is to be underlined that, also in this case, the question has to be included in the wider discussion concerning the fair value application. The answer takes in account this consideration.

Q5 – Definition of fair value.

Do you believe that:

- (a) *price in an active market in the assets' intended location of sale or use is always the best measure of fair value; or*
- (b) *sometimes price in such a market should be adjusted to determine fair value ? If so, under what circumstances and how should such market price be adjusted ?*

As previously indicated, We agree with the consideration to use fair value with regard to biological assets. However, there are lots of circumstances in which pre-selling costs are very relevant. Due to this, we believe that it should be more adequate to deduct pre selling costs from fair value and address net selling prices in place of fair value, as specified in IAS 36, *Impairment of Assets*.

Q6 – Agricultural land: follow IAS 16 (paragraph 38)

Do you believe that:

- (a) *IAS 16 should apply to agricultural land;*
- (b) *all agricultural land should be measured at fair value, either separately or as part of a combined group that includes the land and related bearer biological assets;*
- (c) *only agricultural land that is a part of combined group that includes the land and related bearer biological assets should be measured at fair value;*

(d) enterprises should be permitted or encouraged to measured agricultural land at fair value, but not required; or

(e) all agricultural land should always be carried at cost, that is, the revaluation alternative of LAS 16 should be prohibited ?

We are of the opinion that the principles indicated in (a) are the most adequate.

It could be useful to provide disclosures regarding the event or transition generating value increases or decreases in notes; e.g., if this is due to market forces or management activities.

Q7 – Government grants (paragraphs 41 – 44)

Do you:

(a) agree that the grant should be recognised as income immediately if it is unconditional;

(b) believe that the grant should be amortised into income over the life of the biological asset (if this Exposure Draft were silent on this matter, amortisation would automatically become the requirement under LAS 20, Accounting for Government Grants and Disclosure of Government Assistance); or

(c) believe that the grant should reduce the carrying amount of asset so that the carrying amount is below the fair value of the biological asset ? if so, would that reduction continue as long as the asset is held ? Would it be amortised ?

We support that grants are immediately recognised as income, especially in consideration to the fact the discussion is included in a fair value accounting model.

Q8 – Components of biological assets (paragraph 46 – 47)

Do you believe that:

(a) the proposal set out in this Exposure Draft is the appropriate way to accomplish the objective of providing information about nature and stage of production of biological assets;

- (b) separate disclosure of the quantified consumable and bearer components of the carrying amount of each group of biological assets should be required;*
- (c) separate disclosure of the quantify mature and immature components of each group of consumable and of each group of bearer of biological assets should be required; or*
- (d) subdivisions of biological assets other than a consumable-bearer split and a mature-immature split might provide better information about an enterprise's biological assets in some or all cases and, if so, which type of subdivision(s) and in which case(s) ?*

We believe that the proposal set out in this document is appropriate - response (a). Disclosures are sufficiently precise and applicable both by large and small companies.

Q9 – Do you believe that if the production cycle is longer than one year:

- (a) an enterprise should be required to disclose separately the components of the change in fair value of its biological assets due to physical changes and price changes;*
- (b) an enterprise should be encouraged, but not required, to disclose separately the physical and price components of the change in fair value of its biological assets; or*
- (c) separate reporting of the physical and price change components should be prohibited because they usually cannot be measured reliably ?*

The answer (a) is believed the most appropriate.

Q10 – Guidance on components of change in fair value (paragraphs 56-58)

If you answered Question 9 either “a” or “b”, do you believe that:

- (a) the guidance for making the split in paragraphs 56-58 is adequate; or*
- (b) the guidance for making the split in paragraphs 56-58 is inadequate and, if so, how would you modify it ?*

We believe the provided guidance is adequate.

Q11 - Analysis of expenses (paragraphs 59-60)

Would you:

- (a) require classification by nature of expense;*
- (b) encourage but not require classification by nature or expense; or*
- (c) allow each enterprise to decide whether to classify by nature or function ?*

The Italian income statement format is classified by nature. Besides this, We believe, as answer (c) states, that, classifications both by nature and function should be allowed. This is allowed the by IV Directive as well.

Q12 - Disclosures in general (paragraphs 44-67)

Do you believe that the disclosures proposed in those paragraphs:

- (a) are about right ?*
- (b) are excessive (please indicate which one(s) you would eliminate and reasoning); or*
- (c) are insufficient (please indicate your proposed addition(s) and reasoning) ?*

We do not find material gaps in the disclosures within the Discussion Paper. We believe they are about right.

Q13 – Present value sensitivity disclosure (paragraph 64(c))

Do you believe that:

- (a) such sensitivity disclosure should be required (and, if so, please indicate what type of disclosure should be required)*
- (b) such sensitivity disclosure should not be required ?*

Answer (b).

Q14 – Transition: Follow LAS 8 (paragraph 69)

Do you believe that:

- (a) both the benchmark and the allowed alternative treatments under LAS 8 should be permitted when an enterprise adopts this Standard;*
- (b) only the benchmark of LAS 8 should be allowed by this Standard;*
- (c) only the allowed alternative of LAS 8 should be allowed by this Standard;*
- (d) the adjustment to biological assets to adopt this Standard should be amortised over the estimated remaining life of the biological assets; or*
- (e) some other transition is appropriate (please specify) ?*

The issue is already been treated in relation to the Discussion Paper: Financial Reporting Performance. In that circumstance, we opted for the retrospective application with restatement of prior period. This is probably the hardest way to adopt but, at the same time is the only one that allows to present the effects of voluntary changes in a correct way.

Q15 – Matters not covered by a specific question

We believe the proposed questions address the most relevant aspects and that there are nothing important to add to what already discussed.

Yours sincerely,

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(Head, Int. Affairs)