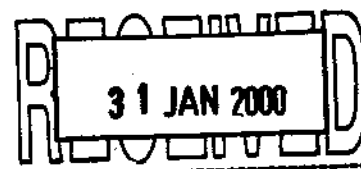




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January 28, 2000



Sir Bryan Carsberg
The Secretary-General
International Accounting Standards Committee
166 Fleet Street
LONDON EC4A 2DY
United Kingdom

Dear Sir,

Re: Exposure Draft E65: Agriculture

Deloitte Touche Tohmatsu and its Member Firms are pleased to comment on the Exposure Draft *Agriculture* ("E65" or "the Exposure Draft") issued by the IASC.

We support the issuance of a new Standard on this topic. We support the general concept that agriculture should be reported at fair value, and with much of the guidance in the Exposure Draft. However, we have a number of concerns in relation to the content of the proposed Standard.

Recognition of changes in fair value for agriculture

We are concerned that, while the significant issues in relation to the reporting of financial performance remain unresolved, it is inappropriate that fair value of biological assets and agricultural produce be incorporated into the income statement when a reliable measure of fair value cannot be established and there is uncertainty as to the ultimate realisation of the revenue. We believe changes in fair value should only be incorporated into the income statement when the fair value has been determined reliably and the biological asset has been harvested. Under current practice, financial performance is generally regarded as excluding unrealised gains and losses on non-financial assets. The topic is the subject of debate at present – focussing on the expansion of the view as what constitutes financial performance and exploring the possibility of an expanded performance statement that would combine gains and losses of varying types, appropriately classified and generally understood. Within that new framework, we believe that it would be acceptable for unrealised gains and losses on biological assets

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and agricultural produce to be included in the expanded performance statement. We believe, in certain instances, that inclusion of such gains and losses in the income statement prior to the resolution of the wider issues in relation to financial performance, and without simultaneously including other items of a similar nature, will mean that they are likely to be misunderstood and may lead to inappropriate decision making.

Ideally, we would see such movements as forming one element of reported performance in the single statement of financial performance (the statement of comprehensive income) envisaged in the G4+1's current position paper on this topic. Prior to the formalisation of the wider concept of financial performance, we do not believe that unrealised gains and losses that result from changes in the fair value of biological assets and agricultural produce should be included in the income statement when a reliable fair value measure cannot be established and the ultimate realisation of revenue is uncertain (e.g., prior to harvest). We believe these changes should be recognised in equity through the statement of changes in equity – and accounted for in the manner described in paragraphs 37 and 38 of IAS 16 (Revised 1998) *Property, Plant and Equipment*, with recycling in the income statement of accumulated changes in fair values previously recognised in equity when the asset is disposed of.

We would consider this to be an interim solution only, which will need to be readdressed, along with several other Standards, when the outstanding issues in relation to reporting financial performance and measurement of fair values have been resolved.

Discussion of fair value in the proposed standard

Although we support the fair value concept for agriculture, we would only support such a concept if reliable or reasonable measures of fair value could be established. We believe fair value is a reliable measure if the asset is readily convertible into cash, the asset has a high certainty of realisation, there is a ready market for the asset and there is a readily determinable market price for the asset. We also believe that there are recognised methodologies for the establishment of reasonable measurements of fair value for biological assets and agricultural produce when reliable measurements are not available. We believe enterprises generally should be able to obtain sufficiently reasonable and comparable estimates of fair value for biological assets and agricultural produce so as not to undermine the reliability of the financial statements. As discussed above, we believe that changes in fair value as a result of reasonable measurements (when reliable is not available) should be recognised in equity through the statement of changes in equity until a single statement of financial performance is formalised.

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Given the significance of the concept of fair value in the context of agriculture and the potential difficulties that may be encountered in implementing this proposed standard, we believe that the discussion of fair value in the proposed Standard should be considerably expanded.

We believe that the proposed Standard should contain:

- a general discussion of the concept of fair value, and of the issues surrounding reliability and relevance of measurement;
- a considerably expanded discussion of the characteristics of the common methodologies used for the estimation of fair values; and
- guidance as to the methodologies that are acceptable for the estimation of fair values for the purposes of financial reporting.

We attach as an appendix to this letter our responses to the specific questions raised in the Exposure Draft, including a detailed discussion of the matters referred to above.

If you have any questions concerning our comments, please contact Mr. John T. Smith at (203) 761-3199.

Very truly yours,

Deloitte Touche Tohmatsu

Question 1 – Scope: Further processing after Harvest (paragraphs 4-7 and 36)

We support view (a). We agree that the final Standard should not address the further processing and that paragraphs 4-7 adequately distinguish between agricultural activity and further processing. We also agree that IAS 2, *Inventories*, would adequately address the accounting issues surrounding the further processing of biological assets.

Question 2 – Biological Assets: Measure at Fair Value (paragraphs 21 and 36)

We support view (a). We believe all biological assets should be measured at each balance sheet date at fair value and agricultural produce should be measured at fair value at the point of harvest contingent upon the ability to determine fair value as discussed in our response to question 3.

Question 3 – Reliability of Fair Value Measurement (paragraph 21 -31)

We do not believe that reliable estimates of fair value can always be determined for (i) biological assets and (ii) agricultural produce at the point of harvest. However, we do believe that reasonable estimates of fair value may be determinable.

We believe that the Board should:

- make the guidance on what constitutes a reliable fair value more stringent; and
- provide guidance on how a reasonable fair value estimate can be obtained when a reliable measure is indeterminable or unavailable.

Although the proposed standard addresses some of the points below, we believe the proposed standard should indicate that fair value is a reliable measure only if:

- The asset is readily convertible to cash;
- The asset has a high certainty of realisation;
- There is a ready market for the asset; and
- There is a readily determinable market price for the asset.

In situations where the above factors cannot be met, we believe that there are recognised methodologies for the establishment of reasonable and comparable estimates of fair value for biological assets and agricultural produce. Therefore, an enterprise may be able to determine an estimated fair value for biological assets and agricultural produce that is sufficiently reasonable and comparable so as not to undermine the reliability of the financial statements. We support the inclusion of

such measurement on the balance sheet because it represents an acceptable balance between the qualitative characteristics of information to be provided in the financial statements, particularly reliability, relevance and comparability.

In situations where reasonable fair value measurements cannot be determined, we support using cost as the best alternative to fair value.

Question 4 – Fair Value in Net Profit or Loss (paragraphs 22)

We give qualified support to view (c) which states that a change in fair value of a biological asset should be reported entirely in equity until harvested, at which time it should be removed from equity and reported in net profit or loss for the period. We give qualified support to view (c) because we believe that a change in fair value should only be recognized in an enterprise's net profit and loss if both of the following two criteria have been met. The criteria are:

1. the fair value has been determined reliably as defined in our response to question 3, and
2. the biological asset has been harvested.

We do not believe it is appropriate to recognize changes in fair value of biological assets in the income statement prior to their harvest due to the potential uncertainties surrounding the ultimate realisation of the revenue. If, after harvest, a reliable fair value measurement cannot be determined, we believe that in most instances a reasonable fair value estimate can be determined and that the related changes in reasonable fair value estimates should be recognised in equity (through the statement of changes in equity). We believe this view is consistent with other views recently adopted in IAS 38, *Intangible Assets*, and IAS 39, *Financial Instruments: Recognition and Measurement*, and is also consistent with our views on E64, *Investment Property*.

Under the current reporting framework, income related to changes in carrying amount of non-financial assets because of changes in fair values is not recognised in the income statement until the earning process is complete. This principle reflects the traditional wisdom that only realised gains and losses should be reflected in the income statement and a restricted view of what constitutes financial performance. Although the recognition in income of unrealised gains and losses on financial assets (particularly trading instruments) is achieving wider acceptance, such recognition for non-financial assets would represent a major change in practice. We believe, however, that if all the criteria as discussed in our response to this question and question 3 are met, it would be acceptable to recognise the change in fair value in the income statement. These biological assets, meeting the criteria as discussed, would be very similar in nature to financial assets.

The topic of reporting financial performance is in a key transitional phase. Current debate focuses on broadening the view as to what constitutes financial performance,

and the proposed introduction of an expanded performance statement. That expanded performance statement would combine gains and losses of varying types, appropriately classified and generally understood. Within that new framework, we believe that it would be acceptable for unrealised gains and losses resulting from changes in reasonable fair value estimates to be included in the expanded performance statement. However, we believe that inclusion of unrealised gains and losses resulting from changes in reasonable fair value estimates in the income statement prior to the resolution of the wider issues in relation to financial performance, and without simultaneously including other items of a similar nature, will mean that they are likely to be misunderstood and may lead to inappropriate decision making.

Ideally, we would see changes in reasonable fair value estimates of biological assets and agricultural produce as forming one element of reported performance in the single statement of financial performance (the statement of comprehensive income) envisaged in the G4+1's current position paper on this topic. With the introduction of that expanded statement, users of financial statements would appreciate that performance for the period was made up of a number of elements, each having a different nature. Valuation movements of biological assets and agricultural produce would be included with items of a similar nature and would be assessed as one element of a more broadly defined measure of financial performance.

Prior to the formalisation of the wider concept of financial performance, we do not consider that such gains and losses resulting from changes in reasonable fair value estimates should be included in the income statement. We believe that they should be recognised in equity (through the statement in changes in equity). We would consider this to be an interim solution only, which will need to be readdressed, along with several other Standards, when the outstanding issues in relation to reporting financial performance and measurement of fair values have been resolved.

We appreciate the desire to reach a conclusion that is theoretically sound, and the desire to reflect all aspects of biological transformation performance in the income statement. However, there are major issues unresolved in relation to the proposed treatment and it would be untimely to fully adopt the treatment proposed prior to the resolution of those issues.

We have considered whether the proposed Standard should allow an alternative similar to that allowed for non-trading financial instruments under IAS 39 (ie. whether the enterprise should have an alternative as to whether changes in the fair value of biological assets and agricultural produce are reflected in the income statement or in equity). In general, we do not support the introduction of alternatives into the IASC literature, because they undermine the comparability of financial statements. We do not believe that the case with biological assets and agricultural produce justifies the introduction of such an alternative and consequently would not support any such proposal.

Question 5 – Definition of Fair Value (paragraph 24)

We support view (a). We believe that a price in an active market in the asset's intended location of sale or use is always the best measure of fair value view provided the characteristics of the assets are the same.

Question 6 – Agricultural Land: Follow IAS 16 (paragraph 38)

We support view (a). We believe that IAS 16, *Property, Plant and Equipment*, adequately addresses the accounting for land. Accordingly, this proposed standard should not specifically address the accounting for land. However, we do believe that the International Accounting Standards Committee should consider removing the alternative in IAS 16 that allows for the revaluation of land.

We note that in some cases it may be extremely difficult to value growing biological assets separately from the land, because the location and topography of the land, as well as the soil content, is inextricably linked to agricultural output. In situations such as these, we are concerned that if land and biological assets are valued separately, their combined fair values may be in excess of the fair value that would be derived if the land and the biological assets had been valued together as one item.

Question 7 – Government Grants (paragraphs 41-44)

We support view (b). We believe that IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, adequately addresses the accounting for governmental grants. Accordingly, this proposed standard should not specifically address the accounting for government grants.

Question 8 – Components of Biological Assets (paragraphs 46-47)

We support view (a). We believe the proposal set out in this Exposure Draft is the appropriate way to accomplish the objective of providing information about the nature and stage of production of biological assets. We believe it is important for the reader to be able to assess the magnitude of the carrying amounts of biological assets that are mature and immature. These disclosures would allow the reader to better understand the uncertainty and potential risks associated with the ultimate realisation of immature biological assets.

Question 9 – Components of Changes in Fair Value

We support view (b) that an enterprise should be encouraged, but not required to disclose separately the components of the change in fair value of its biological assets.

Question 10 – Guidance on the Components of Changes in Fair Value (paragraph 56-58)

We support view (a). We believe the guidance for making the split in paragraphs 56-58 is adequate.

Question 11 – Analysis of Expenses (paragraphs 59-60)

We support view (c) that would allow each enterprise to decide whether to classify expenses by nature or function.

Question 12 – Disclosures in General (paragraphs 44-67)

We agree with view (a) that the proposed disclosures are adequate.

Question 13 – Present value Sensitivity Disclosure (paragraphs 64(c))

We agree with view (b) that such sensitivity disclosure should not be required.

Question 14 – Transition: Follow IAS 8 (paragraph 69)

We support view (b) that only the benchmark of IAS 8 should be allowed by this Standard.

Question 15 – Matters not covered by a specific question

None identified.