

INDUSTRIE-HOLDING

VEREINIGUNG SCHWEIZERISCHER INDUSTRIE-HOLDINGGESELLSCHAFTEN
GROUPEMENT DE HOLDINGS INDUSTRIELLES SUISSES
FEDERATION OF SWISS INDUSTRIAL HOLDING COMPANIES

CL 7

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

14 January, 2000

Comment letter on Agriculture E65

Dear Sir,

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

A. General Remarks

This Exposure Draft does not directly affect our members, which are mainly companies in the industry and service sector. Nevertheless this is an important IAS-Draft, because it is the second one that applies (i) a **full fair value** approach to non financial assets with (ii) a **direct recognition** of all fair value changes in the **incomes statement**. This measurement and recognition method is **strongly opposed** by the large majority of IAS-preparers and 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 clearwood). 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. wood).

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**.

B. Responses to specific questions in E65

AGRICULTURE	COMMENTS
Question 1 – Scope	
<p>Do you</p> <p>(a) agree that the final Standard should not address the further processing? If so, do you believe that the guidance in § 4-7 for distinguishing between agricultural activity and further processing is adequate; or</p>	<p>Yes, guidance is adequate.</p>
<p>(b) believe, that the final Standard should address further processing?</p>	<p>No</p>
Question 2 – Biological assets: measure at fair value	
<p>Do you believe</p> <p>(a) 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?</p>	<p>No. It does not make sense to measure all biological assets at fair value before harvest. There is no fair value e.g. for green oranges. What exists as a benchmark in some branches are Futures before the harvest. But these do not refer to „unfinished products“. Another difficulty arises with cyclical effects (e.g. caused by low transaction volumes between harvests). Realistic evaluation of the value of growing biological assets reflects the expected market situation of the future harvest. Current prices between harvests are only one indicator among many others. Furthermore, agricultural assets are confronted with considerable „default“ risks (diseases, natural disasters).</p>
<p>(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</p>	<p>Yes</p>

(c) all biological assets and agricultural produce should be measured at cost?	No
Question 3 – Reliability of fair value measurement	
Do you believe that (a) a reliable estimate of fair value can be determined for (i) biological assets and (ii) agricultural produce at point of harvest;	i) No ii) Yes
(b) a reliable estimate of fair value can usually be determined, and even if, at times, fair value cannot be determined at a very high degree of precision, neither can cost, and on balance an estimate of fair value be required; or	No. Costs are much easier to determine for biological assets and represent all inputs (e.g. seeds, fertilizer etc.).
(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 reliably and explain, in such cases, (i) how cost be determined reliably and (ii) how cost of biological assets and agricultural produce is relevant to the user of the financial statements of an enterprise engaged in agricultural activity.	As already mentioned, very often fair value cannot be measured reliably.
Question 4 – Fair value change in net profit or loss	
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;	No
(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;	Yes

(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;	No
(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 possible until harvest); or	No
(e) reported entirely in equity and, thereafter, never reported in net profit or loss for any period?	No
4: Additional Question If you support one of those alternatives, please indicate clearly whether you do so because you do not believe that fair values can be measured reliably prior to a "realisation" event or because you do not believe that the change in fair values of biological assets prior to realisation is the most appropriate indicator of the performance of an enterprise engaged in agricultural activities.	Both is true.
Question 5 – Definitions of fair value	
Do you 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; or	Yes, theoretically. But very often, active markets with transparent prices do not exist.
(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?	No. Unfortunately, market prices have cyclical patterns with high volatilities. However, any smoothing would be very arbitrary and therefore not advisable.

Question 6 – Agricultural land	
Do you believe that: (a) IAS 16 should apply to agricultural land;	Yes
(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;	No
(c) only agricultural land that is part of a combined group that includes the land and related bearer biological assets should be measured at fair value;	No
(d) enterprises should be permitted or encouraged to measure agricultural land at fair value, but not required; or	No
(e) all agricultural land should always be carried at cost, that is, the revaluation alternative of IAS 16 should be prohibited?	No
Question 7 – Government grants	
Do you (a) agree that the grant should be recognised as income immediately if it is unconditional;	Yes
(b) believe that the grant should be amortised into income over the life of the biological asset (if this ED were silent on this matter, amortisation would automatically become the requirement under IAS 20); or	No
(c) believe that the grant should reduce the carrying amount of an 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?	No

Question 8 – Components of biological assets	
<p>Do you believe that:</p> <p>(a) the proposed 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;</p>	<p>Yes, if the disclosure requirements are limited to a narrative description.</p>
<p>(b) separate disclosure of the quantified consumable and bearer components of the carrying amount of each group of biological assets should be required; or</p>	<p>No</p>
<p>(c) separate disclosure of the quantified mature and immature components of each group of consumable and each group of bearer biological assets should be required; or</p>	<p>No</p>
<p>(d) subdivisions of biological assets other than a consumable-bearer split and a mature-immature split might provide better information about the biological assets of an enterprise in some or all cases and, if so, which type of subdivision(s) and in which case(s)?</p>	<p>No</p>
Question 9 – Components of change in fair value	
<p>Do you believe that if the production cycle is longer than one year:</p> <p>(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;</p>	<p>No. In general this is an unrealistic approach, because the two effects are linked or offset each other (e.g. market prices increase because large portions of the future harvest are physically damaged). In such cases identification of the two components are arbitrary.</p>
<p>(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</p>	<p>Yes, companies should be allowed to make this distinction, but only if it is possible to identify the changes of the two components.</p>

(c) separate reporting of the physical and price change components should be prohibited because they usually cannot be measured reliably?	No
Question 10 – Guidance on components in fair value	
If you answered Question 9 either (a) or (b), do you believe that: (a) the guidance for making the split in §56-58 is adequate, or	Yes
(b) the guidance for making the split in § 56-58 is inadequate and, if so, how would you modify it?	No
Question 11 – Analysis of expenses	
Would you (a) require classification by nature of expense	No
(b) encourage but not require classification by nature of expense; or	No
(c) allow each enterprise to decide whether to classify by nature or function?	Yes. This should be decided by the company.
Question 12 – Disclosures in general	
In addition to your responses to those questions (8-10), do you believe that the disclosures proposed in those paragraphs: (a) are about right;	No
(b) are excessive	Yes. All fair values for biological assets should be excluded.
(c) are insufficient	No

Question 13 – Present value sensitivity disclosure	
Do you believe that: (a) such sensitivity disclosure should be required; or	No. This approach cannot solve the general problems of fair value in agricultural commodities
(b) such sensitivity disclosures should not be required?	Yes
Question 14 – Transition	
Do you believe that: (a) both the benchmark and the allowed alternative treatments under IAS 8 should be permitted when an enterprise adopts this Standard;	Yes
(b) only the benchmark of IAS 8 should be allowed by this Standard	No
(c) only the allowed alternative of IAS 8 should be allowed by this standard	No
(d) the adjustment to biological assets to adopt this Standard should be amortised over the estimated remaining life of the biological assets; or	No
(e) some other transition is appropriate?	No
Question 15 - Matters not covered by specific questions The foregoing questions do not deal with all of the principles proposed in this Exposure Draft. If you disagree with a proposed principle, we particularly invite you to explain the reasons for your disagreement and to propose and defend an alternative principle that the IASC board should consider.	One problem of the Draft is the fact, that there is no clear cut distinction between heterogeneous products/assets and actively traded commodities. With heterogeneous products it is impossible to determine a reliable and objective fair value.

Yours sincerely,

**Federation of Swiss Industrial
Holding Companies**

(originally signed by)

Dr. Arnold Knechtle

Jan Atteslander

E65-14-1-00.doc