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Sir Bryan Carsberg
Secretary General
IASC
166 Fleet Street
GB-LONDON EC4A2DY

Düsseldorf, 31 January 2000

Dear Sir Bryan,

E65 Agriculture

We are pleased to submit our comments on the Exposure Draft E 65 Agriculture and would like to start with some general comments before answering specific questions.

General Comments

The need for a separate standard

The Exposure Draft defines agricultural activity as the management of the transformation of living animals and plants into agricultural produce. In our view, the management of this transformation is not so unique, nor is it sufficiently different from the management of usual manufacturing processes to justify a separate standard. The fact that sunshine, air and sometimes water are “free of charge” is also not a reason to require special accounting rules for agricultural assets.

As our answers to the specific questions will demonstrate, certain issues relating to the presentation of assets in the balance sheet, of income or expenses in the income statement, and of discontinuing operations may be solved within existing standards.

Fair value

Within the context of the deliberations with regard to Investment Properties the IASC Board had discussed fundamental issues relating to a general application of fair value. The Board came to the conclusion that an obligation to apply only fair value would not be acceptable.

Consequently, an obligation to apply only fair value for biological assets would not be consistent with this decision. In contrast to Investment Properties, we also do not believe that the application of fair value for biological assets should be an accepted accounting treatment.

Biological assets are fundamentally different from investment properties because investment properties represent assets that yield contractual cash flows over time whereas biological assets either represent inventory to be disposed of for cash or “equipment” that is used to generate services relating to an agricultural activity.

In addition the various risks associated with biological assets – even those with a short production cycle like crops or cattle – may hinder the flow of the benefits associated with the assets to the entity, e.g. the time of harvest might not be reached at all or may take place when the biological assets have not fully matured. Fair value gains are subject to the risk of being reversed because the transaction leading to the flow of benefits to the entity has not been completed.

The issue of risks relating to the flow of benefits to the entity becomes more important for slowly growing biological assets, such as oak trees. During a tree’s lifetime, which might be between 80 and 200 years, serious risks like destructive pests, storm damage or new legislation requiring that specific forests are open to the public may occur. Frequently, the fair values reported in previous periods may never lead to benefits to the entity. The longer the manufacturing cycle, the higher the risks associated with the potential benefits.

We also do not accept the argument that appropriate cost information is not available for biological assets subject to biological transformation. Appropriate cost accounting systems are usually available and are already in place to provide cost information for all kinds of biological transformations that is both reliable and relevant.

Due to these issues and bearing in mind such unsolved general problems as reliability, presentation, recycling and performance reporting in a fair value model, we are not in favour of applying the fair value model to assets other than certain financial instruments.

Question 1- Scope: further processing after harvest (Paragraphs 4-7 and 36)

We agree that the standard should not address the further processing after harvest, as the further processing is not a biological transformation.

Question 2-Biological Assets: measure at fair value (paragraphs 21 and 36)

For the reasons mentioned in our general comments, we are not in favour of the fair valuation of agricultural assets. Instead, we propose that guidance be provided on how to treat agricultural assets under the historical cost model.

To determine cost, various methods are applied in Germany, depending on the type of the biological asset and the size of the enterprise. For example, big poultry farms often have cost accounting systems in place. Small farms determine the cost using the gross profit or retail method based on “prices” issued by national authorities or the European Commission.

Question 4-Fair value change in net profit or loss (paragraph 22)

Under a fair value model it is conceptually sound to present all fair value changes directly in net profit or loss when they occur. A different presentation depending on the type of asset, financial instrument or biological asset, is hard to justify.

Question 6-Agricultural land: follow IAS 16 (paragraph 38)

We strongly support that IAS 16 apply to agricultural land because the principles used to value land should not depend on its intended use.

Question 7- Government Grants (paragraphs 41-44)

In our view, the treatment of government grants should not be addressed in this standard specifically for biological assets, but should be the subject of a general standard on this issue. This would be consistent with the standard on investment properties, in which the Board had waived providing guidance on this issue pending a standard on government grants.

Question 8-Components of biological assets (paragraph 46-47)

The distinction mature/immature is difficult to apply for cases in which harvesting is processed in various maturation levels, e.g. for trees. However the disclosure under paragraphs 46 to 49 seems to be appropriate (question (a)).

The various suggestions for disclosure requirements appear to us as being somewhat extensive. Consequently, we do not believe that any of these proposed disclosures ought to be required because the cost of these disclosures will often exceed their benefit.

Question 11-Analysis of expenses (paragraphs 59-60)

It is not evident to us as to why the presentation of the expenses by their nature should be required or encouraged: a classification based on function may also be useful.

Question 12-Disclosures in general (paragraphs 44-67)

The proposal to include a requirement that the fact that no valuation by an external independent valuer has taken place appears to be based on the view that such valuations are more verifiable than values determined otherwise. We do not share this view because an independent valuer cannot alleviate deficient verifiability of fair values. Consequently we are opposed to the requirement to disclose the fact that there has been no valuation by an external independent valuer and paragraph 64 (b) should be deleted.

The requirement under paragraph 64 (e) to disclose, for each group of biological assets, the amount of commitments for the development or acquisition of biological assets seems to be excessive.

The requirement under paragraph 64 (g) to disclose activities that are unsustainable with an estimated date of cessation of the activities is rather vague. The term unsustainable allows considerable leeway in its interpretation. The Board might consider adhering to IAS 35 Discontinuing Operations.

Question 13-Present value sensitivity disclosure (paragraph 64(c))

We would like to point out that neither IAS 32 nor IAS 39 require or suggest the disclosure of present value sensitivity data. In addition, such disclosure is not required for investment properties either. We therefore question whether it would be consistent to require or recommend such disclosures for biological assets. It should also be noted that such disclosures cannot alleviate insufficient verifiability of fair value figures.

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

We believe that the treatment in this standard ought to be consistent with the treatment in IAS 40 Investment Property.

Yours sincerely,

Klaus-Peter Naumann
Deputy Executive Officer