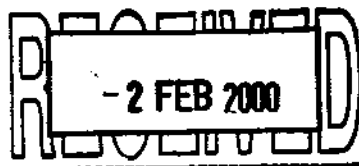


Stichting voor de Jaarverslaggeving

Raad voor de Jaarverslaggeving

(voortzetting van het Tripartiete Overleg - TO)

Opgericht 18 september 1981 door:
Verbond van Nederlandse Ondernemingen
Nederlands Christelijk Werkgeversverbond
Christelijk Nationaal Vakverbond
Federatie Nederlandse Vakbeweging
Nederlands Instituut van Registeraccountants
met medewerking van de
Sociaal-Economische Raad



International Accounting Standards Committee
The Secretary General
166 Fleet Street
LONDON EC4A 2DY
UNITED KINGDOM

Our ref. : AdK
Direct dialnr.: Tel.: (+31)20-301 0391 / Fax: (+31)20-301 0302
Date : 31 January 2000
Re : E65 Agriculture

Dear Sir,

The Netherlands Council for Annual Reporting (CAR) is pleased to respond to your request for comments on E65 Agriculture.

Yours faithfully,

Mrs Annet de Korne
Secretary

Enclosure





**Comments of Raad voor de Jaarverslaggeving
Council for Annual Reporting (CAR)
on IASC Exposure Draft 65 Agriculture**

A General comments

Set out below are our general comments and concerns relating to E65. In considering these general concerns, we believe E65 should not be issued as an IAS in its current form. We propose that two equally acceptable models are provided for agriculture, based on either:

- fair value and changes therein (where fair value can be measured reliably); or
- recoverable historical cost.

Fair value accounting

E65 proposes the mandatory measurement at fair value of all biological assets and agricultural produce at the point of harvest, with changes in fair value to be recognised in the profit and loss account.

The IASC Framework notes that financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept. The Framework does however recognise that other models and concepts may be more appropriate to meet the objectives of financial reporting "...although there is presently no consensus for change" (preface to Framework).

We recognise that fair values have increasingly been applied within the recoverable historical cost model over the past years. Although the direction towards fair values seems intuitively attractive, we are concerned with a piecemeal application of fair values in IASC standards. The mandatory introduction of fair value accounting for agricultural activity is a significant step, particularly in view of the neutral wording in the Framework with regard to the choice of measurement basis.

We believe that IASC should first address the broader issues relating to fair value accounting - including the treatment of fair value changes in the (comprehensive) income statement - and develop a consistent view on the use of fair value as part of a generic accounting model, before prescribing the application of fair values for particular assets or activities. In addition, the relationship between certain specific accounting topics and fair value accounting should be addressed in a broader manner, for example the treatment of government grants in relation to fair value accounting (refer to question 7). This will also avoid having to deal with similar issues on measurement at fair value and the treatment of fair value changes in future separate IAS's.

Influence of extensive biological transformation on E65

Our impression is that E65 is primarily inspired by "extensive" biological transformation processes with long term production cycles (forestry, plantation, extensive cattle breeding) rather than by the more "intensive" agricultural activities in existence in many parts of Northwest Europe (e.g. dairy, meat and arable/horticultural products like sugar beet, fruit, greenhouse vegetables, wine). Agriculture in these parts of Northwest Europe is generally more akin to industrial activity with relatively short production cycles than to the long term biological transformation processes found in certain other continents of the world.

We believe that issuance of a separate IAS for intensive and short-cyclical activities would not be very relevant. However, it could at the same time have a negative impact on the further development of existing reporting solutions based on cost allocation (similar to industrial accounting).

Different treatment of biological assets viz. non-biological assets employed

Although most agricultural enterprises employ both biological and non-biological assets, E65 provides for "special accounting" (fair value) for biological assets and agricultural produce at the point of harvest. This will result in different measurement bases and income recognition criteria based on a distinction that may under circumstances be artificial:

- between bearer biological assets and non-biological assets that are both employed for multiple production cycles, for example:
 - why should bushes bearing roses be measured at fair value but not the greenhouse in which roses are grown ?
 - why should breeding sows be measured at fair value but not the barn and breeding equipment that are used for the same purpose ?
- between agricultural produce at the point of harvest and further processing after harvest.

We believe that within a certain accounting model, one should strive to achieve a structured and consistent representation of all transactions undertaken by an enterprise and all events impacting it.

B Answers to specific questions raised

Notwithstanding our general comments and concerns as discussed above, our answers to the specific questions raised are as follows:

Question 1 - Scope: further processing after harvest

- (a) we agree that a final standard should not address further processing. The distinction between agricultural activity and further processing will in many cases be clear. However, as indicated in our general comments above, there may be instances where such a distinction is less relevant for measurement purposes, e.g. distinguishing the harvest of grapes (fair value) from their further processing into wine.

Question 2 - Biological assets: measure at fair value

We refer to our general comments above.

In addition, it would seem that "fair value" has a different meaning for the various categories of biological assets. For consumables and agricultural produce, fair value will be seen in the context of expected cash proceeds from their future sale on the market. This is the spirit of arguments in E65 in support of fair value.

For bearer assets, however, fair value will have a different meaning as these will not be held for sale but for the procreation of agricultural produce. Changes in fair values of bearer assets may comprise various components: degeneration/depletion due to use, price changes, status changes, changes due to short term market imperfections (supply-demand spikes). In our view, E65 does not offer compelling arguments to measure bearer assets at fair value (reflecting the various components as mentioned above) as these assets are held for the purpose of creating separable living animals, plants or products and not for trading purposes. Our impression is that the character differences between the various categories of biological assets may have been insufficiently explored to require measurement at fair value for all categories.

In view of the above and our responses to questions 3 and 4 below, we would favour allowing historical cost as an alternative measurement basis.

Question 3 - Reliability of fair value measurement

E65 presumes that reliable measures of fair values are available because markets exist for most biological assets. To assess the reliability of measurement of fair value one could again distinguish between:

- consumable biological assets and agricultural produce - fair value may be seen as the expected cash proceeds from sale and a market may be expected to exist in support of a reliable measure of fair value;
- bearer biological assets - a market does not necessarily exist for these assets or similar assets and estimates of fair value may therefore be less reliable. Where no market exists, E65 suggests using alternative methods in estimating fair value, like net present value of expected cash flows. In estimating the fair value of bearer biological assets, cash flows (generated by the expected future sale of produce) will need to be allocated to bearer biological assets and other (non-) biological assets employed in the generation of these consumable assets. Such an allocation may be extremely difficult, casting doubt over the presumption that fair values can always be determined reliably.

We therefore believe that (a) applies to consumable biological assets and agricultural produce, and (c) applies to bearer biological assets. Where fair value of bearer assets cannot be determined reliably, the cost basis should be used in a manner similar to the cost basis used for other (non-) biological assets employed in the production/generation of consumable biological assets.

Question 4 - Fair value change in net profit or loss

The question of inclusion of fair value change in the income statement is not specific for Agriculture. As set out in our general comments, this is a broader issue that we believe should be discussed in a generic sense before prescribing any particular treatment for Agriculture. This would include a discussion of the purpose of the income statement and the components to be included therein, in combination with a decision on the inclusion of a statement of comprehensive income.

In addition to our comments on bearer assets under questions 2 and 3, we seriously doubt whether all components of fair value change with regard to these assets should be included in the income statement. The fair value of a bearer asset (determined with reference to market prices or net present value of cash flows) will be strongly influenced by the expected amount and value of future produce available for sale on the market. Due to this interaction, the inclusion in income of this component of fair value change could lead to upfront income recognition, i.e. income that should have been attributed to future produce.

As indicated under question 2, changes in fair value of bearer assets may be complex and comprise various components. If bearer assets are measured at fair value, a positive fair value change due to changes in expected amount and/or value of future produce (see above) could be reported in equity until harvest, at which time it should be "recycled" in the income statement (c).

However, the decline in fair value of a bearer asset due to degeneration/depletion should be charged to the income statement. As separating these various components will be complex and arbitrary in practice, it will be difficult to achieve an appropriate treatment of fair value change of bearer assets.

Question 5 - Definition of fair value

- (b) Due to their nature, biological assets are not identical in quality and market prices do not always reflect these differences. In addition, certain qualities of bearer assets may never enter the market but will be kept for own use. Therefore, fair value may be higher or lower than the market price. In those instances fair value should be determined with reference to these market prices.

Question 6 - Agricultural land: follow IAS 16

- (a) IAS 16 should apply to agricultural land.

Question 7 - Government grants

- (a) We agree that government grants on biological assets that are unconditional could be recognised as income immediately. This treatment is consistent with carrying the related assets at fair value and including fair value changes in income, as government grants will be reflected in market prices and thereby in fair values.
- (b) Should governments grants be received in respect of bearer biological assets not carried at fair value (refer to our answers to questions 2, 3 and 4), IAS 20 should apply.

Question 8 - Components of biological assets

We believe that separate disclosure of the quantified consumable and bearer components of biological assets (b) should be required. A separate disclosure of the quantified mature and immature components of each group of consumable and each group of bearer biological assets (c) could be useful if this provides an indication of "liquidity" of the biological assets and/or the degree of reliability or risk inherent in the various estimates of fair values. However, we would prefer a more general requirement to include information (narrative or otherwise) on:

- the liquidity of the assets involved;
- the degree of reliability or risk inherent in the fair values assigned to biological assets;
- for bearer assets: the extent to which these are self-regenerating or not;
- for consumable assets: the length of the biological transformation or production cycle (e.g. longer than 1 year, shorter than 1 year).



Question 9 - Components of change in fair value

- (a) In principle, a separate disclosure of the components of fair value change (physical change and price change) should be required. However, this would not always have to be included in a tabular format and could take the form of a narrative description indicating the relative impact of both change categories.

Question 10 - Guidance on components of change in fair value

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

Question 11 - Analysis of expenses

- (b) We would encourage but not require classification of expense by nature.

Question 12 - Disclosures in general

- (a) We believe that the general disclosures proposed in paragraphs 44-67 are about right. In addition, we would suggest that adequate disclosure be required of the valuation method applied and major assumptions used.

Question 13 - Present value sensitivity disclosure

- (b) We would not require disclosure of the sensitivity of present value measurements to changes in assumptions.

Question 14 - Transition: follow IAS 8

- (a) We see no reason why IAS 8 should not apply, i.e. both the benchmark treatment and the allowed alternative should be permitted.

Question 15 - Matters not covered by a specific question

None.

Amsterdam, 31 January 2000