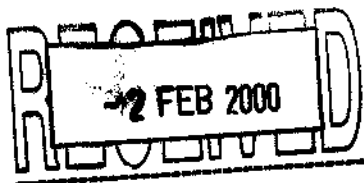


January 31, 2000



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The Secretary-General  
International Accounting Standard Committee  
166 Fleet Street, London EC4A 2DY  
United Kingdom

Dear Secretary-General,

Responding to your request to submit comments for the Exposure Draft E65, I am writing here my opinion limited to Question 2.

Related to Question 2, I agree to the item (2). I believe all biological assets including farm products should be measured at their original cost.

If market price is adopted as a fair value, unrealized appreciation would be included in the profit and loss statement. It is true that most farms are close by their agricultural markets and market prices are available, even for small holders, to evaluate the value of biological assets. However prices are not always available for every kinds of biological inventory. For instance, marketable livestock are limited to specific ages and so market transactions, and hence prices, are not available at every growing stage.

Another reason why market price is not appropriate for farm accounting is that fluctuating farm product prices could mean that unrealized profits are included in the profit and loss statement. Even in the agricultural sector in Japan, historical cost basis is popular and I can say with conviction that market price basis and crop basis will not be acceptable in the near future in this country.

In Japan there are two methods for measuring biological inventory in a farming context.

(1) The individual farmer calculates the production cost of their products based on their farm records and bookkeeping.

(2) Agricultural bodies such as agricultural cooperatives and consulting organizations set up standard production cost values for every kind of crop and livestock. Most small holders use these standard costs for their income tax return.

It is not easy to calculate production costs accurately for biological assets. However, I

believe it is not impossible and method (2) above is, at least, better than a market price basis.

I will send a copy of this E-mail to you by air mail.

With best regards,

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Hajime Arai', written in a cursive style.

Hajime Arai  
Ph.D. Professor