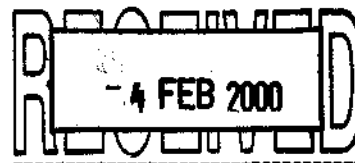




DCP/CRG/E65RESPONSE



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

4 February 2000

Dear Sir,

**Agriculture (E65)**

We have reviewed the above exposure draft and, while the topic does not directly affect most of our members, we do have a number of comments to make, which are set out below.

**General**

We agree that there is a need for an international accounting standard on agriculture, given the diversity of accounting practice and guidance. However, we are concerned that the document's proposals for reporting financial performance do seem detailed and complex for many of the intended audience, given the aim in paragraphs B3 and B6 (pages 57/58) to be widely applicable. This makes the field testing across a range of potential preparers a critical point for E65.

We regard some of the exposure draft's proposals as far-reaching and premature, particularly as to where fair value changes should be recognised and what might develop from some of the radical changes proposed in the G4+1's recent paper on reporting financial performance. We therefore suggest that there should be allowed alternatives in this area, at least until the debate over the question of a single performance statement has been resolved by the Board and other standard setters. In addition, given the nature of the markets involved, we are not sure that immediate recognition of "value" changes in the income statement is appropriate.

## **Specific questions**

### **1. Scope: further processing after harvest**

We agree that the final standard should not address further processing after harvest and believe that the guidance in paragraphs 4 to 7 for distinguishing between agricultural activity and further processing is adequate.

### **2. Biological assets: measure at fair value**

We believe that, in principle, 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 - option (a).

However we are not sure whether there are likely to be problems in practice of applying such an approach, in particular the fair value measurement in respect of biological assets. We note that the Board intends to field test the exposure draft's proposals and thus assume that any practical problems will be identified. We accept that this could lead to the alternative proposal of measuring biological assets at cost until harvested (with no change to that applying to agricultural produce) - option (b).

### **3. Reliability of fair value measurement**

We expect that it is likely that reliable estimates of fair values can be determined for both biological assets and agricultural produce at the point of harvest. This takes into account that the guidance, in paragraph 26, does recognise that cost and other methodologies may approximate fair value in certain limited circumstances.

Again we would assume that this is an area where the field tests' results will provide useful information. We would also emphasise that whether fair value measurements are deemed reliable (appropriate) depends not only on the definition but also the purpose e.g. a net present value calculation may be sufficiently reliable for impairment tests but not necessarily for periodic reporting of fair value changes of certain assets in an income statement.

### **4. Fair value change in net profit or loss**

This is the subject where we believe there is need for allowed alternatives until the debate on reporting financial performance is concluded and the reliability of fair value is established in this context. Thus we would be in favour of allowing fair value changes to be reported in equity with 'recycling' into net profit or loss triggered by a 'realisation' event such as harvest, sale or consumption - option (b).

### **5. Definition of fair value**

We believe that price in an active market in the asset's intended location of sale or use is always the best measure of fair value, although we are not sure that this will be applicable in many cases.

**6. Agricultural land: follow IAS16**

We would agree that IAS16 should apply to agricultural land.

**7. Government grants**

We believe that the grant should be amortised into income over the life of the biological asset (and thus accord with the requirements of IAS20: Accounting for government grants).

**8. Components of biological assets**

We agree that an enterprise should describe the nature and stage of production of each group of biological assets and that such disclosure should be permitted to be either a narrative description or separate quantified measurements of each group. Thus we are in agreement with option 8(a).

**9. Components of change in fair value**

We believe as in option (b) that, if the production cycle is longer than one year, 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 if such an analysis can be reasonably and reliably made.

**10. Guidance on components of change in fair value**

We believe that the guidance in paragraphs 56 to 58 for separating the physical and price components of changes in fair values is adequate.

**11. Analysis of expenses**

While we would agree with option (b) that the resultant standard should encourage but not require classification by nature of expense, we would not object to option (c) as it is consistent with IAS1.

**12. Disclosures in general**

We believe that the disclosures proposed in paragraphs 44 to 67 could be somewhat excessive, even assuming that the flexibility currently proposed is retained in the resultant standard, given our uncertainty as to the purpose and effect of paragraphs 67(f) and (g) and our concern over whether E65 is suitable for other than large sophisticated entities.

**13. Present value sensitivity disclosure**

We do not believe that there should be a requirement to disclose sensitivities over present values that have been used to determine fair values and so would agree with option (b).

**14. Transition: follow IAS8**

We see no reason why both the benchmark and the allowed alternative treatments under IAS8 should not be permitted when an enterprise adopts the resultant standard and so would agree with option (a).

**Conclusion**

As you will have gathered from the above comments, our main concern is in regard to the reporting of changes in fair value. As stated in our response to question 4, we believe that it is necessary to allow enterprises to at least have the option to report such changes either in net profit or loss for the period or in equity with 'recycling' into net profit or loss triggered by a 'realisation' event.

We thank you for allowing us the opportunity to comment on these proposals.

Yours faithfully

A handwritten signature in black ink, appearing to be 'D C POTTER', enclosed within a large, loopy oval shape.

D C POTTER  
Chairman, C.I.A.S.