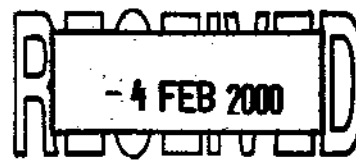


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The Secretary-General  
International Accounting Standards Committee  
166 Fleet Street  
London EC4A 2DY  
United Kingdom



Zurich, 3 February 2000

## EXPOSURE DRAFT E65:

### Agriculture

Dear Sir,

In response to your "Invitation to Comment", we would like to present to you our comments on E65 – Agriculture. Our answers to your questions are as follows:

<i>Question</i>	<i>Comments</i>
1	We generally agree that the final Standard should not address further processing and consider the guidance provided in paragraphs 4-7 appropriate. However, we believe that IAS 2 should be revised to address valuation of agricultural produce with long maturation periods, such as whisky and wine.
2	We agree that, subject to our comments on question 3 below, 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 ( <i>alternative a</i> ).
3	We have <i>doubts</i> whether fair value can always and everywhere be determined reliably. This may be the case in countries with extensive agricultural activities and sophisticated active markets, such as the USA and Australia, but may not be the case in less developed agricultural markets. On the other hand, we agree that cost in this industry may not be an appropriate surrogate for fair value. We therefore tend to agree with <i>alternative b</i> . The final Standard should, however, require that prudence be applied in determining fair value when no active market exists. A thorough field test seems to be absolutely essential for assessing the reliability of fair value measurement.



- 4 We do *not* agree that changes in fair value, at least to the extent that they relate to price changes in the market, should be recognised in profit or loss for the period, believing that such an accounting treatment is *premature* and inconsistent with IAS 39. IAS 39 states that changes in fair value of available for sale investments should be either reported in income or in equity.

As long as IASC is using two performance statements (income statement and statement of changes in equity), it is important that consistent accounting treatments be established for similar gains and losses. G4+1 is moving towards a single performance statement which may require separate presentation of such gains and losses in the income statement in the future. *We believe that IASC should not pursue a full income statement approach before having resolved the general issue of performance reporting.*

We do believe that changes in the fair value of biological assets prior to realisation represent the best indicator of performance of an enterprise engaged in agricultural activities. However, "management performance" and performance related to external price changes of non-current assets should be presented in consistency with other Standards.

Alternative d seems to offer a theoretically sound solution that would be consistent with the current transitional accounting model: Changes in fair value would be reported in the income statement only to the extent that they relate to the physical growth (i.e., the management performance), while the price changes of non-current biological assets would be reported in equity until they are sold or consumed. However, we *doubt* whether changes due to physical growth can be clearly distinguished from price changes (these doubts are supported by the guidance provided in §54 of E65).

Therefore, under the current accounting model, we favour *alternative b* which requires that all changes in fair value be reported in equity until the asset is sold or consumed at which time they are recycled to the income statement. As an alternative, an enterprise should be allowed to present all changes in fair value in the income statement.

- 5 We agree that the price in an active market in the asset's intended location of sale or use is the best measure of fair value (*alternative a*).
- 6 We agree that IAS 16 should apply to agricultural land (*alternative a*).
- 7 We agree that in a fair value model, unconditional government grants should be recognised as income immediately (*alternative a*).



- 8 We believe that the approach towards the disclosure of the nature and stage of production set out in the Exposure Draft is appropriate (*alternative a*).
- 9 As mentioned under section 4 above, we doubt whether physical and price components of the change in fair value can always be determined reliably. We therefore favour an encouragement, rather than a requirement, to disclose these components (*alternative b*).
- 10 We agree with the guidance provided in § 56-58 on the separation of physical and price changes (*alternative a*).
- 11 We agree with the statement of §60 that the "nature-of-expense method" is more appropriate in the agricultural industry. We also believe, in order to avoid an override of IAS 1 revised, the Board should only encourage but not require an agricultural enterprise to present the income statement based on the nature, rather than the function, of expenses (*alternative b*).
- 12 We believe that the proposed disclosures are appropriate (*alternative a*).
- 13 We are strictly against any sensitivity disclosure requirement (therefore in favour of *alternative b*). Such a requirement would be an undue burden for preparers. It would undermine management's "best estimate" to be applied in a fair value model by introducing a kind of "what if accounting" which may be misleading (i.e., questioning the fair values recognised in the financial statements). Similar proposals for sensitivity analyses have been rejected in the Standards on Employee Benefits and Impairment. There is no persuasive reason why they should be introduced in this Standard.
- 14 We propose that the same transitional requirements be applied as those proposed for Investment Property: The effect as of the effective date should be recognised in opening retained earnings of the period in which the Standard is first adopted. Enterprises should be *encouraged but not required to restate comparative figures* if fair values were published / disclosed in the past.
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We thank you for the opportunity of providing you with our comments and hope that they are useful to you.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants

Hans Moser

Philipp Hallauer