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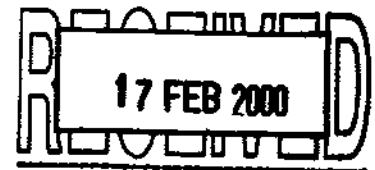
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February 14, 2000

Sir Bryan Carsberg
Secretary General
International Accounting Standards Committee
166, Fleet Street
London EC4A 2DY
ENGLAND

CL 54



Dear Bryan,

IASC Exposure Draft – Agriculture (E65)

I enclose our comments on the IASC's Exposure Draft on Agriculture (E65). I apologize for the delay in sending to you those comments. The views in this letter are those of members of CICA's Accounting Standards staff.

We appreciate the opportunity to comment on this Exposure Draft. Should you require clarification or additional information concerning our comments, please contact me or Annie Mersereau at (telephone: +1 (514) 285 5026 / e-mail: annie.mersereau@cica.ca).

Yours sincerely,

Bob Rutherford
Vice President
Standards

cc. with enclosure

Canadian Members of the IASC Board and Technical Advisor
S.Spector, CGA Canada
W.Langdon, SMAC

IASC EXPOSURE DRAFT E 65 - AGRICULTURE**CICA ACCOUNTING STANDARDS BOARD STAFF COMMENTS**

The following comments represent the views of members of the staff of the CICA Accounting Standards Board (AcSB) on IASC Exposure Draft E65, "Agriculture". These comments have not been reviewed or endorsed by the AcSB and, accordingly, do not necessarily represent the views of the AcSB or its individual members.

GENERAL COMMENT

We support the intended objective of the Agriculture project - to provide harmonized and sound accounting for agricultural activities around the world. A wide variety of practices currently exist, which is prejudicial to worldwide comparison of agricultural enterprises. Harmonization of these practices is a desirable objective. However, we also believe that, to achieve this objective, accounting requirements must be relevant to the agricultural activity and easy to apply by all agricultural enterprises.

We are not convinced that the proposed exposure draft meets these conditions. It is predicated on the assumption that fair value accounting will better reflect the performance of all agricultural activities than a cost-based approach and proposes sophisticated accounting that would be difficult for virtually all agricultural enterprises to apply.

But we do not believe that the relevance and reliability of a fair value measurement for all biological assets and agricultural produce has been adequately demonstrated. Only two broad arguments have been put forward : the singularity of biological transformation and the irrelevance (and complexity) of historical cost based information. In our opinion, the last assumption, that an historical cost approach provides meaningless numbers, has not fully been researched and justified by the Steering Committee. As for the biological transformation argument, we are not convinced that the characteristics of biological assets sufficiently differ from those of other operating assets to justify different accounting principles, except in very limited cases. For example we observe that many chemical processes, particularly those in pharmaceutical industry, are similar to biological ones. Moreover, in our view, if a fair value model is appropriate for biological assets, it is most relevant for assets where the transformation process is complete and a reliable fair value actually exists. Using some form of estimated fair value for assets that are not yet salable, then reverting to a cost-based construct when the conditions for fair value measurement are met seems counterintuitive to say the least.

The Board has supported the move towards a fair value model for financial instruments on very precise grounds. Extending this model to operating assets would require a very thorough conceptual debate that we believe has not yet taken place. Consequently we do not support a Standard based on the measurement principles of this exposure draft.

We also believe that the proposals should have been subject to a full field test before the issuance of the exposure draft to test the relevance and the practicality of the “fair value” approach. In issuing the exposure draft, the Board expressed its intent to undertake such a field test. We believe that the results of this testing will be vitally important to determining whether the proposals are relevant and practical. Indeed we see this field testing as a prerequisite to the issuance of the final Standard.

ANSWER TO QUESTIONS IN INVITATION TO COMMENT

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

Do you:

- (a) agree that the final Standard should not address the further processing? If so, do you believe that the guidance in paragraphs 4-7 for distinguishing between agricultural activity and further processing is adequate; or*
- (b) believe that the final Standard should address further processing? If so, what method of accounting do you propose?*

We agree that the final Standard should not address further processing. In common with our conclusion regarding biological assets, we believe that such further processing has characteristics similar to other non-financial activities of an enterprise and that fair value would not be the most relevant measure for such activities.

We also note that the exposure draft assumes that, after harvest, agricultural produce either becomes commodities or enters into an industrial process. In fact this is not always true. In a few cases, for example in the case of cheese and winemaking, a second step of biological transformation will take place. Paragraph 5 of the exposure draft acknowledges that to some extent (“while.... the events taking place may bear some similarity to biological transformation”). However the scope of the Standard needs a clear delimitation.

Question 2 – Biological assets: measure at fair value (paragraphs 21 and 36)

Do you believe:

- (a) 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;*
- (b) biological assets should be measured at cost until harvested, and then agricultural produce should be measured at fair value at the point of harvest; or*

c) *all biological assets and agricultural produce should be measured at cost?*

If you prefer (b) or (c) above, please explain how cost would be determined.

We do not concur with any of the above positions. We believe that the case can be made for a measurement at fair value of some agricultural produce and, to a lesser extent, of a few biological assets, in limited well defined situations. But we consider that in most cases biological assets and agricultural produce should be measured at cost. We disagree that cost allocation in agriculture is burdensome, arbitrary and badly done. In many countries, adequate management accounting practices have developed and are widely used by agricultural enterprises, even the smallest ones. We have previously provided your staff with copies of Canadian guides indicating how such cost-based methodologies can easily be applied by most enterprises. These guides were developed with an in-depth participation of farmers and users and were also field-tested on several specific agricultural industries.

In our opinion a fair value measurement and income recognition are appropriate only when the agricultural produce/ biological asset

- has a reliable, readily determinable and realizable fair value;
- is readily marketable; and
- has pre-sale disposal costs that are relatively insignificant and predictable.

Measurement of agricultural produce

With respect to agricultural produce, we consider that revenues should be recognized when they are realizable and earned. Revenues can be considered to have been earned when the agricultural entity has substantially accomplished what it should do to be entitled to these revenues (earnings process). Revenues can be considered readily realizable when goods are available for immediate delivery and are salable at reliably determinable market prices without significant efforts. In such circumstances, we agree that measuring agricultural produce at fair value at harvest and recognizing the change in fair value in income is relevant, since there is almost certainty as to the realization of the sale at the market price net of disposal costs. (In fact there may be total certainty when prices and volume are guaranteed for example by a State Board). These kinds of situations provide valid arguments to advance the point of income recognition to the culmination of the production activity, i.e. harvest should trigger income recognition.

However, there are other circumstances where agricultural produce is not immediately realizable. It will be stored with a long "on the farm shelf" life and sold at a later period or over an extended period. If it is exposed to fluctuations in quantities (risks of deterioration of the produce) or future sales can be regarded as uncertain as markets are such that the farmer will still have to undertake significant marketing efforts to find clients, fair value at the time of harvest does not provide relevant information, as it is not predictive of future cash flows. Nor does it represent holding gains since the producer does not have in fact the election to hold or sell. In this second type of circumstances, agricultural produce should remain measured at cost, less impairment if applicable.

Measurement of biological assets

Circumstances when the three above criteria would be met for biological assets, would, in our opinion, be relatively rare. However when a biological asset can be regarded as reliably measurable at fair value and realizable on an active market in its present form, without undue effort and with insignificant and predictable disposal costs, we support its measurement at fair value. Reporting holding gains/losses would be relevant to evaluating financial performance in these circumstances.

But we have major concerns as to the realizability of most of biological assets and the reliability of their measurement at fair value. Even if there may be exceptions, we do not believe that there are active markets for the large majority of long-maturing assets at intermediate stages of the transformation process. We also question the reliability and relevance of present value calculations that could be made for these assets in the absence of market prices. Even if standard yield data for agricultural produce are generally available, it does not mean that future economic benefits flowing from biological assets can be reliably measured. The expected results of biological transformation may not be realized if production is thwarted by climatic hazards or inefficiency of the agricultural enterprise's management. Operating assets create an opportunity to generate inflow of cash. Unlike financial instruments, they do not give rise to a present right to receive determinable cash flows, unless they can be assimilated to readily marketable commodities. Biological assets, like other operating assets, have a much less direct relationship to cash flows since they are at an early stage in the development of economic return. They are inputs to a productive process, not so different from a manufacturing one, and are to be transformed into goods that need then to be sold or realizable before any right to cash can be recognized. Accordingly, their value depends on this transformation/realization process. We do not consider that a fair value approach would give a fair representation of this reality. In our opinion most of biological assets should remain measured on a cost basis, less impairment if necessary.

Question 3 – Reliability of fair value measurement (paragraphs 21-31)

Do you believe that:

- (a) a reliable estimate of fair value can be determined for (i) biological assets and (ii) agricultural produce at point of harvest;*
- (b) a reliable estimate of fair value can usually be determined, and even if, at times, fair value cannot be determined to a very high degree of precision, neither can cost, and on balance an estimate of fair value should be required; or*
- (c) fair value sometimes cannot be determined reliably, and the cost basis should be used? If this is your view, please identify circumstances in which fair value cannot be determined*

reliability and explain, in such cases, (i) how cost could be determined reliably and (ii) how cost of biological assets and agricultural produce is relevant to the user of the financial statements of an enterprise engaged in agricultural activity.

c) As stated before, we are concerned with reliability issues associated with the measurement of partially grown assets. There are generally no active markets for immature assets; therefore, there are no market prices. Although statistical information might be gathered on which to base fair value estimates, this information will not be necessarily representative of current fair values if there is significant uncertainty about the ability to transform that asset into something for which there is an active market. For example, a statistically based estimate of value might be developed for 3 month-old wheat in the field. However, if there is no market for partially grown wheat, the reliability of this value is questionable. And as stated before, if standard yield data for agricultural production are available, they provide only expectations as to the future harvest that may very well be thwarted by climatic and other production risks or management inefficiencies that may result in a change of grade and volume. Developing these estimates of value would require difficult extrapolations and still will only an "educated guess" about what fair value might be if there were a market. Therefore we believe that this is an area where field testing is vitally important to determine the extent of difficulties that might arise in obtaining reliable fair values for partially grown biological assets.

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

If the biological assets are measured at fair value, do you believe that the change in fair value should be:

- (a) reported entirely in net profit or loss for the period;*
- (b) reported entirely in equity until the asset is sold or consumed, at which time it should be removed from equity and reported in net profit or loss for the period;*
- (c) reported entirely in equity until harvest, at which time it should be removed from equity and reported in net profit or loss for the period;*
- (d) reported in net profit or loss only to the extent of the physical change component; the price change component should be reported directly in equity until the asset is sold or consumed (or possibly until harvest); or*
- (e) reported entirely in equity and, thereafter, never reported in net profit or loss for any period?*

Alternatives (b), (c), and (d) all would report some or all of the change in fair value of biological assets in equity, with 'recycling' into net profit or loss triggered by a 'realization' event such as harvest, sale, or consumption. If you support one of those alternatives, please indicate clearly whether you do so because you do not believe that fair values can be measured reliably prior to

a 'realization' event or because you do not believe that the change in fair values of biological assets prior to realization is the most appropriate indicator of the performance of an enterprise engaged in agricultural activities.

We do not support the measurement of all biological assets and all agricultural produce at fair value. To the extent that any assets and liabilities are measured at fair value, as might be the case for certain agricultural produce and a few biological assets (see question 2), we believe that changes in fair value should be reported in income. We believe that if fair value is the most relevant measure for the balance sheet, then it is also the most relevant measure of performance for the enterprise and that changes in fair value should, therefore, be recognized in income. We see no conceptual basis for presenting such gains and losses in any other manner.

Question 5 – Definition of fair value (paragraphs 24)

Do you believe that:

- (a) price in an active market in the asset's intended location of sale or use is always the best measure of fair value; or*
- (b) sometimes price in such a market should be adjusted to determine fair value? If so, under what circumstances and how should such market price be adjusted?*

We believe that agricultural produce and biological assets should be measured at fair value only when they are readily realizable on an active market and there are available market prices. In those circumstances, the best measure of fair value would usually be the price in the market of intended sale, since an enterprise could be assumed to expect to access the market most beneficial to it. Care should be taken to ensure that the enterprise, in fact, has access to the market that appears to be most beneficial to it. In some cases, high accessibility costs or dominant positions of other producers might mean that the market is not reasonably accessible to the enterprise and, therefore, a quoted price from that market is not appropriate to be used as fair value. Furthermore, market prices should be adjusted only if transactions were not recent and if there is evidence that a current transaction likely would not occur at that price.

Question 6 – Agricultural land: follow IAS 16 (paragraphs 38)

Do you believe that:

- (a) IAS 16 should apply to agricultural land;*
- (b) all agricultural land should be measured at fair value, either separately or as part of a combined group that includes the land and related bearer biological assets;*
- (c) only agricultural land that is part of a combined group that includes the land and related bearer biological assets should be measured at fair value;*

- (d) *enterprises should be permitted or encouraged to measure agricultural land at fair value, but not required; or*
 - (e) *all agricultural land should always be carried at cost, that is, the revaluation alternative of IAS 16 should be prohibited?*
- a) We believe that IAS 16 should apply to agricultural land, which could therefore be either carried at cost or revalued. However we acknowledge that there may be situations where it will be difficult to value separately the land and the biological assets. This will notably be the case for a number of plantations and forests. Nevertheless we believe that land and biological assets should be recognized separately and we support the guidance given in paragraph 27 on how to make that separation. We believe that where cost or fair value data are only available for the combined group of land and biological assets, the cost/value of the land should be deemed to be the cost/value of raw land in the area, the residual amount being the cost/value of biological assets.

With respect to intangible assets that may be related either to the land or to the farm, we support the guidance given in paragraph 40 for situations where active markets exist for some intangible agricultural assets. We consider that in these circumstances the allowed alternative treatment of IAS 38 may be used .

Question 7 – Government grants (paragraphs 41-44)

Do you:

- (a) *agree that the grant should be recognized as income immediately if it is unconditional;*
- (b) *believe that the grant should be amortized into income over the life of the biological asset (if this Exposure Draft were silent on this matter, amortization would automatically become the requirement under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance); or*
- (c) *believe that the grant should reduce the carrying amount of the asset so that the carrying amount is below the fair value of the biological asset? If so, would that reduction continue as long as the asset is held? Would it be amortized?*

Consistent with our position on E 64, Investment Property, we are of the opinion that issues relating to government grants should not be addressed in this standard but deferred to the revision of IAS 20. It is time for IASC to add a project on Grants to its work plan with a relatively high priority.

As we support the measurement of biological assets at fair value only in limited cases, we also believe that, pending its revision, current IAS 20 provisions (amortization of the grant or basis

adjustment of the carrying amount of the asset) can be applied appropriately to biological assets measured at cost.

As paragraphs 41-43 only deal with grants received in relation to biological assets, we believe the heading should be changed to "Government grants related to assets". Alternatively, this section of the exposure draft should address grants related to income. This in fact may be necessary to clarify how agricultural produce should be measured at fair value when government grants are provided to compensate for the low price realizable on the market. (This indication was given in the appendix on fair value considerations that could be found in previous drafts). As a minimum, given the importance of government grants in agriculture, a general cross reference to IAS 20 should be inserted to invite readers to refer to it for grants issues not specifically dealt with in the proposed Standard.

Question 8 – Components of biological assets (paragraphs 46-47)

Do you believe that:

- (a) the proposal set out in this Exposure Draft is the appropriate way to accomplish the objective of providing information about the nature and stage of production of biological assets;*
 - (b) separate disclosure of the quantified consumable and bearer components of the carrying amount of each group of biological assets should be required;*
 - (c) separate disclosure of the quantified mature and immature components of each group of consumable and each group of bearer biological assets should be required; or*
 - (d) subdivisions of biological assets other than a consumable-bearer split and a mature-immature split might provide better information about an enterprise's biological assets in some or all cases and, if so, which type of subdivision(s) and in which case(s)?*
- a) We support the current position of the exposure draft which allows agricultural enterprises to elect to report on the consumable and bearer components of their biological assets on one hand and on the mature and immature components of these assets on the other hand, either by means of a narrative description or by disclosure of quantified measurements.

Question 9 – Components of change in fair value (paragraphs 52-58)

Do you believe that if the production cycle is longer than one year:

- (a) an enterprise should be required to disclose separately the components of the change in fair value of its biological assets due to physical changes and price changes;*
- (b) 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; or*

- (c) *separate reporting of the physical and price change components should be prohibited because they usually cannot be measured reliably?*

As previously indicated in this response, we do not support the measurement at fair value of all biological assets. However, should this measurement basis be ultimately adopted by the Board, we believe that it is important for users of financial statements to be provided with some indication of the major factors underlying the changes in fair value. We do not believe that the Standard could go further than the exposure draft with respect to that disclosure. Considering the computation involved to split changes in fair value between physical changes and market price variations, we believe it could only be encouraged.

Question 10 – Guidance on components of change fair value (paragraphs 56-58)

Do you believe that:

- (a) *the guidance for making the split in paragraphs 56-58 is adequate; or*
 (b) *the guidance for making the split in paragraphs 56-58 is inadequate and, if so, how would you modify it?*

See our comments on question 9.

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

Would you:

- (a) *require classification by nature of expense;*
 (b) *encourage but not require classification by nature of expense; or*
 (c) *allow each enterprise to decide whether to classify by nature or function?*
 (b) We concur with the conclusion made in the exposure draft that a classification of expenses by nature is generally more appropriate for agricultural activities than a classification by function. An encouragement to classify expenses in such a manner might also encourage the development of international benchmark indicators for agricultural production sectors.

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

Do you believe that the disclosures proposed in those paragraphs:

- (a) *are about right;*

(b) are excessive (please indicate which one(s) you would eliminate and reasoning); or

(c) are insufficient (please indicate your proposed addition(s) and reasoning)?

a) In our view, these paragraphs require some reorganization as they mix presentation and disclosure issues. There are also redundancies between paragraph 63 (disclosure of groups of biological assets and stage of production) and paragraphs 46-49 that need to be addressed. With respect to substance, disclosure requirements seem to be adequate.

Question 13 – Present value sensitivity disclosure (paragraphs 64(c))

If net present values have been used to determine the fair value of biological assets or agricultural produce, paragraph 64 c) requires disclosure of the discount rate and number of years over which future cash flows have been estimated. Some have suggested that if present values are used the Standard should also require disclosure of an indication of the sensitivity of the present measurement to changes in assumption. Do you believe that:

(a) such sensitivity disclosure should be required (and, if so, please indicate what type of disclosure should be required; or

(b) such sensitivity disclosure should not be required?

a) We do not support extending disclosure requirements on net present value on a piecemeal basis, while the Board is undertaking a project on Discounting. However should the Board want to pursue the measurement at fair value of biological assets, disclosure of a sensitivity analysis might be significant for long maturation assets and therefore could be encouraged. An additional useful piece of information that could also be encouraged would be the disclosure of risk adjustments made to either cash flows or discount rates in calculating the present value of these assets.

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

Do you believe that:

(a) both the benchmark and the allowed alternative treatments under IAS 8 should be permitted when an enterprise adopts this Standard;

(b) only the benchmark of IAS 8 should be allowed by this Standard;

(c) only the allowed alternative of IAS 8 should be allowed by this Standard;

- (d) *the adjustment to biological assets to adopt this Standard should be amortised over the estimated remaining life of the biological assets; or*
- (e) *some other transition is appropriate (please specify)?*

a) We consider that both the benchmark and the allowed alternative treatments under IAS 8 should be permitted, provided proper disclosure.

Question 15 – Matters not covered by a specific question

Presentation of the balance sheet

We consider paragraph 45 is not sufficiently conclusive as to the presentation of biological assets on the face of the balance sheet. Assuming that segregation between current and non-current assets and segregation between mature and immature assets (described in paragraph 47) are both applied on the face of the balance sheet, what would be the presentation of each type of biological asset? For example, could a mature consumable asset be classified as a current asset or are all biological consumable assets non-current assets until they are considered to be harvested and then become inventories of agricultural produce? Illustrative examples in Appendix A only provide examples of a non-current classification for bearer biological assets.