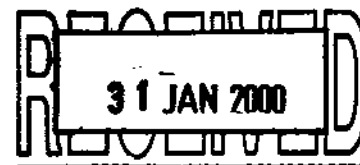




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January 27, 2000

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

Dear Sir Bryan:

The Financial Reporting Committee of the Institute of Management Accountants (IMA) appreciates the opportunity to comment on International Accounting Standard Exposure Draft E65 (IAS E65), "Agriculture." We remain unconvinced that a fair value model is the right answer in this area. We strongly believe that the Board should either abandon its proposed model or restrict its application to circumstances in which the cycles to harvest are extremely short (in no cases should this be longer than one year). The discussion that follows provides the reasoning underlying these views.

Unlike the Board, we strongly believe that realization through sale is a value-added event. It seems that in this and other recent IASC projects the Board places little importance on this event. It seems axiomatic to us that an agricultural enterprise should be required to sell its product before it is permitted to record a profit. Under the proposed model, the potential exists that an enterprise could report record earnings during a period and literally sell nothing – a prospect we find disturbing. This issue is exacerbated in industries such as forest products where fair value changes could be reflected in earnings 30 or 40 years in advance of the ultimate sale to a third party.

In a world in which enterprise performance is increasingly analyzed through on-line databases using summary measures such as earnings per share, the proposed supplemental disclosures are likely to fall outside the focus of most investors. In addition, the ED's basis for conclusion fails to provide any evidence that users of financial statements are demanding a move away from traditional historical cost accounting in this area. Has the IASC done research on this matter? If so, what were the results?

The FRC is also troubled by the proposed treatment of biological assets after harvest. It seems counterintuitive to change models from a fair value model to traditional inventory/long lived asset accounting at the time the crops are harvested. In our view, the ED has it backwards. Fair values of biological assets

and the ability to realize those values in transactions with third parties are far more certain at the point of harvest.

We agree with the Board's conclusion that land should follow the accounting prescribed by IAS 16, "Property, Plant and Equipment," but it seems inconsistent to follow such a different model for the trees, etc. that cannot exist apart from the underlying land.

In the interest of moving this project forward, we make the following suggestions:

1. Consider the accounting model underlying AICPA Statement of Position 85-3, which we have found to be useful in practice.

2. At a minimum, limit your model to crops, etc. with short-term (less than one year) growing cycles – this would make it easier to determine reliable values that are closer to realization. Scope out forest products and other biological assets that have long growing cycles. Also scope out raising horses for competitive racing.

3. While we understand the difficulty of gathering costs to do traditional accounting in the agriculture industry, the ED also poses big challenges in valuation (for partially grown crops and potentially on a quarterly basis), record keeping, disclosures, possible separation of value changes into components, etc. A large-scale field test should be performed in multiple jurisdictions to determine whether the proposed requirements are feasible and cost-effective to follow.

4. Given the broad range of uncertainty associated with determining fair values in partially grown crops, consider making use of other comprehensive income (vs. normal profit and loss) if the Board remains convinced that the current direction is appropriate.

Other comments:

1. We could not follow the examples in reporting sales and costs in the income statement. Presumably for items being carried at fair value and then sold, the cost of sales would be about equal to the sales reported in the income statement. We could not find such cost of sales in the examples.

2. The proposed grant accounting is, in our view, inappropriate and inconsistent with the model prescribed by IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance."

3. We do not favor any sensitivity disclosures for fair value assumptions. The preparer should do its best and not experiment with "as if" accounting.

4. We agree it should not be mandatory to split the value change for the period in between price changes and growth, which would be difficult to do in practice. We also note that if one does disclose this breakdown, there is more than one way to deal with the interaction between

price and volume. If it decides to make this a requirement, the Board would need to provide guidance on how this is to be effected.

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We will be pleased to answer any questions that the Board may have regarding our response. I can be reached at (212) 640-3658.

Sincerely,

A handwritten signature in black ink, appearing to read "John J. Perrell III", followed by a small "48" or similar mark.

John J. Perrell III, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants