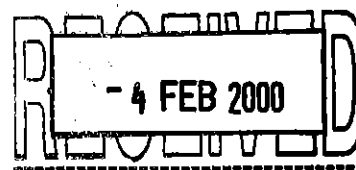


February 8, 2000

CL 5 0

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



Dear Sir Bryan:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on the IASC's July 1999 exposure draft of its proposed International Accounting Standard (IAS), *Agriculture* (E65).

AcSEC does not agree with the basic premise of E65 that all biological assets, as defined in E65, should be measured and recognized in financial statements at fair value. AcSEC believes that, for the most part, the historical cost model is more appropriate for those assets. We note that the AICPA Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*, which incorporates Statement of Position 85-3, *Accounting by Agricultural Producers and Agricultural Cooperatives*, allows for animals available and held for sale and harvested crops to be accounted for either at (a) the lower of cost or market or (b) in accordance with established industry practice at sales price less estimated costs of disposal, when all of the following conditions exist:

- There are reliable, readily determinable and realizable market prices
- The costs of disposal are relatively insignificant and predictable
- The assets are available for immediate delivery.

AcSEC believes that if those criteria are met, fair value measurement would be appropriate because many of our concerns about fair value measurement would be overcome. Absent meeting those criteria, AcSEC believes that historical cost measurement would be preferable. Our reasoning is described below.

AcSEC also believes that an accounting standard for agriculture should not include new accounting for government grants. If the accounting for government grants is being reconsidered, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, should be reconsidered as a whole for all entities and activities.

Because of our primary conclusions about the proposed accounting in E65, we have not answered all of the questions in the Request for Comments section of E65; the rest of our comments focus only on the central issue of fair value measurement.

AcSEC's reasons for concluding that the fair value model is not the appropriate model for all biological assets include the following:

1. Unlike financial instruments, for which active markets exist for the vast majority of items, biological assets vary greatly, and there may be no active markets for many items. Well-developed markets generally do not exist for immature biological assets. Estimates of fair values for those assets would vary widely, raising questions about the reliability of those fair values. Many biological assets have very long life cycles and may be more like long-lived assets, for which fair value measurement seems inconsistent with the measurement of most other long-lived assets. For biological assets with short life cycles, cost-based measures are easily obtainable, more reliable and meaningful (unless the criteria as described in SOP 85-3 are met).
2. AcSEC believes that the methods for determining fair value in the absence of market prices and the methods for determining physical changes of biological assets are quite diverse and allow for significant judgements. The wide variety of models in use and the subjectivity inherent in those models will produce amounts that will not be comparable across entities. For example, a net realizable value method might be appropriate for mature fat cattle, but other models could be used to estimate values for immature assets. The subjectivity required in the valuation models also will result in significant variations in results, such that managements could manipulate reported amounts if desired. AcSEC does not agree that enterprises will be able to determine the fair values of all biological assets reliably and consistently enough to justify recognition in the basic financial statements.
3. Particularly for biological assets physically attached to land, we believe that estimating a fair value for the biological assets alone is difficult and will produce amounts that will not be reliable or comparable both within and across entities. The guidance in E65 that calls for estimating the value of the combined land and biological assets and the raw land is an impractical solution because fair values for the raw land in question (absent the vines or forests) will be difficult to ascertain and that process might result in questionable estimates of value.
4. Many agricultural entities are small, family-owned enterprises. We are concerned that preparing fair value information for those types of entities will be burdensome and will not be cost beneficial. Cost information for biological assets, as applied in practice today by small, family-owned enterprises is readily available and useful.

5. The disclosures as illustrated in Appendix A are quite extensive. We are concerned that they require disclosure of a significant amount of information without corresponding benefit to readers of the general-purpose financial statements. For example, is the information about mature assets versus immature assets critical information for the users of the financial statements? Are the physical quantities of animals or plants in a specific group necessary to determine the financial condition of an enterprise? IASC should reconsider the usefulness of the extensive disclosures illustrated in E65.
6. AcSEC questions a fair value model that would reflect in earnings each period changes in the value of biological assets that are held or expected to be held for an extended period. We do not believe that the earnings process is complete at interim steps of biological growth.

Improvements in financial reporting might be achieved by disclosing selective fair value information for some biological assets in the footnotes to the financial statements. Particularly for mature assets for which there are active markets, selective fair value disclosures could be useful for readers of the financial statements. However, as discussed above, we are concerned at the level of detail shown in the illustrative examples of disclosures in E65.

We appreciate the opportunity to comment on the proposed Standard. Representatives of AcSEC will be pleased to discuss our comments with the Committee or its representatives.

Sincerely,

Handwritten signature of David B. Kaplan in cursive, with the initials 'kaf' written below the name.

David B. Kaplan  
Chairman  
Accounting Standards Executive Committee

Handwritten signature of Elizabeth A. Fender in cursive.

Elizabeth A. Fender  
Director of Accounting Standards  
AICPA