



18 June 2009

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
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**REQUEST FOR COMMENTS  
EXPOSURE DRAFT 36 AGRICULTURE**

Please find attached a submission on the above exposure draft from Landcorp Farming Ltd.

This has been submitted to the New Zealand Institute of Chartered Accountants and may form part of their submission on this exposure draft. Landcorp Farming Ltd considers the issues discussed in the submission to be of sufficient importance to also submit directly to the International Public Sector Accounting Standards Board.

Landcorp Farming Ltd is New Zealand's largest pastoral farmer and is one of the few New Zealand pastoral farming organisations that prepares external financial statements that comply with International Financial Reporting Standards, including IAS 41 *Agriculture*. Landcorp Farming Ltd is a State Owned Enterprise and forms part of the New Zealand government reporting group. Having both reported under IAS 41 *Agriculture* and being part of a public sector reporting group, Landcorp Farming Ltd is well placed to comment on the effect of this standard and the related IPSASB Exposure Draft 36 *Agriculture*.

Richard Perry  
Chief Financial Officer  
Landcorp farming Ltd



18<sup>th</sup> June 2009

Financial Reporting Standards Board  
New Zealand Institute of Chartered Accountants

**REQUEST FOR COMMENT  
IPSASB EXPOSURE DRAFT 36 AGRICULTURE**

**Landcorp Farming Limited**

Landcorp Farming Limited (Landcorp) is New Zealand's largest pastoral farmer and is one of the few New Zealand pastoral farming organisations that prepares external financial statements using the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Landcorp has implemented and reported using NZ IAS 41 *Agriculture* and is well placed to comment on the effect of this standard and the related IPSASB Exposure Draft 36 *Agriculture*.

**Requirement for Standard**

Landcorp does support the need for a standard relating to agricultural activities, as previously there was little consistency in accounting between entities, and subtle differences in accounting policies led to large differences in financial results.

The *Agricultural* exposure draft prior to adoption of NZ IFRS was significantly opposed when it was exposed in New Zealand. Landcorp considers the standard should not be adopted any further until there has been a fundamental review of the costs, benefits and relevance of this standard. On this basis Landcorp recommends that the IPSASB do not adopt this standard.

Further, Landcorp notes the following significant weaknesses with the proposed standard.

## Biological Assets Held for Production

One of the major criticisms of NZ IAS 41, which is included in ED 36, is the requirement for all changes in fair value of biological assets to be reported in the income statement. This does not differentiate between biological assets held for production and those intended for sale.

Biological assets held for production are biological assets that are not held in order to make a profit from sale, but instead to produce either further biological assets or agricultural produce. Examples include grape vines (produce grapes), breeding livestock (produce livestock for sale and/or replacement) and dairy cows (produce milk).

As a pastoral farmer, Landcorp considers production biological assets held for production to be ideologically similar to property, plant and equipment (PPE). IAS 16 *Property, Plant and Equipment* defines PPE as tangible items that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one period.

The only difference between biological assets held for production and PPE is the physical form of the asset.

Landcorp considers that fair value changes resulting from revaluations (value changes) should be taken directly to equity, in the same manner as PPE. Due to the difficulties in tracking individual biological assets, this should be at the class level.

Landcorp considers that changes in physical form should be reported in the income statement. Such changes include birth, growth, aging and death. This is similar to the PPE requirements to recognise physical changes in PPE, such as impairment, depreciation and disposal.

It is to be noted that an agricultural entity cannot directly realise the value change in biological assets held for production, and still remain a going concern.

Reporting value changes in biological assets held for production in the income statement does not assist with the analysis of the entity's performance, as these are often beyond an entity's control and are not usually part of the day-to-day management of an entity. Also, in Landcorp's experience, for credit rating and funding purposes, many funding providers 'back-out' the effects of value changes on biological assets held for production.

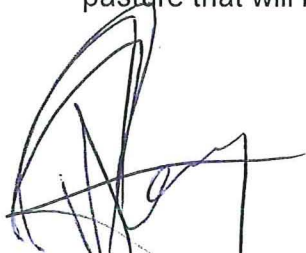
## Scope

The scope of ED 36 includes all biological assets used in agricultural activity. Under the definition, the grass or other pasture grown on agricultural land should technically be quantified and valued. As a pastoral farmer, this grass will be eaten by livestock *in situ*. It will not be harvested.

It is impractical for a pastoral farmer to value this grass, both on a physical level and financially, as no active market exists for this 'asset'.

Further, grass is an integral part of the land asset. Agricultural land is valued based on the productive value of the land, which is dependent on the quality of pasture. Landcorp considers that it is impossible to accurately separate the value of grass/pasture from the land asset.

Landcorp recommends that the scope of the standard is modified to exclude pasture that will be consumed *in situ* by other biological assets.



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**Landcorp Farming Ltd**



Chris Kelly  
**Chief Executive**  
**Landcorp Farming Ltd**