

17 June 2009

Financial Reporting Standards Board
New Zealand Institute of Chartered Accountants
P O Box 11 342
Wellington 6010

Dear Sir/Madam

IPSASB Exposure Draft 36 Agriculture

Introduction

1. The Primary Sector Committee of the New Zealand Institute of Chartered Accountants represents the interests of chartered accountants who act for clients investing and conducting agriculture and horticulture in New Zealand. The Primary Sector Committee welcomes the opportunity to provide input on behalf of its constituents to the Financial Reporting Standards Board on IPSASB Exposure Draft 36: *Proposed International Public Sector Accounting Standard – Agriculture*.

Requirement for Standard

2. The Primary Sector Committee 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.
3. The Primary Sector Committee does note the following significant weaknesses with the proposed standard and the fact that this standard was widely opposed when exposed in New Zealand. The Primary Sector Committee considers the standard should not be adopted any further until there has been a fundamental review of the costs, benefits and appropriateness of this standard. On this basis it is recommended that the Exposure Draft is not approved until IAS 41 has been reviewed and updated.

Biological Assets Held for Production

4. 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.
5. 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 fruit trees, grape and kiwifruit vines (producing produce), breeding livestock (livestock for sale and replacement) and dairy cows (produce milk).

6. The Primary Sector Committee 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.
7. The only difference between biological assets held for production and PPE is the physical form of the asset.
8. The Primary Sector Committee 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.
9. The Primary Sector Committee 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.
10. 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.
11. 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 the Primary Sector Committee'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

12. 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. For a pastoral farmer, this grass will be eaten by livestock *in situ*. It will not be harvested.
13. 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'.
14. 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. Primary Sector Committee considers that it is impossible to accurately separate the value of grass/pasture from the land asset.
15. The Primary Sector Committee recommends that the scope of the standard is modified to exclude pasture that will be consumed *in situ* by other biological assets.

Inability to Measure Fair Value Reliably

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16. The experience of constituents of the Primary Sector Committee involved in horticulture is that the implementation of NZ IAS 41 has not led to any improvement in consistency or comparability of reports.

There are two main reasons for this:

- (1) Values for the agricultural produce (e.g. fruit), which forms part of the bearer asset (e.g. tree/vine) prior to harvest, are unable to be determined until many months after balance date due to delayed sales programmes and payments by exporters. As a result, valuations rely heavily on assumptions and are often wildly inaccurate when compared with actual results affected by climate and global markets.
 - (2) There is no active market for bearer biological assets in horticulture. The assets are always attached to land and often combined with other Property Plant and Equipment which means that recent transactions and discounted cash flows are also unable to be used as methods to value the bearer asset specifically. The result is to require application of para 27 of ED-36 to derive a residual value. However, in using a residual value after deducting many other variables, the values for biological assets vary widely amongst different entities.
17. We recommend that para 32 of the Exposure Draft which contains the rebuttable presumption that fair value can be reliably measured, be modified to also allow for rebuttal after initial recognition where fair value is clearly unreliable.

The Primary Sector Committee of the Institute looks forward to hearing from you.

If you have any queries or require clarification of any matters in this submission, please contact me by email on Stephen@msbca.co.nz.

Yours sincerely



Stephen Stafford-Bush
Chair
Primary Sector Committee