

May 27, 2009

Technical Director,
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 4th Floor
Toronto, Ontario, M5V 3H2

Re: Comments on Exposure Draft 36 (ED 36), Agriculture

Thank you for providing us with the opportunity to comment on these proposals. In general, PSAB staff are supportive of the IPSASB issuing a standard on Agriculture.

We have some issues with the proposed standard in ED 36 that are presented for consideration by the IPSASB in Appendix 1. They can be grouped into the following areas:

1. Scope of the proposed standard
2. Biological assets with service potential/the role of service potential
3. Measurement proposals

These issues are interrelated. They all address how public sector aspects of agricultural activity have been incorporated into ED 36. It is our opinion that additional clarity in these areas is crucial if the standard is to be understood and applied by entities in the public sector.

We feel that in this case a strict application of the “Rules of the Road” that would dictate minimal changes from IAS 41 may be in conflict with ensuring that the application of the standard to public sector agricultural activity is clearly articulated.

Our editorial suggestions are set out in Appendix 2.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

We appreciate the opportunity to comment on this Exposure Draft.

Sincerely,



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Appendix I – Issues with ED 36

1. **Scope of the proposed standard**

The scope of this standard needs to be further clarified. It is obvious that it does not address all public sector agricultural activity because paragraph 3 sets out some scope exclusions. But the nature of the exclusions in (b) and (c) is not clear and other scope questions also arise. Examples and additional descriptive text would help (see below for elaboration).

As this will be the IPSASB's first (perhaps only) standard on agriculture, the "universe" of all potential agricultural activity in the public sector should be set out and then exclusions from this universe that will not be addressed in this standard explained. Aspects of public sector agricultural activity that are unique to the public sector should also be highlighted.

Suggestion: Consider the following approach to setting out the scope of the proposed standard:

- In the public sector agricultural activity includes (a list setting out the "universe").
- A - Types of agricultural activity that occur in both the public and private sectors include..... These are addressed for the private sector in IAS 41 and in this standard (ED 36) for the public sector.
- B - Types of agricultural activity that are unique to the public sector include.....
- This standard addresses all agricultural activity in categories A and B except for (a list of exclusions – probably from category B)
- These types of agricultural activity (the list above) are excluded because they require further consideration in a public sector context that is beyond the intended scope of this convergence with/adaptation of IAS 41.
- For further clarity, items in the list of exclusions that are not self-explanatory should be elaborated on. For example, the items in paragraph 3 (a), (b) and (c), are excluded because (reasons for each) ... Examples of these excluded agricultural activities (for each) include....

It might also be useful to list somewhere in the document (maybe in the Basis for Conclusions), whether the IPSASB will add these exclusions to its list of potential projects for its long term technical agenda.

3 (b) - What are intangible assets related to agricultural activity?

Reference to possibly inconsistent national and international standards on intangible assets in the public sector (if such standards even exist) is insufficient to explain the nature of the exclusion. Examples of what might be excluded by paragraph 3 (b) might assist in understanding the public sector specific exclusions – for example sales of timber rights or fishing rights, etc..

We do not believe that there has been to date any significant research on the accounting for intangibles that are unique to the public sector. Thus any

standard that makes mention of intangibles in the public sector should be careful not to make assumptions or use wording that implies conclusions.

For example, the use of the term “assets” in relation to these intangibles presupposes a conclusion that they meet the definition of an asset. And, since there is no specific IPSAS on intangibles, IPSAS 3 would allow an entity to look at other “asset” related standards in determining how to account for these items.

Use of the term “assets” in relation to public sector intangibles may also imply that they can be measured reliably and recognized. We believe that there is uncertainty as to whether some government intangibles can be reliably measured.

Suggestion: Use of the term “intangibles” rather than the phrase “intangible assets” and the inclusion of some public sector, agriculture related examples would clarify this scope exclusion.

3 (c) - What are “biological assets used for the supply of services”?

The meaning of this exclusion is unclear from paragraph 3 (c) so the scope of the standard is unclear. Clarity as to what might be included in this category, and thus excluded from this proposed standard, is needed.

The examples included in paragraph BC3 in the Basis for Conclusions are a start and they should be included in the body of the standard itself. However, they seem narrow and additional examples might further explain the exclusion. Consider the following:

- Are there countries that have collective government farms?
- Given the current economic environment, are there any agriculture companies that governments will need to support, take over, or take a stake in because what the companies produce is so essential?
- What about trees planted by a government along highways to prevent erosion or trees planted by a city to beautify the downtown area and attract shoppers?

Are these examples assets? They would appear to have service potential to the government. How should they be measured? There is some question as to whether fair value is an appropriate surrogate for the service potential of an asset¹.

¹ IASB (CICA authored) 2005 Discussion Paper, “Measurement Bases for Financial Accounting (Initial Measurement)” states: “330. In summary, fair value incorporates the essential properties of replacement cost from the market’s perspective. The market price of an asset reflects the market’s perception of the highest and best use of the asset’s productive capacity or service potential. This is the “most economic” price of that capacity or service potential in the marketplace, taking into account publicly available information with respect to possible substitutes for delivering that potential or capacity.” PSAB Staff are not convinced that fair value is a proxy for the value of the productive capacity or service potential of an asset. And, IPSAS 21 uses “value in use” to calculate the impairment of non-cash generating assets, rather than fair value as is used for cash generating assets.

Suggestions:

- At a minimum, the examples from BC3 need to be moved into the IPSASB because the Basis for Conclusions document does not appear to be part of GAAP. The note at the beginning of every Basis for Conclusions document explicitly excludes such documents from being part of the IPSAS. Thus they would not qualify for consideration under IPSAS 3, “*Accounting Policies, Changes in Accounting Estimates and Errors*”, paragraph 14, which, taken together with paragraphs 9-15 of IPSAS 3 is the only guidance in the IPSAS that currently provides a guide as to what is considered GAAP. Therefore explanatory detail that is crucial to the understanding of the scope of an IPSAS should not be relegated to a Basis for Conclusions document. The standard must stand on its own.
- Consider adding other examples too such as collective government farms, tress planted for erosion control or beautification, horses and dogs used for services such as policing.
- Explicitly address items that might be seen as public sector agricultural activity such as the management of biological assets held for research, experimental and public recreation purposes, including breeding for the preservation of species and raising in game parks and zoos. These examples were cited as exclusions in previous drafts of the document, albeit later in the document and not in the scope section. Now these examples are missing and not even included in the examples of biological assets used in the supply of services set out in paragraph BC3. Are they part of the scope or are they “biological assets used for the supply of services” or are they another type of agricultural activity that needs to be explicitly excluded from the scope of the standard?

Other scope issues

- Paragraph 8 – definition of agricultural activity:

The proposed standard in ED 36 states that biological assets might be transformed “for sale, including exchange or non-exchange transactions”.

IPSAS 23 defines non-exchange transactions as:

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Therefore, we have to assume that this phrase in the definition of agricultural activity means that the transformed biological assets are being sold for approximately equal value (exchange transaction) or for less than equal value (non-exchange transaction). If this is the intent of including non-exchange transactions in the proposed standard, then more detail is required to explain what is being scoped into the standard. If the use of the

phrase “non-exchange transactions” is intended to mean more than this (or something different), then the proposed standard must elaborate further.

- Sub-paragraph 9(b): The last sentence can be read as a modification of the definition of agricultural activity. The definition of agricultural activity should not be modified by later guidance. If this sentence is not intended as a modification of the definition of agricultural activity, but merely an elaboration of what is intended by the definition, then the definition itself may not be clear enough. If this sentence does modify the definition of agricultural activity, then it also serves as a scope limitation. In such circumstances, it would be appropriate to address this scope limitation in the scope section as well as reinforcing it in the definition section.
- The implications of the inclusion of the phrase, “for sale, including exchange or non-exchange transactions” in the definition of agricultural activity, if any, are not clear. What activities are being scoped into the standard by the inclusion of “non-exchange transactions” in this definition and why? We believe that this inclusion in the agricultural activity definition is the reason that the term “service potential” is sprinkled in places throughout the document. However, it is not really clear the extent to which this phrase adds to the scope of what is addressed by the proposed standard. What is now covered by the proposed standard in ED 36 that is not covered by IAS 41? The approach suggested above regarding setting out the scope of the standard for the public sector would help in clarifying the effect of including the phrase “non-exchange transactions” in the definition of agricultural activity. See also Issues 2 and 3 below regarding biological assets with service potential and the measurement of biological assets. Presumably these two issues also are related to the inclusion of “non-exchange transactions” in the agricultural activity definition.

2. Biological assets with service potential/the role of service potential

There are two issues: (1) whether there are any biological assets that have only service potential to the entity; and (2) providing additional clarity regarding the role of service potential in the recognition and measurement of agricultural activity in the public sector.

- (1) See discussion of paragraph 3 (c) in the scope issue above.
- (2) The language of most of the document revolves around cash flows and fair value calculations that involve cash flows. The idea of service potential and how and where it fits in is not fully integrated in the document. This issue relates to the scope issue above in that the term “service potential” would not even be used if the standard was only for “commercial” agriculture activity in the public sector – i.e., the proposed standard had the same scope as IAS 41.

We assume that it is because non-exchange transactions have been included in the definition of agricultural activity, that references to “service

potential” and to IPSAS 21, “*Impairment of Non-Cash-Generating Assets*”, have been retained.

It appears that service potential is only relevant for biological assets – at least it is primarily mentioned in relation to impairments of biological assets. It is also mentioned in the recognition paragraph for both biological assets and agricultural produce (paragraph 13) – that is, to be recognized it must be probable that future economic benefits or service potential associated with the asset will flow to the entity.

Paragraph IN3 – last sentence and paragraph IN 4 – service potential:

Based on the ED proposals, at point of harvest for agricultural produce, service potential does not matter. Fair value calculations do not normally take service potential into account, although some sources believe that the market considers service potential when assigning a price to an asset (see footnote above). Only the impairment standards for non-cash generating assets in IPSAS 21 that would require “value in use” calculations explicitly consider service potential. The role of service potential in this document and when it plays a role must be made clear in the standard.

Paragraphs 13, 14 and 48 – use the term “service potential”:

It appears that service potential has a role in determining whether recognition should occur (paragraph 13) and in measurement when fair value cannot be reliably measured for a biological asset (paragraphs 32 and 35). However, the guidance as to when there is not an active market for a biological asset (paragraphs 20-22) only mentions cash flows.

Again, the role of service potential in measurement in this document needs to be clarified.

3. Measurement of biological assets

Our review of the measurement proposals contained in ED 36 indicates the following:

Item	Initial measurement	Subsequent measurement
Biological assets – untransformed – “raw materials” (¶ 15)	FV-C2S unless not available or reliable, then cost-accumulated depreciation & accumulated impairment	<ul style="list-style-type: none"> FV-C2S unless not available or reliable, then cost- accumulated depreciation & accumulated impairment - use IPSAS 12, 17, 21 and 26. Includes consideration of changes in service potential when relevant under either FV or cost measurement. Move to FV if it becomes available and reliable.
Biological assets transformed but not yet ready for sale (¶ 15)	FV-C2S unless not available or reliable, then cost-accumulated depreciation & accumulated impairment	<ul style="list-style-type: none"> FV-C2S unless not available or reliable, then cost- accumulated depreciation & accumulated impairment - use IPSAS 12, 17, 21 and 26. Includes consideration of changes in service potential when relevant under either FV or cost measurement. Move to FV if it becomes available and reliable.
Biological assets transformed and ready for sale (¶ 15)	FV-C2S unless not available or reliable, then cost-accumulated depreciation & accumulated impairment	<ul style="list-style-type: none"> FV-C2S unless not available or reliable, then cost- accumulated depreciation & accumulated impairment - use IPSAS 12, 17, 21 and 26. Includes consideration of changes in service potential when relevant under either FV or cost measurement. Move to FV if it becomes available and reliable.
Agricultural produce at the point of harvest (¶ IN3)	FV-C2S	<ul style="list-style-type: none"> FV-C2S. Assumes that FV considers increases/decreases in future economic benefits or service potential to the entity (IN4).
Harvested agricultural produce (¶ 16)	FV-C2S	<ul style="list-style-type: none"> FV-C2S. Assumes that FV considers increases/decreases in future economic benefits or service potential to the entity (IN4).

FV = fair value
C2S = costs to sell

These are the conclusions that we reached after reviewing the proposals. If these are not the intended measurement principles, then additional clarity in the document is required to make the intentions of the IPSASB clear to readers. In particular, we suggest that it is critical to articulate when, why, and how the service potential of a biological asset or agricultural produce is expected to be considered in the measurement of agricultural activity in the public sector.

4. No transitional provisions

In the absence of transitional provisions in an individual IPSAS, the provisions in IPSAS 3, paragraph 24 (b) would apply. That paragraph would require retrospective application of the change in accounting policy to adopt a new IPSAS.

Obviously retrospective restatement of comparatives is the ideal situation. And for an entity adopting accrual accounting for the first time, this might be a general requirement that the IPSASB wishes to promote. However, the initial staff proposal was more in the nature of prospective application. A better understanding of why this application was proposed initially would be useful. Is a retrospective requirement practical for this type of standard? Will public sector entities have the information to meet these requirements?

5. Other Issues in paragraph order

Paragraph IN3:

IAS 41 does not clarify the measurement of biological assets acquired at no or nominal cost. Public sector entities may acquire such assets and so clarification of the measurement at acquisition of such assets may be appropriate. A previous draft said in IN3:

Biological assets acquired at no or nominal cost will be measured at fair value less estimated point of sale or costs at the point of harvest, provided that a market-determined price or value is available.

Although the requirements of ED 36 paragraphs 15 and 16 would address this issue, it may be appropriate to explicitly address it in a public sector standard. It would not be a needed clarification in the private sector.

Paragraph 36:

This paragraph includes two disclosure principles – one for biological assets and one for agricultural produce. They are intermingled and the paragraph is confusing. The principles should be separated into two paragraphs – or at least two sentences. This change would be a departure from IAS 41 wording. However, clarity in public sector standards is important. In some cases, those applying the standards may be less financially sophisticated than their private sector counterparts. Why not be clear?

Paragraphs 43 and 44 – a clarification?

Paragraph 43 deals with disclosure of the methods and assumptions used in determining the fair value of agricultural produce and biological assets at the point of harvest.

Paragraph 44 requires the disclosure of fair value less costs to sell of agricultural produce harvested during the period determined at the point of harvest.

Are these two disclosure requirements related to the same fair value calculation/number? Consistency in use of terminology when addressing the same issue helps in understanding. When different terminology is used, the reader assumes that there is some nuance or circumstances that is different and that is why different terminology has been used.

Appendix II – Editorial Suggestions

Paragraph IN1

The phrase “or for conversion” is missing in front of “into agricultural produce or into additional biological assets”, at the end of the paragraph. Presumably this paragraph should read the same as the definition of agricultural activity in paragraph 8.

Paragraph IN6

Suggested re-wording as follows (additions are underlined, deletions are struck through):

IPSAS XX (ED 36) does not deal with accounting for non-exchange revenue from government grants related to biological assets and agricultural produce. IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” provides requirements and guidance for the accounting of for government grants related, which would apply to government grants received in relation to agricultural activity. IPSAS XX (ED 36), “Agriculture” deals with the measurement of biological assets acquired in non-exchange transactions, both at initial recognition and subsequently. IPSAS 23 deals with other aspects of accounting for biological assets.

Reasons:

- IPSAS 23 deals only with transfers received not provided.
- IPSAS 23 does not directly address “government grants related to agricultural activity”.
- IPSAS 23 instead “provides requirements and guidance for the accounting for government grants, which would apply to government grants received in relation to agricultural activity” as suggested in the re-wording above.

Does IPSAS 23 deal with other aspects of accounting for biological assets? We would not find any specific reference to them in IPSAS 23 but the last sentence of paragraph IN6 above implies there is specific guidance relating to biological assets in IPSAS 23.

Definitions – Paragraph 8

- Why are the definitions of “bearer biological assets” and “consumable biological assets and “mature biological assets” and “immature biological assets” not included in the definition paragraph instead of being buried at the back of the document in paragraphs 40 and 41?
- Costs to sell: The definition seems fine but where does this definition come from? It is not in the current IPSAS glossary of terms and yet it is different from the “point of sale” costs definition in IAS 41. Is there a public sector specific reason for this different term and definition in ED 36? Is it just a more general term/definition because different costs might arise in selling in the public sector?