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## Accounting Standards Board consultation on FRS 102 (FRED 48) -The proposal for the use of fair value accounting for biological assets

The NFU champions British farming and provides professional representation and services to its Farmer and Grower members. It is the largest farming organisation in the UK, providing a strong, respected and independent voice for the industry. The NFU represents approximately 56,000 Farmer & Grower members.

The NFU wishes to respond to the Accounting Standards Board (ASB) request for comments on *The Future of Financial Reporting in the UK and Republic of Ireland* on behalf of our members. Our comments are restricted to the proposal to extend the mandate of fair value accounting for biological assets. This is because this proposal solely affects businesses engaged in agriculture and has caused serious concern within our industry.

### Background

The ASB has suggested that the objective of its project for the future of financial reporting in the United Kingdom and Republic of Ireland is "To enable users of accounts to receive high quality, understandable financial reporting proportionate to the size and complexity of the entity and the users' information needs.

The ASB has proposed that the mandatory use of "fair value" accounting for biological assets should be extended from listed companies, where it is currently mandatory, to medium sized agricultural businesses, where it is not.

### Our concerns

We do not believe that "fair value" accounting for biological assets is suitable to the needs of the majority of agricultural businesses in the UK. We question the premise that it provides improved information for users of the accounts of listed companies, and strongly disagree that it would do so for users of the accounts of medium sized agricultural businesses.

We question what benefits the ASB perceive users of the accounts of medium sized agricultural businesses would derive from using this standard, particularly given the additional costs it would impose on them.

## The current position

“Fair value” accounting for biological assets is currently only mandatory for listed companies. It is likely that the majority of end users of listed company accounts will be investors and their needs will predominantly be in terms of evaluating the investment decisions of buying, holding or selling shares by comparison to alternative investment options.

There has however been a significant amount of criticism over the suitability of the “fair value” standard for biological assets since it was introduced for listed companies. For example the “Implementing fair value accounting in the agricultural sector” report published by The Institute of Chartered Accountants of Scotland suggested that “it had failed to enhance the international comparability of accounting practices in the agricultural sector” and found that there was a wide variation in valuation methods being used, that the standard involves subjective judgement and assumptions and that generally respondents to their survey suggested that the costs of measuring and reporting biological assets at fair value outweigh the benefits derived.

It appears that there is also currently some debate over the future of the standard for listed companies and whilst this is the case we do not believe that it is appropriate or desirable to extend its use.

## The impact of the proposal

Even if there were unanimous support for the use of fair value accounting for biological assets for listed companies, which there is clearly not, we would still question whether it is an appropriate standard in the context of non-listed UK agricultural businesses. The needs of the end users of listed company accounts are significantly different to the end users of a medium sized agricultural business. The end users of a medium sized agricultural business are likely to be limited to specialised agricultural lenders and a small number of shareholders. The primary uses of the accounts would be in assessing the performance and viability of the business for lending decisions and to assist business owners in their strategic decision making.

In the case of agriculture, banks tend to secure their lending over land rather than stock. Their lending decisions are primarily based on cash flow and they like to see consistency, stability, reliability and accuracy within the financial statements. We believe that the introduction of “fair value” accounting will introduce a greater degree of subjectivity, a wide range of assumptions when arriving at values, and volatility which will adversely affect the value of the financial statements to these users.

Given that most UK agricultural production is based on a relatively short life cycle there appears to be little benefit in the use of fair value accounting. From our discussions with business owners, there certainly seems to be a perception that they would not derive any benefit from this proposal. It is also questionable as to how much reliance they would feel able to place on the values provided, given the degree of subjectivity and assumptions made in arriving at a “fair value” for certain agricultural produce. In addition if there is inconsistency in the valuation approach taken between businesses or sectors this will reduce the users understanding and their confidence in making comparisons with other businesses. We are therefore concerned that the introduction of this standard may in fact result in a lower quality of information, which is harder for the end users of a medium sized agricultural business to interpret.

In some types of agricultural businesses questions have also been raised over why the ASB believe it is either necessary or advantageous to single out agriculture for a separate standard in accounting for stock whilst the use of the historic cost method remains available to most other industries.

For many agricultural businesses this change would involve significant changes to their current systems and introduce considerable additional costs, particularly in terms of valuation costs. It is also likely to bring forward the recognition of profits for tax purposes, which will have serious implications for the business's cash flow. We do not accept that the additional cost and burden which will be imposed is proportionate to the size and complexity of these businesses or to the users' information needs.

## Conclusion

Introducing an accounting standard which is not, in the users view, an improvement, or which actually reduces the quality of the financial information they receive, would clearly be unwelcome. If in addition it increases their costs, particularly at a time of economic difficulty, it should not proceed.

We would suggest that the proposal to mandate "fair value accounting" for biological assets for medium sized agricultural businesses does not meet the ASB's stated objectives and should not therefore proceed. We would therefore suggest that medium sized agricultural businesses should be allowed to continue to use the historic cost basis to account for their stock, as with all other industries.