

ARTHUR ANDERSEN

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33 West Monroe Street
Chicago IL 60603-5385

2 September, 1997

Sir Bryan Carsberg
Secretary-General
International Accounting Standards Committee
167 Fleet Street
London EC4A 3ES
UNITED KINGDOM

Dear Brian:

Enclosed are our comments on the IASC Exposure Draft, *Impairment of Assets* (ED).

Very truly yours,

By 
G. Michael Crooch

BJM

Enclosure

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The Secretary General
International Accounting Standards Committee
167 Fleet Street
London EC4A ZES
UNITED KINGDOM

Dear Secretary General:

This letter contains our comments on the IASC Exposure Draft, *Impairment of Assets* (ED).

Summary

We support the issuance of the ED in final form subject to the comments provided below. Issuance of the ED will narrow the diversity in practice relating to the recording of impairments of assets and is a necessary component of any comprehensive set of accounting standards.

Specific Comments

- The ED on Discontinued Operations relies on the Impairment ED to determine whether a loss should be recorded as the result of a board of director's approval of a plan and announcement of a discontinued operation. As a result, we believe the impairments document should contain an explicit statement that the decision of the board of directors and announcement of a discontinued operation is an indicator of impairment that triggers the need to make a formal estimate of recoverable amount.
- We agree that the concept of materiality is applicable to the determination of whether impairment should be recorded. The example in paragraph 12 does not seem to be clearly a materiality judgement. If a prior measurement indicated that the asset is not impaired and nothing has changed, no formal determination of impairment seems necessary. What is the purpose of the example?
- For the reasons expressed in paragraph 84 of the basis of conclusions, on balance we would prefer that impairment losses not be reversed unless the entity uses the

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allowed alternative of revaluation. We recognise that certain countries are required by law to reverse impairment losses to the extent no longer required and understand that this requirement is a significant impediment to the accounting we prefer. Our concern, however, is that the ED's requirements will significantly increase the complexity of recording impairments. In addition, we are not convinced the result would be useful to users of financial statements. For example, once an asset is impaired and a loss recorded, that asset must be monitored each period to determine whether any improvement in the asset's recoverable amount justifies a reversal. If only a portion of the impairment has reversed, the reversal is recorded in earnings and the process must be repeated. We are not certain that this complexity and the resultant need for additional disclosures to reveal the various changes in the basis of the assets provides users with better information than not allowing impairments to be reversed.

- The footnote to paragraph 41 should be changed to clarify the accounting in those circumstances in which the enterprise uses revaluation accounting and is in a highly inflationary economy that requires the use of IAS 29. The charge to the revaluation surplus resulting from an impairment should be limited to the amount of the revaluation surplus in excess of the price level adjusted cost and should not include any amount of the asset's basis increase that resulted from the price level adjustment.
- We do not support the need to make disclosures in paragraph 83 (a), (b) and (c) when the asset(s) in question do not require an impairment loss or loss reversal unless an impairment loss would be required with only a small change in the key assumptions. As written, the reliance on the small change in the key assumptions in paragraph 84 is not in the black lettered guidance. To keep this requirement without including the language relating to the small change in the key assumptions is unnecessary and, we believe, adds to disclosure overload.
- We believe the IASC should establish a policy of publishing a basis of conclusions in each of its standards. Not only will the standards be better understood because readers will be able to determine the thought process the Board used to reach their positions but a basis of conclusions should reduce the need for many of the issues that might need to be addressed by the Standing Interpretations Committee.

Responses to the Specific Questions in the ED

1. Which of the following approaches do you support?

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- a) the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use?
- b) the recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset, fair value would be estimated in a similar way to value in use as defined in the Exposure Draft?
- c) other (please specify)?

We support approach a) for the reasons contained in the Exposure Draft.

- 2. Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use)?

Yes. Consistent with the investment decision discussed above, the enterprise should record the higher of value in use or net selling price. Each of these measures should contain recognition of the time value of money giving consideration to the risks of the investment in the asset or cash-generating unit.

Assets Held for Disposal

- 3. Do you agree that the definition of recoverable amount in paragraph 5 of the Exposure Draft is just as applicable to an asset held for disposal as an asset held for continuing use?

Yes. The value in use of an asset held for sale should be made up primarily of the proceeds from the disposal of the asset and, as a result, should not vary significantly from the net selling price if the anticipated disposal is in the near term.

Recognition of Impairment Losses

- 4. Do you agree that an impairment loss should be recognised for an asset:
 - a) whenever the recoverable amount of the asset is less than its carrying amount and
 - b) only if the cash-generating unit to which the asset belongs is impaired?

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If you disagree with these proposals, please indicate criteria you would prefer for the recognition of an impairment loss in the financial statements.

Yes, we agree.

Reversals of Impairment Losses

5. Do you agree that an impairment loss recognised in prior years for an asset carried on an historical cost basis should be reversed up to the depreciated historical cost of the asset if and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised?

As stated above, we would prefer the final standard follow the perspective expressed in the arguments proposed by the opponents of the reversal of an impairment loss contained in paragraph 84 of the basis of conclusions. We would not object to the issuance of the document, however, if this change is not made.

6. Do you agree that an impairment loss recognised for goodwill and other intangible assets for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition of the impairment loss has reversed?

Yes, assuming that reversals of impairment losses are appropriate in any circumstance.

Scope

7. Do you agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft (paragraphs 1-4 of the Exposure Draft and paragraphs 106-110 of the Basis for Conclusions)?

Yes, we agree with the scope.

Identifying a Potentially Impaired Asset

8. Do you agree that:
 - a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired; and

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- b) the list of indicators of impairment included in paragraph 8 of the Exposure Draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired?

Yes, except in order to be explicit, the decision by the board of directors to discontinue an operation and its announcement should be added to the list of triggers that require an assessment of impairment. Otherwise, the readers of the upcoming impairment standard might not agree that an impairment evaluation is required.

Net Selling Price

9. Do you agree that net selling price should be determined:

- a) based on "the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties" and that it is not necessary to determine net selling price by reference to an active market?

Yes.

- b) after deducting from the amount obtainable from the sale of an asset the incremental costs that are directly attributable to the disposal of the asset?

Yes.

Value in Use

10. Do you agree with the proposed requirements and guidance in the Exposure Draft for:

- a) the basis for estimates of future cash flows?
- b) the comparison of estimates of future cash flows?
- c) selecting the discount rate?

Yes.

Cash-Generating Units

11. Do you agree that, if an asset does not generate cash flows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit?

Yes.

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12. Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit?

Yes.

13. Do you agree with the requirement (and related guidance) to recognise and measure an impairment loss if there exists goodwill or other corporate assets (such as head office assets) that relate to a cash-generating unit?

Yes.

14. Do you agree with the procedures for allocating an impairment loss of cash-generating unit between the assets of that unit?

Yes.

Disclosure

15. Do you agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose more information, such as the amount of impairment losses that can be reversed in subsequent periods?

No (see our comments on page one).

16. Do you agree with the disclosure requirements in paragraph 82 of the Exposure Draft and that an enterprise should not be required to disclose for each individual asset (or cash-generating unit) for which significant impairment losses have been recognised or reversed during the period:

- a) the value in use of the asset (cash-generating unit) if the recoverable amount is based on the net selling price of the asset (cash-generating unit);
- b) the net selling price of the asset (cash-generating unit) if the recoverable amount is based on the value in use of the asset (cash-generating unit);
- c) if the recoverable amount is based on the value of the asset (cash-generating unit):
 - i. the discount rate(s) used in the calculation; and

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- ii. the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates or for the market in which the asset (cash-generating unit) is used; and
- d) other key assumptions used to determine the recoverable amount of an asset?

Yes, however, users of financial statements better judge disclosures and we urge the Board to consider carefully the responses of users as they relate to disclosure.

17. Do you agree with the disclosure requirements in paragraphs 83-84 of the Exposure Draft and that an enterprise should not be required to disclose information similar to that proposed in question 16 above for each individual asset (cash-generating unit) for which:
- a) recoverable amount has been determined during the period;
 - b) no impairment loss was recognised or reversed during the period; and
 - c) a small change in key assumptions could lead to the recognition or reversal of a significant impairment loss?

Yes, however, we would only require the disclosures in paragraph 83 if an impairment would be required based on a small change in the key assumptions. As written, the language concerning the small change in the key assumptions is not in the black lettered portion of the document.

18. Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft?

Yes. This requirement should put discipline into the impairment calculation as it relates to value in use.

19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined? If you believe that such information should be required, please indicate which details should be required?

We agree that this disclosure does not appear necessary.

20. Should an enterprise be required to disclose any information other than that discussed in questions 15-19 to this Invitation to Comment?

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Not in our opinion.

Appendices

21. Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix?

As indicated above, we support the Board including in each standard a basis of conclusions. Otherwise, we have no suggestions.

22. Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment?

Yes.

Other Comments

23. Do you have any other comments on the proposed International Accounting Standard?

No.

Very truly yours,

ARTHUR ANDERSEN LLP

A handwritten signature in black ink that reads "Arthur Andersen LLP". The signature is written in a cursive, flowing style.

BJM