



October 6, 1997

International Accounting Standard Committee
The Secretary-General
167 Fleet Street
London EC4A 2ES
England

Dear Sirs,

I would first like to apologize for the delay in our response. The Financial Accounting Commission of the European Federation of Financial Analysts (EFFAS) met recently to review EDs on Leasing, Impairment of Assets, Goodwill and Property, Plant and Equipment.

We welcome this opportunity to comment on these EDs.

2 - Impairment of Assets, E55

We share the opinion of the IASC that there is an urgent need for a standard on accounting for impairments. However, we are concerned that the proposals for writing down the value of goodwill are not stringent enough and also that the proposals for writing down the value of PPE may render rate of return figures meaningless.

3 - Goodwill

We are afraid that a company can avoid a write-down by making optimistic forecasts of future cash flows. It seems to us that if a company has made a forecast and this turns out to be optimistic, it should not be possible to avoid a write-down by making another optimistic forecast. In most cases, acquired operations are integrated in the existing operations within a couple of years. Therefore it is not possible to isolate the contribution from the acquired operations. To see if any goodwill has been impaired, one must define the cash-generating unit as consisting of other operations, possibly all assets of the group. As many "old" assets have a low book value compared to current market value, a company could easily avoid a write-down by integrating operations with a low return with more profitable operations. We think that in order for the impairment test to be effective, there is a need to impute an amount of goodwill to the existing operations in cases like these.

4 - Property, Plant and Equipment

We believe that any reference to a low rate of return should be excluded as an indicator of impairment for PPE. Probably large companies have some segments or profit centers where the rate of return is below the cost of capital. The proposed standard would allow the management to make a write-down of the assets in such cases. If, subsequently, the rate of return increases, the write-down should be reversed with the appreciation going through the income statement.

To let the valuation of PPE be a function of the rate of return obviously makes any rate of return calculations meaningless. There is also the problem of a lack of comparability. One can assume that not all companies will write down their assets when profitability declines. It seems to be very easy to make a forecasts of future cash flows that indicate that no write down is necessary.

Even though IASC has taken exception to the permanence criterion, the difficulty of making objective forecasts gives companies in practice a choice of only writing down the value when the impairment is permanent.

For both these reasons, i.e. that companies can value their assets based on the actual rate of return and that companies can, if they want to, avoid write-downs by making appropriate assumptions of the future, we strongly oppose to include as an indicator c) and f) in paragraph 8 in the exposure draft.

I would like to take this opportunity to thank you for your consideration of our comments. If you have any questions, please do not hesitate to contact me.

Sincerely,



F. Javier de Frutos
Chairman,
Financial Accounting Commission of EFFAS