



The South African Institute of Chartered Accountants
Die Suid-Afrikaanse Instituut van Geoktrooieerde Rekenmeesters

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Sir Bryan Carsberg
Secretary - General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2ES
UNITED KINGDOM

Dear Bryan

EXPOSURE DRAFT E55, IMPAIRMENT OF ASSETS

Attached please find the comments of The South African Institute of Chartered Accountants on E55. I apologise for their late submission.

In general we believe that the exposure draft has been well thought out and provides a meaningful and necessary addition to the suite of IASC standards. We do however remain concerned as to the difficulties that smaller enterprises, in particular, will have in calculating value in use.

Cash-generating units

In determining the recoverable amount of an asset whose value in use cannot be determined individually the cash-generating unit used could very well include assets whose recoverable amount can be determined individually. In this case it is possible that paragraphs 55 and 56 could be interpreted as not permitting an impairment loss to be recognised for the latter asset if its recoverable amount was below carrying amount but the cash-generating unit tested as a result of an impairment indicator on the former asset indicated a recoverable amount above the carrying amount of the assets in the cash-generating unit. As we do not believe this to be the intention of the document we would recommend an amendment to state that an individual asset's recoverable amount be calculated and any resultant impairment loss recognised before the recoverable amount of a cash-generating unit to which it belongs is calculated.

Allocation of an Impairment Loss within a Cash-Generating Unit

The proposed standard in paragraph 62 provides for an order of allocation of an impairment loss determined for a cash-generating unit. In certain specific cases we are of the opinion that the allocation would result in a material misstatement of the factual position and not achieve fair presentation. This can best be illustrated by the following example.

A company owns the building in which it operates, tangible assets to run the operations and brandnames. An indicator of impairment has occurred relating to the building. As the value in use of the building cannot be separately determined, the recoverable amount of the cash-generating unit to which it belongs, namely the total business, is determined. Any resultant impairment loss would however, in accordance with paragraph 62, be used to write down the carrying amount of the brandnames and not the asset which is impaired, namely the building.

We would therefore recommend that any impairment loss arising from a cash-generating unit firstly be applied in writing down the specific asset which triggered the impairment calculation to net selling price and thereafter in the order specified in paragraph 62.

Specific questions

1. Which of the following approaches do you support?

- (a) *The recoverable amount of an asset should be measured as the higher of its net selling price and its value in use (paragraphs .05 and .12 - .40 of the exposure draft and paragraphs .07 - .30 of the basis for conclusions)?*
- (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 from 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 (paragraphs .13 - .19 of the basis for conclusions)?*
- (c) *Other (please specify)?*

We support the approach set out in paragraph (a).

2. *One consequence of the approach adopted in this exposure draft (or alternative definition of recoverable amount based on fair value) is that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) (paragraphs .07 - .09 and .11 - .12 of the basis for conclusions). 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)?

We agree that present value techniques should be used in determining recoverable amount.

3. *Do you agree that the definition of recoverable amount in paragraph .05 of the exposure draft is just as applicable to an asset held for disposal as to an asset held for continuing use (paragraph .26 of the basis for conclusions)?*

Yes

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 (paragraph .41 of the exposure draft and paragraphs .59 - .67 of the basis for conclusions), and*
- (b) Only if the cash-generating unit to which the asset belongs is impaired (paragraphs .55- .58 of the exposure draft and paragraphs .74 - .75 of the basis for conclusions)?*

We agree with the proposals for recognising an impairment loss.

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 (paragraphs .70 - .76 of the exposure draft and paragraphs .83 - .87 of the basis for conclusions)?*

We agree with the proposals on reversal of impairment losses.

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 (paragraphs .77 - .78 of the exposure draft)?*

We agree with the proposals on reversing impairment losses in respect of goodwill and intangible assets for which there is no active market.

7. *Do you agree that the statement should apply to all assets except those listed in paragraph .01 of the exposure draft (paragraphs .01 - .04 of the exposure draft and paragraphs .106 - .110 of the basis for conclusions)?*

We agree with the scope proposals.

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*
- (b) The list of indicators of impairment included in paragraph .08 of the exposure draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired?*

We agree that the recoverable amount of an asset should only be determined if an impairment indicator has been triggered and that the impairment indicators are sufficiently comprehensive to cause the recoverable amount to be calculated if there is a risk that the asset is impaired.

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 (paragraphs .05 and .17 - .18 of the exposure draft and paragraphs .31 - .38 of the basis for conclusions), and*
- (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 (excluding finance costs and income tax expense) (paragraph .30 of the background paper)?*

We agree with the proposals for determining net selling price.

10. *Do you agree with the proposed requirements and guidance in the exposure draft for:*

- (a) The basis for estimates of future cash flows (paragraphs .23 - .27 of the exposure draft and paragraphs .24 and .40 - .42 of the basis for conclusions),*
- (b) The composition of estimates of future cash flows (paragraphs .28 - .35 of the exposure draft and paragraphs .43 - .46 and .50 - .58 of the basis for conclusions), and*
- (c) Selecting the discount rate (paragraphs .36 - .40 of the exposure and paragraphs .47 - .49 of the basis for conclusions)?*

We agree with the proposed manner of determining future cash flows and selecting the discount rate.

11. *Do you agree that, if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit (paragraphs .46 - .47 of the exposure draft)?*

Yes

12. *Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit (paragraphs .05 and .48 - .53 of the exposure draft)?*

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 (paragraphs .59 - .61 of the exposure draft and paragraphs .79 - .81 of the basis for conclusions)?*

We agree with the proposed manner of allocating goodwill and other corporate assets to cash-generating units.

14. *Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit (paragraphs .62 - .65 of the exposure draft and paragraphs .77 - .78 of the basis for conclusions)?*

Except as mentioned above we agree with the proposals an allocating impairment leases between the underlying assets in a cash-generating unit.

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 (paragraphs .88 - .92 of the basis for conclusions)?*

We agree with the disclosure requirements and believe them to be sufficiently comprehensive.

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 in use of the asset (cash-generating unit):*
 - (i) *the discount rate(s) used in the calculation, and*

- (ii) *the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates of 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?

(paragraphs .24, .93 - .95 and .98 - .99 of the basis for conclusions)?

Although we agree with the disclosure requirements in paragraph 82 we were unsure as to the meaning in paragraph 82 (a) of “the nature of the asset (cash-generating unit)”. If this means a description of the individual asset itself, we believe that in certain cases the problem of disclosing confidential information may arise. We would therefore suggest greater clarity be provided as to the meaning of this disclosure. We believe that the information required is sufficiently comprehensive.

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?*

We agree with the disclosure requirements in paragraphs 83 and 84 and believe them to be sufficiently comprehensive.

18. Do you agree with the disclosure requirements in paragraph .85 of the exposure draft (paragraphs .24 and .100 - .101 of the basis for conclusions)?

We believe that the disclosure requirements in paragraph 85 are essential to the proposed standard.

19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined (paragraphs .102 - .105 of the basis for conclusions)? If you believe that such information should be required, please indicate which details should be required.

We agree that information on the determination of cash-generating units should not be required.

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

We believe the disclosure requirements contained in the proposed standard to be adequate.

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

The material contained in appendix 1 is acceptable as it is currently drafted.

22. *Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment (Appendix 2)?*

We agree with the proposed consequential changes to IAS 16.

I hope the above is of use.

Yours sincerely



Trevor Derwin
PROJECT DIRECTOR - ACCOUNTING