



## B·A·T INDUSTRIES

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Registered Office

David P. Allvey  
Group Finance Director

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

8 August, 1997

Dear Sir

### **Impairment of Assets (E55)**

We have reviewed the above exposure draft, issued in May 1997, and have a number of comments to make, which are set out below.

#### **Measurement of recoverable amount**

1. We agree that the recoverable amount of an asset should be measured as the higher of its selling price and its value in use.
2. We agree that present value techniques should be used to measure the recoverable amount of an asset.

#### **Assets held for disposal**

3. We agree that the stated definition of recoverable amount is applicable to both assets held for disposal and for continuing use.

#### **Recognition of impairment losses**

4. We agree that an impairment loss should be recognised for an asset if its recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined individually, regard should be had to the relevant cash generating unit with the aggregate recoverable amount being compared to the aggregate carrying amount.

#### **Reversals of impairment losses**

5. We agree with the proposals for the reversals of impairment losses recognised in previous years.
6. Impairment losses relating to goodwill and other intangibles where there is no active market. We believe that it should be necessary for there to be clear evidence of an external event; this event should be one that reverses the effects of the external event that caused the loss to be recognised initially.

### **Scope**

7. We agree with the scope of the proposed standard, set out in paragraph 1.

### **Identifying a potentially impaired asset**

8. We agree with the list of indicators of impairment included in paragraph 8 and that it is only necessary to estimate recoverable amount if any such indicators exist subject to the materiality point emphasised in paragraph 12.

### **Net selling price**

9. We agree with the proposals for the determination of net selling price.

### **Value in use**

10. The proposed guidance suggests that impairment should be measured on a pre-tax basis which is at odds with the recently issued UK exposure draft on this subject which proposes the use of a post-tax basis. In the interests of international harmonisation we would hope that consistency can be achieved in the resulting standards.

### **Cash generating units**

11. Where an asset does not generate independent cash inflows, we agree that the recoverable amount of the relevant cash generating unit should be determined.
12. We agree with the definition of a cash generating unit.
13. We would normally expect to be able to allocate corporate assets and thus would question the need to include provision for the "top-down" test in addition to the "bottom-up" test.
14. We are happy with the proposals in paragraphs 62 to 65 for the allocation of an impairment loss between the assets of the cash generating unit.

### **Disclosure**

15. We believe that the disclosure requirements set out in paragraphs 79 to 81 are sufficient and should not be extended.
16. The requirements in paragraph 82 are extensive and we would question the need to make reference to net selling price or value in use under paragraph 82(c), or to provide the information in paragraph 82(d). We would agree that none of the additional disclosures should be included.
17. We do not believe that there should be any need for paragraph 83's requirement if the determination shows no impairment loss. Similarly there should be no need for the additional disclosures mentioned.
18. We agree with the disclosure requirements set out in paragraph 85.
19. We see no need to give information on how cash generating units are determined.
20. We would not make any suggestions for further disclosures.

**Appendices**

21. We would not propose any changes to appendix 1.

22. We agree with the amendments suggested.

We thank you for allowing us the opportunity to comment on this issue.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D P Allvey', with a long horizontal flourish extending to the right.

D P Allvey  
Group Finance Director