



August 20, 1997

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

Re: Proposed International Accounting Standard "Impairment of Assets" Exposure Draft E55

Dear Secretary-General:

3M appreciates the opportunity provided by IASC to comment on the proposed international accounting standard "Impairment of Assets."

3M is supportive of the guidance contained in this proposed standard relating to impairment indicators, cash-generating units, and applauds the frequent use of examples. However, 3M does have major concerns relating to the measurement of recoverable amount, reversals of impairment losses, identifying a potentially impaired asset, and disclosure requirements. 3M's position on these areas are discussed below.

Measurement of Recoverable Amount (Questions 1 and 2):

The IASC supports impairment loss recognition whenever the recoverable amount of an asset is below its carrying amount (economic criterion). 3M supports the use of undiscounted cash flows to measure impairment. 3M is concerned about the potentially volatile effect in earnings caused by temporary circumstances, changes in discount rates, and changes in assumptions. The use of discounting for non-financial assets and liabilities results in subjective measurements.

Reversals of Impairment Losses (Questions 5 and 6):

3M believes companies should be prohibited from restoring the carrying amount of an asset once it has been impaired. An impairment loss should result in a new cost basis for the impaired asset. The new cost basis should not subsequently be adjusted except for prospective changes in depreciation estimates and method and for further impairment losses. Allowing restoration when circumstances are alleged to have changed will be an unnecessary temptation to "manage earnings". 3M currently has an internal policy prohibiting restoration. It would also be possible for restoration to take place in stages. An asset could be fully impaired at time period 1, 75 percent impaired at time period 2, and so on, resulting in a potentially volatile effect in earnings. The potential cycle of recognizing an impairment loss, then allowing partial or full restoration, then impairing the asset again, could be never ending. 3M believes partial or full restoration should be prohibited.

Secretary-General
Page 2
August 20, 1997

Identifying a Potentially Impaired Asset (Question 8):

Paragraph 7 of the exposure draft requires a **review at each balance sheet date** to assess whether there is any indication that an asset may be impaired. The question of how to perform this review is not addressed and could result in disagreements between the company and independent auditors on what is required. 3M believes that an entity need only review an asset for impairment **whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.**

Disclosure (Questions 15 through 20):

3M believes the disclosure requirements relating to impaired assets are excessive. 3M does not believe that providing discount rates used, long-term growth rate for products, and other detailed assumptions adds value to the disclosure. These disclosures could also result in the company providing competitively harmful information. An enterprise should not be required to describe how cash-generating units are determined. It is the responsibility of the company and independent auditors' to ensure they follow the appropriate accounting guidance. The company should not have to disclose all the assumptions made to arrive at the end result. The impact of allowing restoration on the disclosures is also excessive, and in itself provides a strong argument for not allowing restoration.

Thank you for the opportunity to comment on this proposed standard.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Y. Nelson", with a long, sweeping horizontal stroke extending to the right.