

# OERLIKON-BÜHRLE

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

Zurich, August 22, 1997

## IAS E55 Impairment of Assets - Comment

Dear Sir,

Please find enclosed our comments on the above mentioned Exposure Draft.

### Main comment

The usefulness and the necessity of this separate, very complex statement is not clear for preparers of financial statements. In our view the existing impairment requirements in IAS 16, property, plant and equipment, are sufficient. We do not believe that the guidance presented in this Exposure Draft in that immense content will improve the quality and reliability of financial statements.

### Special comments

- Much will depend on common sense in practical application. There is a built-in risk, even more so than with most standards, that this standard could lead to pressure from auditors for a lot of analysis which does not contribute to the value-creation process, just to minimize their own risks. In particular, some further thought should be given to implementation, since the creation of the bank of „previous calculations“ which will obviate most of the potential high costs could itself be a massive investment (or rather consumption) of time. Also, with regard to the detailed instructions for calculating value in use and present values, „less would be more“: the possibility of using more approximate estimations in less material situations would encourage meaningful application of the standard.

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- The concept of cash-generating units may also be difficult to handle in many practical situations. E.g. where a product is supplied to global markets from several production plants through a common distribution system, it is difficult to foresee meaningful calculations for a cash-generating unit at a lower level than the product, despite potential impairment situation through (e.g.) obsolescence. In this context, it should be possible to write down individual assets because of obsolescence or underutilization, even though their cash-generation unit as a whole is „positive“.
- The disclosure requirements are absurdly exaggerated. For any but the most material impairments the majority will not enable the user to understand better the financial position and performance of the enterprise but will impose higher information-gathering costs on preparers. It cannot be sufficiently stressed that it is not the role of the users of financial statements to assess whether the assumptions used when preparing those statements are correct: that is the auditor's job.

### Answer to specific questions

1. We only support approach (a). Approach b) is economically not justified and also not practical in going-concern situations.
2. We agree, but only for special items in special situations.
3. We agree.
4. We only agree with (a) and only if clear indications exist.
- 5./6. We do not agree with reversals of impairment losses recognized in prior years because we should strictly avoid the impact of yearly „up and downs“ of subjective estimates in the financial statements to save their reliability!
7. We agree, but the assets concerned should be determined directly.
- 8(a) We agree, but in practice this special valuation work should be limited to clear indications (facts, not subjective expectations!).
- 8(b) We agree, but without (g) already covered by (f). Wording like „or will take place in the near future“ (b) or „are expected to take place in the near future“ (e) or „will be“ (f) should be avoided. In addition these indications need to be applied with good common sense to work in practice.

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9. We agree with (a) and (b).
10. We agree with (a), (b) and (c), but consider the guidance as generally too detailed. In particular, the last sentence of para 23 (c) and the explanations of para 27 are not necessary.
11. We do not agree with the concept that an impairment loss should be booked only if a cash generating unit is impaired. Furthermore, it is unrealistic to assume that cash flows can be determined for all assets. „Value in use“ should be in accordance with the words used. For example, in your example in para 47, we consider that if the infrastructure, here a railway, is clearly underutilized or obsolete, then this, and not cash flow from the whole business, should be sufficient to justify an impairment adjustment.
12. We agree, however, this should not preclude impairments on individual assets due to utilization or obsolescence issues in sub-units.
13. In our view the allocation of goodwill and corporate assets does not suit the concept of a cash-generating unit with identifiable flows. They should be treated as residuals unless they can be specifically identified to a cash-generating unit. In practice, it is generally very difficult to find *reasonable and consistent bases to allocate goodwill and corporate items to specific cash-generating units.*
14. We do not agree with the procedures defined in para 62 and 65 because they are based on somewhat questionable assumptions. We recommend that the impairment loss be allocated as follows:
  - a) first to goodwill
  - b) second to intangible assets
  - c) then to other assets on a pro rata basis.
15. We agree.
- 16., 17., 18.

The disclosure requirements in paragraphs 82-85 are absurdly exaggerated for all but the most material situations. See our third general point above.
19. We agree.
20. Any more than para. 81 would be excessive.

## OERLIKON-BÜHRLE

Thank you for the opportunity to comment and for taking our comments into consideration.

Yours sincerely,  
Oerlikon-Bührle Holding AG

  
Josef Hackl

  
Franz Rützer

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**Fax to** The Secretary-General,  
International Accounting  
Standards Committee,  
167 Fleet Street, London

**Fax No.** 0044 171 353 0562

**Pages** 5

**Date** August 25, 1997

**Direct phone** + 41 1 360 96 22

**From** Franz Rützer

**Direct fax** + 41 1 363 72 60

**"Accounting for Financial Assets and Liabilities"**

Please find attached the Oerlikon-Bührle comments.

Yours sincerely,



Franz Rützer  
Corporate Controller