

Frans Pistorius, RA
Corporate Vice-President DSM

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

Dear Sir,

We are responding to your invitation to comment on the exposure draft E55, Impairment of Assets.

Please find our comments on the Exposure Draft referred to:

Measurement of Recoverable Amount

1. We support approach (a), where the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use.
We also concur with the conclusion of the Board that only a few assets covered by the proposed Standard are traded in an active market. Therefore, in many cases, the value in use is likely to lead to the same recoverable amount as the use of present value calculation of future cash flows to estimate fair value.
2. Yes. We understand that one of the consequence of the approach adopted in the Exposure Draft is that present value techniques should be used to measure the recoverable amount of an asset, implicitly or explicitly. However, we would like to draw the attention of the Steering Committee to the fact that as a result of the adopted approach certain assets are measured at their present value and others are measured at cost less cumulative depreciation (amortisation). In fact, the accounting principle for the measurement of all assets, within the scope of the Exposure Draft, has changed to measurement at cost (less cumulative depreciation (amortisation)) or the lower of net selling price or its value in use, whichever is higher. Although we understand the reasoning behind the adopted approach we question the logic behind the introduction of present value techniques for only certain assets. In our view the use of present value techniques requires further study and discussions before considering to introduce these techniques in financial reporting. If present value techniques should be introduced in financial reporting this should be a separate Board project. We strongly oppose the piecemeal introduction of present value in accounting standards.

Assets Held for Disposal

3. Yes

Recognition of Impairment Loss

4. a) Yes
b) Yes

Reversal of Impairment Loss

5. Yes, however we would like to make the following remark:

- Is the reinstatement of previously recognised losses not in contradiction with the historical cost convention. When an impairment loss is recognised the recoverable amount becomes the new cost basis for the asset. Therefore a subsequent reversal is in fact an upward revaluation of the asset. Under the historical cost convention this is prohibited.
6. No. In our opinion the criteria are too restrictive. Although we recognise the concerns of the Steering Committee of the recognition of internally generated goodwill we question whether the reversal of impairment loss recognised on purchased goodwill could not be a result of future economic benefits that were previously not expected to flow from the asset and have been re-assessed as probable.

Scope

7. No. In our view the following assets should also be excluded from the Standard:

- Assets held for sale as a result of a discontinuing operation, as prescribed in DSOP Discontinuing Operations, and;
- Interests in subsidiaries, associates and joint ventures accounted under the equity method.

Identifying a Potential Impaired Asset

8. a) Yes.

b) Yes. However we would like to make the following remarks:

- Although we recognise that indication (a) may result in the recognition of an impairment loss it could also be argued that in certain cases the recoverable amount is not seriously affected by the decrease in the market value of the asset as its value in use is not correlated with its market value. In those circumstances an enterprise should not be required to estimate the recoverable amount.
- We propose to the Steering Committee to put more emphasis on the fact that the sources of information under (d) 'obsolescence and physical damage' and (f) 'economic performance' should be significant. We propose to extend (d) with the wording 'which are likely to decrease materially the asset's recoverable amount'. Under (f) it should read 'significantly worse than expected'.

Net Selling Price

9. a) Yes

b) Yes

Value in Use

10.a) Yes. However, we have objections to the disclosure requirements referred to in paragraph 25, 26 and 27. See also our answer to questions 16 and 17.

b) Yes

c) Yes

Cash-Generating Units

11. Yes

12. Yes

13. We disagree with the allocation of corporate assets (excluding goodwill) to an asset's cash generating units. A possible impairment of corporate assets should be measured based on the carrying value of the entire enterprise. In our view it is incorrect to recognise an impairment loss for a cash generating unit based on only an arbitrary allocation of corporate assets. Furthermore it is unclear how the impairment loss is allocated between the corporate assets and the assets of the cash generating unit. We agree with the allocation of purchased goodwill to an asset's cash generating unit.

14. No. Although we understand the logic of the procedures for allocating an impairment loss of a cash generating unit we believe the procedures are too restrictive. For example, an enterprise purchased a cash generating unit because of its particular attractive market position. After two years the equipment becomes obsolete. The recoverable amount cannot be estimated for the equipment individually and as a result an impairment loss is recognised for the cash generating unit. We would argue that in this case the loss first should be allocated to the tangible assets of the unit. In our view the service potential of the goodwill has not been affected (i.e. the attractive market position has not been affected).

Disclosure

15. Yes, Yes

16. We oppose the disclosure requirement of paragraph 82 (d). In our view, as noted by the Board in paragraph 95 of the Basis of Conclusion, it is not the role of users to verify how the recoverable amount has been determined but the role of the external auditors. Also the information proposed to be disclosed may be prejudicial to the interest of the enterprise.

We agree that an enterprise is not required to disclose captions (a) through (d) of question 16 for each individual asset (or cash generating unit) for which significant impairment losses have been recognised or reversed during the period.

17.No. We strongly oppose to the disclosure requirements of paragraphs 83 and 84.

Paragraph 83

If, based on the calculation made by management, an impairment loss for an asset or an asset's cash generating unit or a reversal of an impairment loss should not be recognised no disclosure should be required. The information proposed under paragraph 83 is not relevant for users of financial statements as no impairment loss is recognised or reversed.

Paragraph 84

As mentioned under our answer of 16 we do not believe that the disclosure of key assumptions on the valuation of specific individual assets or cash generating units are useful to users. Furthermore we strongly believe that "what if" reporting should be avoided.

We agree that an enterprise is not required to disclose captions (a) through (c) of question 17 for each individual asset (or cash generating unit).

18.No. We strongly oppose the disclosure of paragraph 85. The proposed disclosure in fact requires an enterprise to disclose impairment losses and reversals of impairment losses of former years had perfect foresight existed at the time the calculation was made.

19.Yes

20.No

Appendices

21.No

22.Yes

Other Comments

23.No

