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Sir Bryan Carsberg
The Secretary-General
International Accounting Standards Committee
167 Fleet Street
London EC4A 2ES
United Kingdom

Dear Sir Carsberg

E 55 Impairment of Assets

Thank you for the opportunity to provide our comments on the above exposure draft.

National Australia Bank considers the approach set out in E 55 "Impairment of Assets" for recognising and measuring impairments to assets to be deficient in several respects. Whilst we appreciate the importance of recognising impairment to assets, we are concerned that the recoverable amount test proposed introduces an unnecessary level of subjectivity to the asset values recognised in the balance sheet. In our view, the recoverable amount test, as defined in E 55, will have a detrimental effect on the quality of financial reporting.

We would recommend that the Board adopt a recoverable amount test based principally on measuring recoverability in terms of an asset's fair value. That is, we would favour an approach akin to the requirements of Financial Accounting Standard FAS 121 "Accounting for the Impairment of Long-Lives Assets and for Long-Lived Assets to Be Disposed Of".

We have outlined below our specific concerns with the proposals in E 55.

1. Measurement of Recoverable Amount

In our view, the recoverable amount of an asset should be measured by reference to its fair value. This is consistent with the approach in FAS 121.

We question the relevance and reliability of an asset's recoverability being assessed at the greater of net selling price and value-in-use. It is unclear what measurement principles underpin the approach proposed in E 55 and we believe that applying measurement principles on a piecemeal basis is likely to reduce user understandability. Our principal concern is that value-in-use is a highly subjective basis for assessing an asset's recoverability and because of the assumptions involved in determining such values, it produces information of questionable reliability.

There is also a significant cost associated with obtaining an asset's net selling price and value-in-use where a potential impairment exists. It is not clear to us, that the benefits of the proposed approach have been demonstrated to exceed the costs entities are likely to incur in implementing them.

Accordingly, we recommend that the fair value of an asset should be used to measure its recoverability. For many assets, fair values can be readily obtained and usually at a much lower cost than value-in-use valuations. Our preference for fair values is based on the fact that it is generally accepted that the market provides a more objective assessment of an asset's recoverable amount because it eliminates the subjectivity inherent in entities

attempting to assess an asset's risk and expected utility in determining value-in-use. We accept that in some circumstances, fair values will not be available for assets, such as specialised assets for which deep markets do not exist. In those cases, other approaches may be used to determine an asset's recoverable amount (e.g. discounted cash flow techniques).

2. Use of Discounting

We concur that the recoverable amount of an asset should implicitly rely on present values as impounded in the current fair value of an asset. It is unlikely that undiscounted amounts will lead to useful information for users of the financial statements. However, we note that International Accounting Standard IAS 16 "Property, Plant and Equipment" does not require the recoverable amount of an asset to be discounted. Because the proposals in E 55 make discounting of cash flows mandatory, in our view, the proposed Standard should establish robust rules for the selection and use of discount rates. This will assist in addressing the inherent subjectivity in determining asset-specific risk-adjusted discount rates and the effect of such rates on the recoverable amount of an asset.

3. Assets Held for Disposal

As we do not support value-in-use (except as a surrogate for fair value), we believe that assets held for disposal should be measured at their fair value. We agree that the fair value of an asset held for disposal should be discounted where disposal is expected to occur beyond one year of the reporting date.

4. Recognition of Impairment Losses

We concur that an impairment loss should be recognised as an expense (or reduction to a revaluation reserve) where the carrying amount exceeds its recoverable amount.

5. Scope

We agree that the proposed Standard should apply to all assets (except for those excluded in paragraph 1). However, we find it difficult to identify any current assets that may be included within the scope of the proposed Standard except for those assets to be disposed of in the next reporting period. The proposed Standard should include commentary outlining the nature of current assets that are likely to be subject to an impairment loss.

6. Identifying a Potentially Impaired Asset

In our view, an intermediate test is required where a possible asset impairment is indicated. In many instances, the impairment indicators are likely to be triggered at each reporting date because of short-term volatility in markets for the sale of assets, changes in productivity and technology and changes in an entity's operating environment. For example, the market value of an investment in a subsidiary is likely to fluctuate from period to period in response to the business cycle, interest rates and other economic fluctuations.

Accordingly, we propose that an intermediate test, as required in FAS 121, be developed to assess the possibility of an impairment by considering the undiscounted cash flows of an asset before proceeding to apply the recoverable amount test. This may assist in mitigating the costs involved in determining the recoverable amount of an asset at each reporting date where one or more of the impairment indicators are triggered.

7. Net Selling Price

We agree that the net selling price of an asset should reflect the net amount recoverable on the disposal of an asset.

8. Value-in-Use

We have considerable concerns about determining the value-in-use of an asset. We believe that the market provides the most relevant and reliable estimate of asset's recoverable amount. Value-in-use, as defined in E 55, relies on too many subjective estimates of the risk profile and useful life of an asset, especially for long-lived assets that may require the application of a number of discount rates to determine value-in-use.

9. Cash-Generating Unit

We agree that in some instances it will be necessary to group assets together to assess their recoverable amount on a portfolio basis.

We support the procedures for allocating an impairment loss. However, we strongly disagree with the treatment of goodwill and other corporate assets on the grounds that the "bottom-up" and "top-down" tests proposed are extremely difficult to apply in practice and result in highly subjective assessments of recoverability. We recommend that these requirements be removed from the proposed Standard.

10. Disclosures

We concur that the disclosure requirements proposed will provide users with relevant information about the impairment of assets. However, we do not believe that information needs to be disclosed where no impairment loss has been recognised (paragraph 83). The principal concern for users will be to know that assets have been subjected to an impairment test. This is apparent from the notes to the accounts which would indicate that the financial statements have been prepared in accordance with International Accounting Standards.

If you wish to discuss any of these matters please contact Mrs Darcy Thompson on +61 3 9641 0476.

Yours Sincerely

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B S McComish
Chief Financial Officer