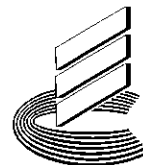




CONSEIL NATIONAL  
de la Compagnie nationale  
des commissaires aux comptes



CONSEIL SUPÉRIEUR  
de l'Ordre  
des experts-comptables

Paris 20th August 1997

**Sir Bryan CARSBURG**  
General Secretary  
International Accounting  
Standards Committee  
167 Fleet Street  
LONDON EC4A2S

Dear Sir Bryan

Please find enclosed the joint comments of the Conseil Supérieur de l'Ordre des Experts Comptables and the Compagnie Nationale des Commissaires aux Comptes on the IASC's exposure-draft E 55 relating to impairment of assets.

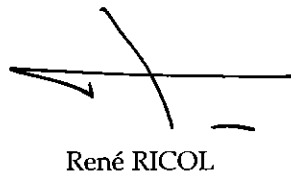
Yours sincerely

**Compagnie Nationale  
des Commissaires aux Comptes**  
Le Président de la Compagnie Nationale

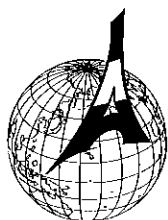
**Ordre des Experts Comptables**  
Le Président du Conseil Supérieur



Didier KLING



René RICOL



XV<sup>e</sup> Congrès mondial  
de la Comptabilité  
26/29 octobre 1997  
Paris

*Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :*

## **FRENCH RESPONSE TO IASC'S EXPOSURE DRAFT ED 55 IMPAIRMENT OF ASSETS**

### **General comment**

- We believe that the exposure draft on impairment of assets should be discussed together with the one on intangible assets. Indeed, we understand that the introduction of a standard on impairment test was a consequence of the decision of the Board to permit amortization of Intangible Assets on more than 20 years. We were then expecting that the implementation of a very stringent impairment test would only apply to those assets and that a less stringent method, such as a test using undiscounted cash flow, would be used for intangibles with useful life of less than 20 years or PP&E.
- The concepts underlying this exposure draft are extremely different from those generally accepted and applied by IASC. We generally agree with the taking into account of external sources of information but the importance given to fluctuations of market interest rates and rates of return seems to indicate that market rates are more important than the activity of the enterprise itself.

We strongly oppose the introduction of a test which would require the recording of variations which are not directly linked to the activity, for three main reasons :

First, this would introduce a departure from the concept of matching cost and revenue provided for in the IASC's framework.

Second, this would lead to a tremendous volatility of both balance sheet and income statement.

Third, such a test would introduce a major competitive disadvantage for companies using IASC compared to the ones using a more flexible standard, such as SFAS 121.

We would suggest that the Board could study ways to overcome these difficulties and for example (as specified in answer to question 8) :

- to provide for a "corridor" or something equivalent which could consist in setting up a preliminary test based on undiscounted cash flows.  
A similar system already exists in E 54 Employee benefits, and also in SFAS 121 in the US.
- to spread the variations due to changes in interest rates, which are temporary by nature, over the estimated useful life of the asset (concept of matching cost and revenue).
- In any cases, and because of the strong link existing between Impairment and Intangible assets/Business combinations issues, our comments may change once the exposure draft on Intangible Assets is published.

### **Responses to questions**

#### **1. Which of the following approaches do you support :**

- (a) the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use (paragraphs 5 and 12-40 of the Exposure Draft and paragraphs 7-30 of the Basis for Conclusions) ?
- (b) the recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset, fair value would be estimated in a similar way to value in use as defined in the Exposure Draft (paragraphs 13-19 of the Basis for Conclusions) ?
- (c) other (please specify) ?

We support the (a) approach - However, we would appreciate more guidance regarding the best information available if no market exists for the asset (§ 18). Please see our answer to question 9

2. **One consequences of the approach adopted in this Exposure Draft (or the alternative definition of recoverable base on fair value) is that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) (paragraphs 7-9 and 11-12 of the Basis for Conclusions). Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) ?**

We agree - Nevertheless, the consistency between valuation methods applicable in different standards should be monitored by the Board. We would support the need for a standard which provides with general principles governing the use of cash flow information and of present value techniques in accounting measurements of assets and liabilities.

#### **Assets Held for Disposal**

3. **Do you agree that the definition of recoverable amount in paragraph 5 of the Exposure Draft is just as applicable to an asset held for disposal as to an asset held for continuing use (paragraph 26 of the Basis for Conclusions) ?**

We agree - We believe that value in use and net selling price should be equivalent for an asset held for sale since operating cash flows are close to nil in that case.

#### **Recognition of Impairment Losses**

4. **Do you agree that an impairment loss should be recognised for an asset :**
- (a) **whenever the recoverable amount of the asset is less than its carrying amount (paragraph 41 of the Exposure Draft and paragraphs 59-67 of the Basis for Conclusions) ; and**

- (b) only if the cash-generating unit to which the asset belongs is impaired (paragraphs 55-58 of the Exposure Draft and paragraphs 74-75 of the Basis for Conclusions) ?

If you disagree with these proposals, please indicate criteria you would prefer for the recognition of an impairment loss in the financial statements.

We agree with the « economic criteria » which had been elected by the Steering Committee. However, we think recognition should be immediate only when the recoverable amount is outside the corridor which is proposed in answer to question 8.

#### **Reversals of Impairment Losses**

5. Do you agree that an impairment loss recognised in prior years for an asset carried on an historical cost basis should be reversed up to the depreciated historical cost of the asset if, and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised (paragraphs 70-76 of the Exposure Draft and paragraphs 83-87 of the Basis for Conclusion) ?

We agree - Proposal of the Steering Committee is consistent with the provisions of IAS 16, § 59.

6. Do you agree that an impairment loss recognised for goodwill and other intangible for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition of the impairment loss has reserved (paragraphs 77-78 of the Exposure Draft) ?

We would appreciate more guidance on definition on the external event which causes the reversal of impairment loss. Without such a guidance, one could consider that cash inflows are, by nature, external events.

## Scope

### **7. Do you agree that the standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft (paragraphs 1-4 of the Exposure Draft and paragraphs 106-110 of the Basis for Conclusions) ?**

We agree with the list of scope exceptions but we would like to add to that list :

- assets held for satisfying insurance obligations.

Moreover, we have doubt whether interest in associates and joint venture accounted for using the equity method should be excluded, or not. If not, it should be made clear that the impairment test is based on operating cash flows compared to net assets, including goodwill, of the undertaking, and not on dividends received from the undertaking.

### **8. Do you agree that :**

- (a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired ; and
- (b) the list of indicators of impairment included in paragraph 8 of the Exposure Draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired.

(paragraphs 6-12 of the Exposure Draft)

- (a) We support that the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired.
- (b) We concur with the list of indicators except for the following :
  - we do not agree with the present wording of par. (c) : an increase in market interest rates or other market rate of return on investments should not be an indicator for considering that an asset may be impaired. In particular, a company should have the assurance that no impairment loss is necessary

when the actual rate of return of an asset is not materially lower than the rate that was expected at the date of acquisition. We then believe that paragraph (c) should be limited to assets generating current and projected cash flow losses or which have an actual rate of return which is expected to be materially lower than the one forecasted initially.

Further to our general comment we would like to suggest that

- . a "corridor" or something equivalent be provided for.  
A corridor already exists in E 54 Employee benefits, and also in SFAS 121 in the US.  
In this standard, it could consist in setting up a preliminary test based on undiscounted cash flows ;
- . the variations due to changes in interest rates, which are temporary by nature, be spread over the estimated useful life of the asset (concept of matching cost and revenue).
- criteria (g) which should be merged with criteria (f).

**9. Do you agree that net selling price should be determined :**

- (a) based on « the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties » and that it is not necessary to determine net selling price by reference to an active market (paragraphs 5 and 17-18 of the Exposure Draft and paragraphs 31-38 of the Basis for Conclusions) ; and**
  - (b) after deducting from the amount obtainable from the sale of an asset the incremental costs that are directly attributable to the disposal of the asset (excluding finance costs and income tax expense) (paragraphs 5 and 19-21 of the Exposure Draft and paragraph 35 of the basis for Conclusions) ?**
- (a) We agree but, as already mentioned in our answer to question 1, we would appreciate more guidance regarding the best information available if no market exists for the asset (§ 18). The Standard should provide for examples of information needed for evidencing the availability of a net selling price.

- (b) Yes we agree but we would like to point out that restructuring costs, if any, which are not accounted for as they do not meet the criteria for provisions, are normally considered implicitly in the net selling price.

#### **Value in Use**

#### **10. Do you agree with the proposed requirements and guidance in the Exposure Draft for :**

- (a) the basis for estimates of future cash flows (paragraphs 23-27 of the Exposure Draft and paragraphs 24 and 40-42 of the Basis for Conclusions) ;
  - (b) the composition of estimates of future cash flows (paragraphs 28-35 of the Exposure Draft and paragraphs 43-46 and 50-58 of the Basis for Conclusions) ; and
  - (c) selecting the discount rate (paragraphs 36-40 of the Exposure Draft and paragraphs 47-49 of the Basis for Conclusions) ?
- 
- (a) We agree
  - (b) We agree but it should explicitly be mentioned that restructuring costs are included in cash outflows.
  - (c) We feel that the use of a discount rate which includes risks specific to an asset is debatable. In any case, it should be covered by a future standard on discounting.



## Cash-Generating Units

11. Do you agree that, if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit (paragraphs 46-47 of the Exposure Draft) ?

Yes, we agree.

12. Do you agree with the requirements and guidance for determining the items that are included in a cash-generating (paragraphs 5 and 48-53 of the Exposure Draft) ?

Yes, we agree.

13. Do you agree with the requirement (and related guidance) to recognise and measure an impairment loss if there exists goodwill or other corporate assets (such as head office assets) that relate to a cash-generating unit (paragraph 59-61 of the Exposure Draft and paragraphs 79-81 of the basis for Conclusions) ?

Yes, we agree.

14. Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit (paragraphs 62-65 of the Exposure Draft and paragraphs 77-78 of the Basis for Conclusions) ?

We agree for pragmatic reasons that impairment loss should be allocated first to goodwill but we do not agree with the proposal which is to allocate to intangible assets secondly ( ED §62). We feel that the impairment loss should be allocated proportionately to intangible assets and other assets.

## Disclosure

15. Do you agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose more information, such as the amount of impairment losses that can be reversed in subsequent periods (paragraphs 88-92 of the Basis for Conclusions) ?

Yes.

16. Do you agree with the disclosure requirements in paragraph 82 of the Exposure Draft and that an enterprise should not be required to disclose for each individual asset (or cash-generating unit) for which significant impairment losses have been recognised or reversed during the period :

- (a) the value in use of the asset (cash-generating unit) if the recoverable amount is based on the net selling price of the asset (cash-generating unit) ;
- (b) the net selling price of the asset (cash-generating unit) if the recoverable amount is based on the value in use of the asset (cash-generating unit) ;
- (c) if the recoverable amount is based on the value in use of the asset (cash-generating unit) :
  - (i) the discount rate(s) used in the calculation ; and
  - (ii) the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates or for the market in which the asset (cash-generating unit) is used ; and
- (d) other key assumptions used to determine the recoverable amount of an asset.

(paragraphs 24, 93-95 and 98-99 of the Basis for Conclusions) ?

We believe that the level of disclosure required is not appropriate and should be reduced to the following informations :

- for each class of assets, an analysis splitting the total amount of the impaired assets between assets for which recoverable amount is based on the value in use and those for which the recoverable amount is based on the net selling price ;
- the range of discount rates used in the calculation of the value in use.

**17. Do you agree with the disclosure requirements in paragraphs 83-84 of the Exposure Draft and that an enterprise should not be required to disclose information similar to that proposed in question 16 above for each individual asset (cash-generating unit) for which :**

- (a) recoverable amount has been determined during the period ;**
- (b) no impairment loss was recognised or reversed during the period ; and**
- (c) a small change in key assumptions could lead to the recognition or reversal of a significant impairment loss ?**

**(paragraphs 24 and 96-97 of the Basis for Conclusions) ?**

No, but we agree that an enterprise should not be required to disclose information (a), (b) and (c) (see our answer to question 16).

**18. Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft (paragraphs 24 and 100-101 of the Basis for Conclusions).**

No (see above)

**19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined (paragraphs 102-105 of the basis for Conclusions) ? If you believe that such information should be required, please indicate which details should be required.**

Yes (see above)

**20. Should an enterprise be required to disclose any information other than that discussed in questions 15-19 to this Invitation to Comment ?**

No.

## **Appendices**

**21. Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix? (Note : the Board does not intend to publish appendix 3, Basis for Conclusions, with the final Standard.)**

No

**22. Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment (Appendix 2, Proposed Amendments to Other International Accounting Standards) ?**

Yes