



Foreningen af Statsautoriserede Revisorer

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The Secretary-General
International Accounting Standards Committee
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COMMENTS TO EXPOSURE DRAFT E55

Introduction

The Danish Accounting Standards Committee has examined Exposure Draft E55.

In general, we find it most relevant and appropriate to have an International Accounting Standard setting out accounting for impairment of assets.

We furthermore find that E55 in its form is, generally speaking, clear and unambiguous and that it contains a number of useful proposals for clarification and additions.

Our comments

Our responses to the questions raised by the IASC Board in the Invitation to Comment are as follows:

Measurement of Recoverable Amount

Re 1)

The Standard includes two alternative approaches to the measurement of recoverable amount.

According to approach A, the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use. According to approach B, the recoverable amount of an asset should be measured as the fair value of the asset.

We favour approach A. We agree that measurement of the recoverable amount hereby reflects the likely behaviour of a rational management. We find it unnecessary to recognise an

impairment loss if the value in use is above fair value, and we do not think it necessary to use fair value as a safeguard against excessive optimism on the part of preparers.

There may be situations in which an asset's net selling price is greater than its value in use, but where management decides to keep the asset, cf. appendix 3, section 22b. This may be due to expected liabilities (e.g. discharge of employees) which do not meet the definition of direct selling costs. This situation may need further consideration of either the definition of net selling cost or clarification of why there should not be a write-down to value in use. The write-down to the lower value in use would reflect the irrational decision by management not to dispose of the asset at the higher net selling price.

Re 2)

We agree as a consequence of the approach of measurement of assets that present value techniques should be used to measure the recoverable amount implicitly (net selling price) or explicitly (value in use).

However, we still prefer that IASC in a separate general accounting standard cover the specific net present value topics such as discount rate etc.

Specifically, we would like to point out the situation where an industry historically has had a rate of return below the market rate. This may create a write-down of assets according to the exposure draft. Theoretically, this is the situation where the risk premium specific to the asset is negative. Further consideration of this situation may be appropriate.

Re 3)

We agree that the definition of recoverable amount is equally applicable to an asset held for disposal as to an asset held for continuing use.

Recognition of Impairment Losses

Re 4)

We agree that an impairment loss should be recognised whenever the recoverable amount is less than the carrying amount and only if the cash-generating unit to which the asset belongs is impaired.

Reversals of Impairment Losses

Re 5) and 6)

We can accept the proposed reversal rules. I.e. up to the depreciated historical cost of the asset and with the described rules for goodwill and other intangible assets. In any case, it may be appropriate to consider further restrictions on impairment losses.



Scope

Re 7)

We agree that the standard should apply to all assets except for those listed in paragraph 1 and we agree with the exemption of IAS 11, Construction Contracts, and IAS 12, Income Taxes, which are inconsistent with the exposure draft.

Identifying a Potentially Impaired Asset

Re 8)

We agree that an indication of impairment should lead to an estimation of the recoverable amount, and that the list of indications in paragraph 8 is useful for this purpose.

Net Selling Price

Re 9)

We agree with the proposed.

Value in Use

Re 10)

We refer to our comment re 2). Otherwise, we agree with the proposed requirements and guidance.

Cash-Generating Units

Re 11)

We agree that if an asset does not generate cash inflows that are largely independent, the determination should be based on the cash-generating unit to which the asset belongs.

Re 12) - 14)

We find that the requirements and guidance re. cash-generating units are adequate.

Disclosure

Re 15) - 20)

We find the proposed disclosure requirements very extensive, particularly the disclosure requirements in sections 82d, 83, 84, and 85 of the exposure draft, and we suggest further consideration of whether these are appropriate. We ask you to consider whether the information should be for classes of assets or for cash-generating units. It may not be necessary for both.

Appendices

Re 21) and 22)

We have no comments to appendices 1 and 2.

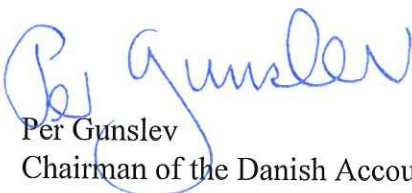
The illustrations and examples given in the Standard itself along with appendix 1 offer adequate guidance on the practical use of the descriptions and should thus be kept in their present form in the standard. Appendix 1 should thus be kept in the present form in the final Standard.

Other comments

Re. 23)

We have no other comments to E55.

Yours sincerely



Per Gunslev
Chairman of the Danish Accounting Standards Committee