

DCP/CRG/IASC-IA

The Secretary General
International Accounting Standards Committee
167 Fleet Street
LONDON EC4A 2ES

14 August 1997

Dear Sir,

Impairment of Assets (E55)

We have the following comments on the questions included in the invitation to comment on E55.

- Q1 We support approach (a) which uses the higher of net selling price and value in use. While we recognise that this may involve more subjectivity than some of the alternatives, we believe that unduly restrictive requirements which attempt to remove all judgement lead to results which do not reflect commercial reality or provide meaningful financial reporting.
- Q2 Agree.
- Q3 Agree.
- Q4 Agree given the logic set out in paragraph 56 of E55 which, while not clear from the wording of the question, is presumably implicit in the question.
- Q5 Agree.
- Q6 While we agree with the basic idea, we have some concern over the words used and therefore the implications i.e. what is "specific external event..... has reversed" meant to mean in practice.

For example, if access to a particular market has been affected by one development but then a subsequent development reopens the market access, what is the specific event - is it the access to the market (which has reversed), or the particular development itself (which has not).

It would be preferable and clearer to refer to the need for an external event to occur, which has led to the reversal of the effects of the event which caused the original impairment.

- Q7 Agree - we also note that yet again, although specifically acknowledged on page 118 this time, there is a proposal which is inconsistent with IAS12. As before we believe the problem lies with IAS12 not the subsequent proposals.
- Q8 Agree, especially given the inclusion of paragraph 12.
- Q9 Agree.
- Q10 Agree subject to the following points:
- the discount rate cannot take account of any specific "low rate" financing. This may give some misleading results where, for example, the low cost financing is a Government incentive to attract investment to an area which would not be the economic choice on a pre interest basis; the lower pre interest cash flows are more than offset by the interest benefit for the company, but this is not reflected under E55.
 - in principle it would seem more appropriate to calculate the impairment value on a post tax basis as this would be consistent with the way a business would view its assets; use of pre-tax figures and IAS12 would appear to give an inconsistent view of the post tax impairment. However, we also recognise that attempting to apply a post tax impairment value (with discounted tax reflecting the relevant flows) to adjust the original accounting figures based on IAS12 undiscounted deferred tax would also lead to inconsistencies. There does not therefore seem to be any completely right answer given the starting point of IAS12.
- Q11 Agree.
- Q12 Agree.
- Q13 While we can see that only applying the "bottom up" test, with allocation of all corporate assets and intangibles, could have some odd results, we are concerned about the practical implications of paragraphs 59/61. For example does this mean that for a Group, with corporate assets/intangibles and say 50 cash generating units, the trigger of an impairment test at one or two operations would mean the need for a "top down" calculation so encompassing all operations in the exercise?
- In respect of this question we look forward to seeing the results of the field testing.
- Q14 Agree.
- Q15/20 On these questions we would make the general point that accounts should provide sufficient information to enable users to understand the impact on the financial position and performance of a company. They should not be aiming to provide users with all the information to second guess the management and the auditors, which in any event would need to be voluminous.

Given this overall point, we would make the following specific comments:-

Q15 We agree with the disclosures in paragraphs 79-81 and with the Board's rejection of the other disclosures as in paragraphs 88-92 of the Basis for Conclusions.

Q16 We do not see the point of the disclosures in 82(c) or 82(d)(iii). The latter in particular seems contrary to the logic of E55 and paragraphs 13 etc.

We also disagree with the requirements in paragraph 82(d) (i) and (ii), especially if paragraph 85 is retained in the final standard.

We agree that enterprises should not be required to make the additional disclosures set out in this question.

Q17 We disagree with the disclosures in paragraph 83, especially if paragraph 85 is retained in the final standard.

We agree that the additional disclosure referred to in this question should not be required.

Q18 While we are concerned about the implications of complying with these requirements, we can see why it has been suggested. However if it is included in the final standard it reinforces our objections to the other disclosures noted above.

One other point is that given the Basis for Conclusions will not be published with the final standard, the wording in paragraph 85 should be amended to reflect the first few lines of paragraph 100 on page 115 which is clearer as to the applicability of this requirement.

Q19 Agree that this disclosure should not be required.

Q20 No, given we believe the disclosures already go too far as indicated above.

Q21 None.

Q22 Agree.

Q23 None.

Yours faithfully,



D C POTTER
Chairman, C.I.A.S.