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

TONY HALL BSC (ECON) FCA  
Group Financial Accountant  
Group Accounts  
3rd Floor  
Rowland Hill House  
Boythorpe Road  
CHESTERFIELD  
Derbyshire  
S49 1HQ

Fax 01246 546922  
Direct Line 01246 546923  
Postline 5888 6923

Dear Sir

#### E55 - IMPAIRMENT OF ASSETS

We have reviewed the proposed international accounting standard on Impairment of Assets. We agree that there is a need for a standard on impairments particularly as there is currently no formal approach to determining impairments.

The proposed standard introduces a number of areas of subjectivity which may make the resulting calculation less robust than would be desired. In particular we consider there are three variables:

- The determination of cash generating units
- The forecast cash flows
- The discount rate

We are concerned at this subjectivity. External auditors may have a particularly onerous task in satisfying themselves.

Discounting is being increasingly advocated to help determine figures in financial statements. It is important that businesses have flexibility to determine the appropriate discount rate to use. However we would prefer to see a standardised approach to discounting in financial statements as opposed to what appears to be the current piecemeal approach.

Our responses to the questions in the exposure draft are attached.

Yours faithfully



A HALL  
Group Financial Accountant

## Impairment of Assets

### Proposed International Accounting Standard

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?
- 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 assets 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?

*We support approach (a). We believe the correct approach takes into account both the value to the business in using the asset and the "market value" of the asset.*

2. One 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 (net selling price) or explicitly (value in use). Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly or explicitly.

*In principle we support this approach.*

3. Do you agree that the definition of recoverable amount is just as applicable to an asset held for disposal as to an asset held for continuing use?

*Yes.*

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; and
- b. Only if the cash generating unit to which the asset belongs is impaired?

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

*We support (a) that if the recoverable amount is less than the carrying amount an impairment loss should be recognised. Paragraph 56 refers to a situation of being unable to determine the recoverable amount of an asset. The asset then needs to be reviewed in the context of a cash generating unit. If (b) refers to this we support this approach. We feel it is important that wherever possible an individual asset is recognised for impairment rather than referring to a cash generating unit. .*

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 assets recoverable amount since the last impairment loss was recognised?

*We are concerned that there should not be unnecessary volatility in financial statements by charging impairments in one year and then reversing them in the following years. Simple changes in calculations should not automatically trigger a reversal. A positive change in economic conditions is more appropriate*

6. Do you agree that an impairment loss recognised for goodwill and other intangible assets 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 reversed?

*Yes.*

7. Do you agree that the standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft?

*Yes. Materiality is an obvious issue.*

8. Do you agree that:

- (a) the recoverable amount of the 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?

*Yes. It would be unreasonable to carry out a lengthy exercise if there was no evidence of any impairment. The concept of materiality as referred to in paragraph 12 is important. The list in paragraph 8 provides a guide to the likely indicators that an impairment may have occurred. The note in paragraph 9 that the list is not exhaustive is important.*

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; 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?

*Yes. We support (a) above in that an active market is not a necessity. The key to (b) above is the deduction of only “directly” attributable costs.*



10. Do you agree with the proposed requirements and guidance to the Exposure Draft for:

- (a) the basis of estimates for future cash flows;
- (b) the composition of estimates of future cash flows; and
- (c) selecting the discount rate?

*We agree with the proposed requirements for estimating future cash flows and the composition of such cash flows. The proposals in the draft provide the opportunity to "select or determine" a discount rate by several methods. This flexibility is important but may provide a subjective result. A standardised approach to discounting in financial statements would be an important step forward.*

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?

*In principle we support this approach. The determination of a cash-generating unit is a particularly subjective area. We are concerned that this subjectivity may lead to manipulation. Additionally the cash-generating unit may arguably be the whole of the business. We feel the draft standard should recognise this. Auditors will have a key role to play in agreeing the "content" of cash generating units..*

12. Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit?

*We tend to support the determination criteria. We feel that it should be recognised that there may be instances where the cash-generating unit may be large. A business that operates as an overall network for example would encounter different problems in determining any impairment.*

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?

*Yes. This is a pragmatic approach.*

14. Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit?

*Yes. The proposals for how an impairment loss should be allocated between the assets of a unit are both reasonable and logical.*

15. Do you agree with the disclosure requirements 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?

*We support the disclosure proposals. We also agree with the committee's conclusion that information on impairment losses that may reverse in the future should not be disclosed.*

16. Do you agree with the disclosure requirements 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
  - 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 is used; and
- (d) other key assumptions used to determine the recoverable amount of the asset.

*We feel the overall disclosures are onerous. There may be commercial confidentiality issues. We do not support disclosing either the value in use of the asset or the net selling price of the asset if the recoverable amount is based on either calculation. In particular we feel the disclosures in paragraphs 82c and d are excessive and would encourage users to attempt to guess management intentions.*

17. Do you agree with the disclosure requirements in 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 for which:

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

*We do not agree with the requirements of paragraphs 83 and 84 .*

18. Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft?

*The disclosure requirements to explain any significant variations from the cash flow forecasts may useful information to a user of the accounts but we suggest that the disclosure excessive. We also feel concerned at the volume of work that is implied.*

19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined? If you believe that such information should be required, please indicate which details should be required.

*We are inclined to the view that impairments will be a relatively rare issue. We are minded to agree that there is little potential benefit from disclosing how cash-generating units are determined.*

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

*We have no additional disclosure suggestions.*

21. Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix?

*We have no additional comment.*

22. Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment?

*Yes.*

23. Do you have any other comments on the proposed International Accounting Standard?

*No.*