

Sir David Cairns  
Secretary-General  
International Accounting Standards Committee  
167 Fleet Street  
London EC4A 2ES  
United Kingdom

August 15, 1997

Dear Sir Cairns:

Set forth are the answers of the Accounting Principles Board of the Mexican Institute of Certified Public Accountants on the invitation to comment and other matters included in the exposure draft on Impairment of Assets:

1. We prefer the approach of value in use rather than the higher of the net selling price of an asset and its value in use or the fair value of the asset. This is because for most of the long-lived assets it is very difficult to have active markets that could provide the best information for determining the asset's market price as to the net selling price.
2. Regarding the use of two different methodologies, this is the *net selling price or the value in use*, we believe that the net selling price should only be applied on those rare circumstances of long-lived assets that have an active market, in which they can be easily sold. This net selling price should not be applied to assets that are mainly devoted to the production of goods that a company manufactures and sells, since it is not the main purpose of an entity to realize those assets unless it pretends to discontinue an operation, in which case, we concur that the only alternative would be the net selling price. Therefore, if an entity intends to continue operations, the net selling price should not be used, even if it produce a higher figure than the value in use.
3. We agree that present value techniques should be used to measure the recoverable amount of an asset under the *value in use approach*.
4. The recoverable amount of an asset held for disposal should invariably be its *net selling price*, unless there is no basis for determining the amount obtainable from the sale. In this case, the recoverable amount must be taken to be the value in use.
5. We concur with the proposed basis and conditions for recognition of impairment losses and reversals. However and because of the following, we believe that explanations to paragraphs 41 and 70 footnotes are required.

The paragraph 41 footnote indicates that if an asset is carried under a revalued basis (allowed alternative treatment), the effect of the impairment is recorded as a decrease of any previously recorded revaluation. We consider that the explanation should be expanded to establish that if inflation accounting is followed, in accordance with IAS-29, the revaluation surplus should only consist of the difference between the net replacement cost of the asset and its price level adjusted cost. If not, what may occur is that the impairment will be charged directly to equity rather of charging to expense the portion attributable to the price level adjusted cost.

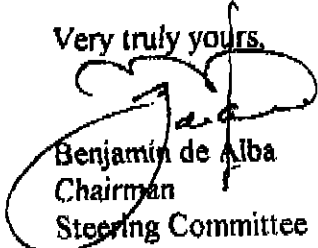
On the other hand, the paragraph 70 footnote states that if an asset is carried on a revalued basis, any increase in the revalued asset's carrying amount is treated as a revaluation increase. However, when an impairment loss attributable to the portion of the price level adjusted cost was previously applied to income, its reversal should also be recognised in the income statement.

6. We agree with the standard proposed scope.
7. We consider that the decision to discontinue an operation should be included as a potential indicator of impairment.
8. Regarding the proposal of determining the net selling price based on "the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties", without taking into consideration the related information from an active market, we are of the opinion, that if an asset is traded in an active market, the net selling price should be determined by reference to this market since it provides the best evidence of the recoverable amount.
9. In relation to the basis for estimates of future cash flows, paragraph 23 implies that there would be a growth in the market of the products that are being manufactured by the related assets. However, we believe that this is very difficult to support for an asset that is giving signs to be impaired, since the impairment, in most cases, would be due to declining markets of the products.
10. The concept of cash-generating units is a very valuable matter and specifically that the identification or allocation of goodwill to cash-generating units should be made in all cases. In most of the circumstances, the recoverable amount of individual assets is difficult to determine, and what needs to be valued are cash-generating units. Therefore, that is a very good definition that we support.

11. We have the following comments on the disclosure section of the exposure draft, specifically in paragraphs 83 and 85:

- a. Information required by paragraph 83 may be excessive if no impairment loss or reversal are recognised during the current period. This means that either no impairment has occurred that should be recorded and disclosed, or what was recorded in prior years was correct. Therefore, repeating this information year after year, would be excessive.
- b. Paragraph 85 includes a valuation rule and a disclosure rule. We believe that the valuation rule (that is the comparison of the actual cash flows to the estimates) should be in the valuation section after paragraph 68, and derived from this rule, the required disclosures should be determined.

Very truly yours,



Benjamin de Alba  
Chairman  
Steering Committee

Armando Murguía  
Chairman  
Accounting Standards Board



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**TELEFAX COVER SHEET**

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Para/For the attention of

The Secretary - General

De/From

Benjamín de Alba Mora

Compañía/Company

International Accounting Standards  
Committee

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Re: Impairment of assets

Attached you will find a letter of comments of the Accounting Principles Board of the Mexican Institute of Certified Public Accountants, on the exposure draft of Impairment of assets.

Regards,

c.c.:

A. Murguía  
J. Cocina

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