



Corporate General Manager  
Accounting

26th August 1997

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

Dear Sir,

**E55 : Proposed International Accounting Standard; Impairment of Assets**

We have a fundamental concern at the manner in which important changes in accounting principles are proposed in E55, namely the present value approach to the measurement of assets. The same concern applies to some aspects of your Discussion Paper 'Accounting for Financial Assets and Financial Liabilities' (to which we are responding separately).

Balance sheet measurement on a present value basis touches one of the underlying concepts of the present widely-used accounting model which is based on modified historical cost. Present value (or market value /fair value) clearly has a place in accounting, and we appreciate the underlying principles involved. Nevertheless we believe that accounting standard setters should promote the issue of measurement in the context of the preferred accounting model, which in turn begs the question of the purpose of financial reporting and the needs (and understanding) of investors. The introduction of present value accounting on a piecemeal basis does not allow the underlying issues to be considered. Present or market value accounting is, for example, appropriate in circumstances where the activity under consideration is managed on a compatible basis; e.g. life insurance, funded pension plans, the establishment of sinking or redemption funds.

In the broader context, however, neither E55 nor the Discussion Paper address issues of principle and practice that need to be resolved before changes are made, and if changes are to be made we believe it is essential that the broader business and investment communities must be consulted in order that they understand and accept such changes.

We pose, for example, the following questions and issues:

- What should the balance sheet represent?
- What are the implications of different valuation bases being applied to assets and liabilities.
- What are the implications (e.g. for reliability, usefulness to users) of an accounting model (present values) that is heavily reliant on assumptions? What are the implications of the subjectivity and sensitivity of values arising from even modest variations in a discount rate? What is the scope for deliberate or accidental distortion?
- Discounting (to present value) builds in an artificial and pre-determined profit to future results; is this useful information to users/investors? Does this not hide the reality of non-performing assets? What do users/investors expect financial reports to reveal, and/or should they be educated to expect something different?

While the theory behind discounting is well understood, and is widely used in business for many purposes, we are far from sanguine that its introduction would not create more problems than it would solve nor that directors and investors are ready for such a change. There has been little public discussion to date, and what has taken place has largely been confined to some sectors of the accounting community. Before a change of this magnitude is proposed the practical implications on financial reporting and the consequences for the users of accounts need to be identified and discussed with all interested constituents.

For these reasons we urge withdrawal of E55 and the bringing forward of broad discussion on measurement and the accounting model, within a framework of the objectives of financial reporting.

Bearing in mind these comments, our responses to your specific questions follow:

- 1 If an enterprise has not decided on a specific course of action for certain assets, the recoverable amount of such assets should be determined as the higher of net selling value or value in use.

If an enterprise has decided on a specific course (e.g. sell or continue to operate), recoverable amount should be determined on that basis.

Market value (net selling value) is by definition a present value, and in this instance the question of discounting does not arise.

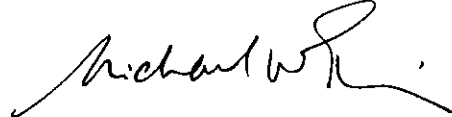
2. No. We believe the requirement to use present value techniques would be premature; see discussion above.

3. No. If an asset has been identified for disposal its recoverable amount should be determined only as the asset's net selling value, because "value in use" is no longer relevant.
4. Agree.
5. Agree.
6. Agree.
7. Agree
8. (a) Agree  
(b) Agree that the list of indicators is sufficiently comprehensive.
9. Agree.
10. (a) and (b) Agree  
(c) Selection of the discount rate is fraught with uncertainty and subjectivity, and differing assumptions could significantly affect the outcome. The whole question of discounting needs much deeper consideration, not least of the practical application and consequences. See discussion above.
11. Agree.
12. Agree; guidance is appropriate and adequate.
13. Agree; guidance is appropriate and adequate.
14. Agree.
15. Agree.
16. Agree.
17. Agree.
18. Disagree; such disclosure is in our view time-wasting and pointless. If circumstances change subsequently there will, if material, be either a reversal or a further write-down and the disclosures arising should be sufficient.
19. Agree.
20. No.

21. Material in Appendix 1 is adequate except as discussed above.

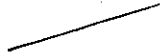
22. Agree.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael W. Gillian". The signature is fluid and cursive, with a prominent loop at the end.

**M W Gillian**

Corporate General Manager Accounting

A single horizontal line drawn in black ink, likely a separator or a decorative element.