



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

4 July 1997

Impairment of Assets

The Accounting Practices Committee of the Swedish Institute of Authorised Public Accountants (FAR) at its June meeting reviewed the May 1997 Exposure Draft E55 and would offer the following comments to the Basic Issues included in the paper:

1. Measurement of Recoverable Amount

FAR supports the measurement at the higher of the net selling price and value in use.

2. Present value techniques

FAR agrees with the present value techniques.

3. Assets Held for Disposal

FAR agrees that the definition applies also to assets held for disposal.

4. Recognition of Impairment Losses

While FAR agrees with the 'economic criterion' as such, there may be practical problems when applying the criterion to newly acquired or produced assets (businesses, products, etc.) where 'rules-of-thumb' from earlier practice of assessing 'permanent impairment' still have a place.

5. Reversal of Impairment Losses – tangible assets

FAR agrees with the reversal rule.

6. Reversal of Impairment Losses – intangible assets incl goodwill

FAR agrees that there should be no room for reversal.

7. Scope

FAR agrees with the scope of the standard.

8 a. Identifying a Potentially Impaired Asset

FAR agrees that an indication of impairment is required.

8 b. Indicators

FAR agrees that there should be a *significant* risk of impairment.

9 a. Arm's length transaction

FAR agrees with the arm's length determination; an active market is not always available.

9 b. Deductions

FAR agrees with the proposed deductions.

10 a. Value in Use

FAR believes that the basis for estimates of future cash flows (paragraphs 23-27) is not operative. Many companies use other steering instruments than the budget (e.g. the balanced score-card); it should be sufficient to request that the cash-flow projections that may be prepared only for the purpose of the impairment test are appropriately approved.

FAR also believes that for determining the value in use for goodwill and other intangible assets there is a need for further guidance. Obviously the future cash flow projections are much easier to determine for a tangible asset such as a building, for which contracted income cash flows exist, than for intangible assets for which the future cash flows can be more uncertain.

10 b. Composition of estimates of future use

FAR agrees with the composition.

10 c. Discount rate

FAR agrees with the discount rate on the assumption that time value stands for the real interest rate only.

11. Cash-Generating Units

FAR agrees with the concept of cash-generating units. The question arises, though, what could have *indicated* in the first place that the value of the railway in the example on page 50 was impaired?

12. Requirements and guidance

FAR agrees with the requirements and guidance.

13. Goodwill/Other Corporate Assets

FAR agrees with the requirements and guidance.

14. Allocation

FAR agrees with the allocation procedures.

15. Disclosure (79-81) – by class of assets

FAR agrees with the disclosures by class of assets.

16 a-c Disclosure (82) – by individual asset/unit

FAR is hesitant to the degree of detailed disclosures.

17. Disclosure (83-84)

FAR is very hesitant to the degree of detailed disclosures.

18. Disclosure (85)

FAR agrees with the requirement to re-estimate the value but not with degree of detailed disclosures.

19. Disclosure (102-105)

FAR agrees that these disclosures should not be required.

20. Disclosure – more?

No!

21. Appendices

FAR would support some guidance on the evaluation of newly started/acquired operations, newly marketed products.

22. Changes to IAS 16

FAR agrees with the changes.

Yours sincerely,

A blue ink signature of Carl-Eric Bohlin, consisting of stylized, overlapping loops and a horizontal line.

Carl-Eric Bohlin
Chairman, Accounting Practices Committee

A blue ink signature of Björn Markland, featuring a large, prominent loop at the top and several smaller loops below.

Björn Markland
Secretary General