

Stichting voor de Jaarverslaggeving

# Raad voor de Jaarverslaggeving

(voortzetting van het Tripartiete Overleg – TO)

Opgericht 18 september 1981 door:  
Verbond van Nederlandse Ondernemingen  
Nederlands Christelijk Werkgeversverbond  
Christelijk Nationaal Vakverbond  
Federatie Nederlandse Vakbeweging  
Nederlands Instituut van Registeraccountants  
met medewerking van de  
Sociaal-Economische Raad

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

Our ref. : AdK  
Direct dialnr. : (+31)20-3010391  
Date : 15 July 1997  
Re : ED 55 Impairment of Assets

Dear Sir,

The comments of the Netherlands Council for Annual Reporting regarding Exposure Draft 55 on Impairment of Assets are included in the enclosed memorandum.

Yours sincerely,



mrs drs Annet de Korne  
secretary

Enclosure



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### *Answers to the questions*

1. We prefer approach (a) above approach (b). However, we would like to point specifically at the situation that the selling price is higher than the value in use, but that management does not intend to sell the asset. This management intent might be economically justified because selling the asset (or group of assets) would lead to additional expenses not taken into account as costs of disposal (for example reorganisation costs).  
We remark that, if management intends to sell the asset, there is not a similar problem because the net selling price and the value in use will then be close to each other (according to par. 26 of the Basis for Conclusions).
2. Yes
3. Yes, taking into account our comments on question 1.
4. (a) Yes  
(b) Yes
5. Yes
6. No, we think this is too restrictive. Although we agree that reversal of goodwill or of intangible assets for which no active market exists should not lead to the capitalisation of internally generated goodwill, we are not convinced that such restrictive requirements are necessary for that purpose. As a case in point we refer to Example 3 on page 52. We do not believe that in that example reversal of the impairment loss on goodwill would lead to the recognition of self-generated goodwill.
7. We suggest to exclude in the scope those investments in subsidiaries and associates and those interests in joint ventures that are accounted for under the equity method. The assets of the subsidiaries, associates and joint ventures will be subjected to impairment tests themselves, influencing the carrying amount in the balance sheet of the investor. When an additional impairment test would be made for the investments as such, an illogical difference would result between the company accounts of the parent and the consolidated accounts, and between the different types of investment.  
To illustrate, in the Netherlands investments in subsidiaries are accounted for under the equity method in the company accounts of the parent. In applying an impairment test to these investments, a write down would be necessary if the value in use is lower as a result of underperformance. However, when the subsidiary is consolidated in the consolidated financial statements, the impairment tests are applied to the fixed assets of the subsidiary only and an underperformance of the subsidiary as a whole is not necessarily reflected (this will especially be the case in trade and service organisations, where the importance of fixed assets is relatively small). The result would be an illogical difference in presenting the financial position and performance of the subsidiary in the company accounts of the parent and in the consolidated accounts.

The same illogical situation would result for interests in joint ventures that are proportionally consolidated in consolidated accounts. Furthermore, impairment tests for interests in joint ventures would work out differently in consolidated accounts depending on the choice between proportional consolidation and the equity method.

Finally, it does not seem logical to make a difference regarding impairment between investments in subsidiaries and investments in associates.

8. (a) Yes  
(b) Yes
9. (a) Yes  
(b) See our comment on question 1. Furthermore, we are not convinced that a difference should be made between the concepts of 'net selling price' and 'net realisable value'. The arguments in par. 38 of the Basis for Conclusions are not very clear. Does net realisable value *not* relate to arm's length transactions nor to knowledgeable and willing buyers and sellers? Or are both concepts, although differently defined, in fact identical? We prefer one single concept. This might result in a change of IAS 2.
10. (a) Yes  
(b) Yes  
(c) Yes. We also refer to our answer on question 12.
11. Yes
12. Yes. However, in addition to par. 53 of the exposure draft we point out that sometimes enterprises receive low-interest asset-related loans as a form of (government) subsidy for the asset. The difference between the market interest rate and the actual interest rate should be considered an element of the cash flow of the cash-generating unit.
13. The practical difference between the bottom up test and the top down test is not very clear to us. We suggest to give more guidance on this point. Furthermore, we do not agree with allocating other corporate assets like head office assets to cash-generating units. We prefer to test for the impairment of other corporate assets by comparing the book value with the recoverable amount of the whole business.
14. Yes
15. Yes, Yes
16. We do not agree with the disclosure item of par. 82 under d, because this information is either too sensitive or not practicable.  
Furthermore, regarding the items (a) – (d) mentioned in question 16, we suggest to encourage disclosure of item (c) under (i) (the discount rate used in the calculation).
17. We do not agree with the disclosure items in par. 83-84. We consider these disclosures not useful because there is no impairment loss recognised or reversed in the period.  
We do agree with not requiring the additional disclosure items mentioned.



18. We do not agree with the disclosure items in par. 85. Par. 85 in fact requires to disclose the gains and losses of former years had perfect foresight existed. This is a rather fictional assumption. Furthermore, making these disclosures suggests that errors are made in former impairment calculations, while differences will normally be fully related to the estimated elements of the calculation.
19. Yes
20. No
21. See our remarks on question 13.
22. Yes
23. No

Amsterdam, 15 July 1997