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

**Re: Exposure Draft E55, Impairment of Assets**

**Dear Sir Bryan Carsberg:**

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment as follows on Exposure Draft E55, Impairment of Assets.

**1. Overall comment**

Of the questions asked in the Invitation to Comment section, except for those mentioned in Item 2, Specific comments, below (items relating to Questions 1, 4, 16, 18, 21 and 22), we are agreeable, in principle, to the proposed Standard.

**2. Specific comments**

**(1) Question 1**

We support the approach under which the recoverable amount of an asset should be the higher of its net selling price and its value in use, i.e. Approach (a). The reason for it is that because unbiased market prices are often not available for the assets dealt with in the Exposure Draft, the judgement of management will invariably enter into the determination of fair value, which then would be the same as value in use. However, for items of property, plant and equipment, etc. that have market prices, their value in use would normally exceed fair value provided that they are effectively managed. Thus, if such assets are valued at fair value only, it would end up being under-valued.

On the other hand, a significant minority favored Approach (b). Although fair value is determined economically on the basis of supply and demand, the demanding

side would acquire an asset when he determines its value in use to be more than its fair value. Under approach (a) when value in use is in excess of net selling price, the application of value in use would amount to recognition of goodwill for the use of an asset. However, the value of an item of property, plant and equipment or intangible assets at the time of acquisition would be its acquisition cost (equal to fair value at acquisition in most cases) and no recognition is given to any goodwill value. There is no consensus on recognition of goodwill in the case of impaired assets. Accordingly the application of value in use should be restricted to assets whose fair value cannot be determined.

**(2) Question 4**

We support the "economic criterion" proposed in the Exposure Draft.

However, for the reason stated below, some people in the industry support the "probability criterion" under which a temporary decline in value may be eliminated from profit and loss as in SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be disposed of".

- Under the proposal of the Exposure Draft, there is a possibility that recognition of impairment losses and their reversals may occur frequently in an industry where prices of finished goods and merchandise fluctuate violently.
- With respect to an increase in the carrying amount resulting from a reversal of an impairment loss, because there is a limit that such increase should not exceed the carrying amount that would have been determined had no impairment loss been recognized previously, this would necessitate keeping of records of initial cost which would be burdensome.

**(3) Question 16**

We are of the view that regarding Question 16 (c)(i), the discount rates used should be disclosed. Such rates are data necessary in the actual computation of value in use and in order to show what sort of discount rates has been used to compute the value in use and to secure transparency of the discount rate used, such disclosure is believed to be essential.

**(4) Question 18**

We are against the disclosure proposed in paragraph 85. This sort of disclosure is not seen in other IASs and would be burdensome in practice and also its merit is not clear. As a result, there is a concern that there may be lawsuits against management and auditors on the propriety of cash flow estimates.

Also, given that the purpose of such disclosure lies in the prevention of excessively optimistic cash flow estimates by management, the items to be disclosed in the current period should be limited to the following:

- The fact that the difference between the estimates made and actual was great became known in the current period.
- Explanation of the reason for the difference.
- Impairment loss occurring due to an error in the estimate and recognized in the current period.

Further, we would like to mention that there was a strong opinion favoring the disclosure of actual cash flows in the situation cited as a means of safeguard against arriving at an inappropriate value in use.

**(5) Question 21**

The examples contained in Appendix 1 seem to show the principles of impairment recognition and are too simplistic to be effective in practice. More detailed examples that might be encountered in practice should preferably be shown.

**(6) Question 22**

Because of the side-by-side existence of two different concepts relating to decreases in the carrying amount of an item of property, plant and equipment (one is revaluation decrease and the other is impairment loss) and this may possibly cause confusion conceptually, we suggest that a more detailed explanation should be given. There is a thinking that if revaluations are being made at appropriate intervals in the

first place, there would not arise a need for impairment loss. It is hoped that the relationship between the two is clarified, including the order in which revaluations pursuant to the allowed alternative treatment and impairment loss should be applied. A need to recognize an impairment loss for an item of property, plant and equipment applying the allowed alternative treatment may be an indication that the regularity of revaluations was not sufficient.

The following are items for which additional explanations may be desired:

- With respect to paragraph 80, the relationship between the revalued amount (being the fair value at the date of the revaluation less any subsequent accumulated depreciation) and the recoverable amount needed in recognizing an impairment loss is not clear.
- In the case cited in paragraph 58(b), i.e. fair value is determined on a basis other than market value, it is not clear as to in what sort of situations would the fair value and recoverable amount be different.

Sincerely yours,

*Koji Kobayashi*

Koji Kobayashi  
Executive Director,  
Accounting Standards Committee