



Unilever House Blackfriars London EC4P 4BQ
Telephone 0171 822 5252 Telex 28395 Facsimile 0171 822 5951/5898

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

direct line 0171 822 5465

facsimile 0171 822

15 August 1997

Dear Sir,

Exposure Draft E55 Impairment of Assets

We are responding to the invitation to comment on this exposure draft.

We believe this is an area where an accounting standard is required. As a multinational enterprise reporting results in several jurisdictions we are strong supporters of international harmonisation of accounting standards, and we hope that "Impairment of Assets" is an area where harmonisation can be achieved.

In general, we support the proposals in this draft though we do have reservations in some areas. The attachment to this letter gives our responses to the specific issues referred to in the exposure draft and notes the areas where we have reservations.

We trust this is useful to you and we will be pleased to give any further clarification you may require. In the first instance, please contact myself on 0171 822 5465.

Yours faithfully

D L Bloomfield
Accounting Principles Manager

Attachment

E55 Impairment of Assets

Response by Unilever

Please find below our comments on the issues raised in the Exposure Draft:

Measurement of Recoverable Amount

1. We support approach (a), where the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use.
We also concur with the conclusion of the Board that only a few assets covered by the proposed Standard are traded in an active market. Therefore, in many cases, the value in use calculation is likely to lead to the same recoverable amount as the use of a present value calculation of future cash flows to estimate fair value.
2. Yes. We understand that one of the consequences of the approach adopted in the Exposure Draft is that present value techniques should be used to measure the recoverable amount of an asset, either implicitly or explicitly. We believe, however, that there should be a separate standard covering the use of present value techniques in accounting generally and how such techniques should be applied in different situations.

Assets Held for Disposal

3. Yes

Recognition of Impairment Loss

4. a) Yes
b) Yes

Reversal of Impairment Loss

5. Yes.
6. No. In our opinion the criteria are too restrictive. Although we recognise the concerns of the Steering Committee in relation to the recognition of internally generated goodwill we believe the reversal of impairment losses recognised on purchased goodwill could be allowed where future economic benefits that were previously not expected to flow from the asset have now been re-assessed as probable.

Scope

7. Yes.

Identifying a Potential Impaired Asset

8. a) Yes.
b) Yes, this will generally be the case. However we would like to make the following remarks:
- Although we recognise that indication (a) may result in the recognition of an impairment loss it could also be argued that in certain cases the recoverable amount is not seriously affected by the decrease in the market value of the asset as its value in use is not correlated with its market value. In those circumstances an enterprise should not be required to estimate the recoverable amount.
 - We believe that more emphasis should be put on the significance of items (d) and (f). We believe also that the wording should be altered. We propose that (d) be extended with the wording 'which are likely to decrease materially the asset's recoverable amount' and under (f) it should read 'significantly worse than expected'.

Net Selling Price

9. a) Yes
b) Yes

Value in Use

10. a) Yes. However, we have objections to the disclosure requirements referred to in paragraphs 25, 26 and 27. See also our answers to questions 16 and 17.
b) Yes
c) Yes

Cash-Generating Units

11. Yes
12. Yes
13. We disagree with the allocation of corporate assets (excluding goodwill) to an asset's cash generating unit. A possible impairment of corporate assets should be measured based on the carrying value of the entire enterprise. In our view it is incorrect to recognise an impairment loss for a cash generating unit based on only an arbitrary allocation of corporate assets. Furthermore it is unclear how the impairment loss is allocated between the corporate assets and the assets of the cash generating unit. We agree with the allocation of purchased goodwill to an asset's cash generating unit.
14. Yes.

Disclosure

15. Yes.
16. We oppose the disclosure requirement of paragraph 82 (d). In our view, as noted by the Board in paragraph 95 of the Basis of Conclusion, it is not the role of users to verify how the recoverable amount has been determined but the role of the external auditors. Also the information proposed to be disclosed may be prejudicial to the interest of the enterprise.

We agree that an enterprise is not required to disclose captions (a) through (d) of question 16 for each individual asset (or cash generating unit) for which significant impairment losses have been recognised or reversed during the period.

17. No. We strongly oppose to the disclosure requirements of paragraphs 83 and 84.
- Paragraph 83*
- If, based on the calculation made by management, an impairment loss for an asset or an asset's cash generating unit or a reversal of an impairment loss should not be recognised no disclosure should be required. The information proposed under paragraph 83 is not relevant for users of financial statements as no impairment loss is recognised or reversed.

Paragraph 84

As mentioned under our answer of 16 we do not believe that the disclosure of key assumptions on the valuation of specific individual assets or cash generating units are useful to users. Furthermore we strongly believe that "what if" reporting should be avoided.

We agree that an enterprise should not be required to disclose captions (a) through (c) of question 17 for each individual asset (or cash generating unit).

15. No. We strongly oppose the disclosure of paragraph 85. The proposed disclosure in fact requires an enterprise to disclose impairment losses and reversals of impairment losses of former years had perfect foresight existed at the time the calculation was made.

16. Yes

17. No

Appendices

21. No

22. Yes

Other Comments

23. No