

Sir Bryan Carsberg  
Secretary-General  
International Accounting  
Standards Committee  
167 Fleet Street  
London EC 4A 2ES  
ENGLAND

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447/213

**Proposed International Accounting Standard: Impairment of Assets  
Exposure Draft E55**

Dear Sir Bryan,

We are pleased to submit our comments on the Exposure Draft E55.

**Basic remarks**

The conceptual basis of the Exposure Draft is that the recoverable amount is the higher of an asset's net selling price and its value in use. We have fundamental concerns regarding this concept. To underpin our view, we evaluate the arguments presented in the section „Basis for Conclusions“ and add further arguments.

- Reliability

IAS 1 (revised) Presentation of Financial Statements requires that accounting policies should be selected so that the financial statements are „reliable in that ... they are neutral, that is free from bias“. The Framework also refers to Reliability as a Qualitative Characteristic of Financial Statements. The experience of the audit profession shows that calculations of value in use are often subjective and not at all free from bias. As this casts doubt on the reliability of value in use, it does not seem sound to give it the same prominence as net market value.

- Principle of individual valuation

The paper states that cash flows often cannot be allocated to individual assets and consequently the use of cash generating units will be frequent. However, using cash-generating units in order to apply the concept of value in use is a step towards abandoning the principle of individual valuation. The use of market value avoids these problems.

Another point is the determination of cash generating units. The more assets are included in a cash-generating unit, the closer such a cash-generating unit comes to a business segment. Positive segment results would never lead to a write-down of an individual asset for impairment.

The principle of individual valuation is also in line with existing IAS's. The present IAS 16 requires under para 56 to review the carrying amount of an item or a group of individual items for impairment. In our view, the concept of cash generating units conflicts with IAS 16 para 56 which specifically refers to individual assets. Other existing Standards, for example IAS 25.23 and IAS 28.23, do also explicitly refer to individual assets when performing an impairment test.

- Market value lower than value in use

From a purely theoretical point of view, the value in use might be of higher relevance. However, the loss of reliability and objectivity which arises from using value in use in practice cannot generally justify the concept. We support giving more weight to objectivity, and therefore the impairment test should be based on market values.

We believe that the predominance of reliability over relevance is also reflected in the Framework. Para. 89 of the Framework requires that for an asset to be recognised in the balance sheet it be probable that the future benefits will flow to the enterprise and that the value be measured reliably.

- Market value higher than value in use

We agree with the conclusion that in this case the market value is the correct solution, assuming that an enterprise that behaves rationally will sell the asset. This assumption may only be retained, if there is no legal or effective obstacle to selling the asset and if the costs of disposal exceed the difference between the (higher) net selling price and the value in use.

- Rare application of value in use

In the rare circumstances where no market value exists, (for example, in the case of specifically constructed single-purpose equipment ) or where legal or effective obstacles to selling the asset exist, the value in use may be used.

## **Approaches**

### **Question 1**

As argued above, we have a strong preference for version 1 (b).

### **Question 2**

Present value techniques should only be used where impairment tests can not be based on market values.

## **Assets held for Disposal**

### **Question 3**

The definition of recoverable amount is applicable to the measurement of both assets held for disposal and assets held for continuing use, because the value in use in this case is the same as the net selling price.

## **Recognition of Impairment Losses**

### **Question 4**

An impairment loss should be recognised if the net market value, or - if the net market value is not available - the value in use, is less than its carrying amount.

## **Reversals of Impairment Losses**

### **Question 5**

We agree that an impairment loss recognised in prior years for an asset carried at historical cost should be reversed up to the depreciated historical cost of the asset if, and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised.

### **Question 6**

We agree that an impairment loss recognised for goodwill and other intangible assets for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition of the impairment loss has reversed.

## **Scope**

### **Question 7**

We agree with the scope of the standard.

## **Identifying a Potentially Impaired Asset**

### **Question 8**

It is reasonable to determine the recoverable amount of an asset only if there is an indication that the asset is impaired.

All indications under para. 8 are reasonable.

## **Net Selling Price**

### **Question 9**

We concur with the guidance under para. 17 to 19. For more clarification under para. 17 to 19, it might be stated explicitly that all attributable costs of the disposal should be deducted from the selling price (see IAS 11).

Para. 20 (b) proposes that the costs of disposal of an asset should not include restructuring or reorganisation costs. If these costs will arise as a consequence of the disposal, all attributable costs including restructuring or reorganisation costs should be deducted from the net selling price to present an asset net of foreseeable risks.

For this reason, we do not concur with the exception of para. 20 (b). A negative asset might be presented as a constructive obligation.

## **Value in use**

We refer to our fundamental concern about the value in use concept.

### **Questions 10 (a), 10 (b)**

Within the restricted scope for the application of the value in use concept, as proposed in our basic remark, we agree.

### **Question 10 (c)**

We are very much in favour of para. 36, that the discount rate should reflect the risks specific to the asset, and not those specific to the enterprise. This rate should be applied to discount the cash flows as referred to under para. 23 (a).

## **Cash-Generating Units**

We refer to our fundamental concern about cash-generating units.

**Question 11**

We do not share the view that if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the cash-generating unit to which the asset belongs. Precisely in this case the principle of individual valuation of an asset is not observed. The right answer would be to look at the market price.

**Question 12**

The section on Identification of Cash-Generating Units, para. 48 to 54 should start with a very restrictive wording on the applicability of the concept of cash-generating units.

The black letter para. 51 stating that the carrying amount of an assets cash-generating unit should be determined after deducting the carrying amount of a liability only if the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability needs more guidance. Only the example (mining company, overburden) clarifies that the whole liability to restore the overburden is taken upfront and that, in this case (selling the mining operation) the liability should be deducted. The Steering Committee might consider if the clearer solution would be to deduct all expenses that can be directly attributed to the cash-generating unit.

**Question 13**

We agree with the „bottom up“ and „top down“ approach for goodwill.

**Question 14**

The rationale behind the procedure for allocating an impairment loss within a cash-generating unit is not evident. The Steering Committee might clarify the reason for the suggested sequence of steps.

Questions on subsequent review of an impaired asset (para. 66 to 78) are missing. We agree in particular with para. 77.

**Disclosure**

The disclosure requirements are by far overstated. The user needs to know which assets are impaired, the reason and the financial impact. However, disclosing all the assumptions would undermine the credibility of preparers and auditors, since such information could easily be used by users to make their own calculations.

**Question 15**

We agree that the financial statements should disclose impairment losses, reversals of impairment losses and the relevant line items as stated under para. 79.

**Question 16**

Particularly the disclosures 82 (c) and 82 (d), asking for the details of the calculation, lack decision usefulness.

**Question 17**

Disclosing why an asset is not impaired (para. 83) is completely over the top.

**Question 18**

When applying value in use, para. 85 requires a comparison in each subsequent period between actual cash flows and the estimates. This demonstrates that the Exposure Draft does not seem to be comfortable with the value in use concept.

We strongly oppose to disclose „what-if figures“ as required under para. 85 (a) to 85 (c).

**Question 19**

As cash generating units should only be applied in rare cases an enterprise should be required to provide information on how cash generating units are determined. The reasons and the components of the cash generating unit should be disclosed.

**Question 20**

We do not propose to disclose more information.

**Appendices****Question 21**

The examples presented in the proposed Standard as well as the material under Appendix 1 are useful.

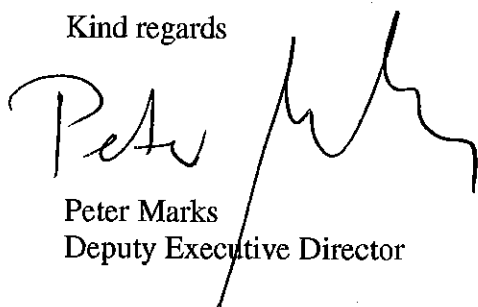
IAS 16, Property, Plant and Equipment in its present version includes an impairment test for an individual asset. However the proposed IAS „Impairment of Assets“ gives a strong preference to cash-generating units, and hence to the value in use. If the fundamental approach of the Draft on Impairment of Assets remains unchanged, we are not in favour of adjusting IAS 16, but rather to keep the stronger requirements for Property, Plant and Equipment.

**Question 22**

The Exposure Draft uses footnotes. In addition to black lettering, non-black lettering and non-compulsory appendices, footnotes represent a further category, the authority of which is not clear. We propose banning footnotes and, where necessary, extending non-black letter paragraphs.

If you have any questions regarding our comments, do not hesitate to contact us.

Kind regards



Peter Marks  
Deputy Executive Director