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

Dear Sir:

Merck and Co., Inc. is a New Jersey Corporation with its principal place of business at One Merck Drive, P. O. Box 100, Whitehouse Station, NJ, 08889-0100. The Company is a worldwide research-driven company that discovers, develops, manufactures and markets human and animal health products and services.

We are pleased to provide you with our comments on the Exposure Draft ("ED") entitled Impairment of Assets. We generally support the initiative to provide international guidance for the recognition of impairment of long-lived assets. We would like to offer the following comments which we believe will improve consistency in worldwide standards as well as provide the most meaningful measurement criteria for asset impairments.

The proposed standard indicates that an enterprise measure the impairment of an asset if any of a list of external or internal indicators are present at the balance sheet date or other indicators, as appropriate to the enterprise, are present. The U. S. Standard, Statement of Financial Accounting Standard No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS 121"), provides a similar list of examples of events or changes in circumstances that may indicate that an asset is impaired. However, SFAS 121 requires that a review for impairment be made in the event of such an indicator as a prior step to determining the actual measurement of the impairment. This review is to consist of an estimate of the expected net future cash flows (undiscounted and without interest charges.) If this amount is less than the carrying amount of the asset, the impairment loss should be measured.

We support this intermediate step of assessing undiscounted net cash flows (referred to as the probability criterion) as more practical and more consistent with other accounting principles for recognizing potential losses. The undiscounted cash flows would indicate if it is probable that the carrying amount of an asset cannot be fully recovered. In such case, measurement of the impairment should be made. However, under the IASC ED, market values and discounted cash flows will need to be assessed unnecessarily in many cases. For example, if a possible change in the economic or legal environment exists that could create a remote possibility that the carrying amount of an asset is jeopardized, the recoverable amount will nevertheless need to be determined.

We believe that impairment loss should be measured as either the net selling price or discounted cash flows, depending on management's intent with respect to the disposition of the impaired asset. If the intent is to continue using the asset, net present value of future cash flows expected to be derived from its use should be the only basis for measuring the assets value. It has been acknowledged that for many of the assets covered by this standard an active market does not exist, and therefore, measurement will default to the cash flow analysis. Nevertheless, we do not support the theoretical guidance that would require an attempt to determine a selling price, with the default to a cash flow analysis, if the asset will not be sold.

IASC presumes that "a rational enterprise will dispose of the asset" when the net selling price is higher than the net present value of cash flows. We do not believe that this is a realistic assumption. There may be many reasons for retaining an asset other than its future cash flows. The net selling price of an asset is relevant only in the case where management has decided to sell the asset.

In determining the discounted cash flows, we agree with the use of a discount rate that reflects the inherent risk of the project relative to the overall market, which is, as we understand, the method most commonly used in practice. We do not agree that the assumptions regarding the cash flow projections should be limited to those for the first five years. This limitation is arbitrary and could be seriously misleading. For example, in the pharmaceutical industry, a particular product may have just begun to reach reasonable market penetration after five years. If new indications or efficacy are discovered, the growth rate in subsequent periods could be significantly different than the first five years. IASC has indicated in the background information that this limitation is to avoid "an over-optimistic estimate of recoverable amount(s)." On the other hand, the limitation may result in an equally erroneous under-estimate of the recoverable amount. We believe that management is in the best position to determine a realistic cash flow projection. Assumptions can be tested for reasonableness based on past experience and through probability-weighting.

Our few remaining points are as follows:

- Allocation of central overhead costs should not be included in determining value in use. The cash flows to be measured should be limited to those that are avoidable and incremental to the use of the asset over its expected life;
- We concur with the reversal of previously recognized impairment losses on the basis that asset measurement requires the use of estimates which change as experience develops;
- Although the U.S. Standard is silent on the issue, we believe that the tax characteristics of an asset should be included in determining future cash flows. Unless tax effects are considered, there will be economically anomalous results, particularly among companies that apply SFAS 109, Accounting for Income Taxes.

We would be glad to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "S. J. G.", enclosed within a large, loopy oval.