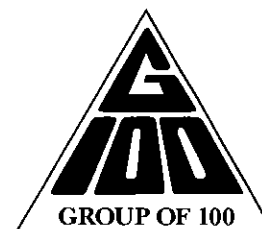


# GROUP OF 100 Inc.

The Group of 100 is an association of senior accounting and finance executives representing the major public companies and government owned enterprises in Australia.

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5 September 1997

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

Dear Sir,

## **E55 Impairment of Assets**

The Group of 100 is pleased to provide comments on E55 Impairment of Assets and is appreciative of being granted additional time to finalise its submission.

The Group of 100 is concerned that the proposals are introducing market value related requirements in the absence of a broader consideration of issues associated with the measurement of assets and liabilities. We believe that the role of measurement should be considered as an issue in its own right so that the issues can be properly debated and addressed. We do not believe that market values should be introduced on a piecemeal/topic by topic basis. Our response to the issues raised in E55 should be interpreted in this context.

## **Responses to specific questions**

### **1. Which of the following approaches do you support:**

- (a) the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use?
- (b) the recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction?

**(c) Other (please specify)?**

The Board of Directors has the ongoing responsibility to assess whether an asset is impaired. This assessment will take account of a range of factors including indicators that an impairment may exist such that the ability to fully recover the carrying amount of the asset is uncertain. We believe that the approach to determining an impairment should comprise two steps. Firstly, consistent with the principles of the historic cost basis of accounting the recoverable amount of an asset should be determined on the basis of the undiscounted amount of the future cash flows. Secondly, if the recoverable amount determined on this basis is less than the carrying amount of an asset we believe that the asset should be written down to its fair value.

The adoption of an approach based on market values, fair values and/or value in use as an initial step introduces a different basis of measurement which is inconsistent with the historic cost approach and is subject to uncertainties which will introduce a lack of reliability to the reporting process.

The approach we recommend is consistent with that adopted in FAS121 "Accounting for the Impairment of Long-Lived Assets and Assets to be Disposed Of", which in our opinion provides a practical and operational approach to assessing whether an asset is impaired and, if so, the measurement of an impairment loss.

**2. Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use)?**

No. As stated above we do not believe that present value techniques should be required to measure the recoverable amount of an asset. We believe that the initial measure of the recoverable amount should be based on undiscounted future cash flows.

**Assets held for Disposal**

**3. Do you agree that the definition of recoverable amount in paragraph 5 of the Exposure Draft is just as applicable to an asset held for disposal as to an asset held for continuing use?**

No. Where an asset is held for disposal measurement at net realisable value is appropriate. As stated above the recoverable amount of assets held for continuing use should be based on undiscounted future cash flows.

**Recognition of Impairment Losses**

**4. Do you agree that an impairment loss should be recognised for an asset:**

- (a) whenever the recoverable amount of the asset is less than its carrying amount; and
- (b) only if the cash-generating unit to which the asset belongs is impaired?

An impairment loss should be recognised when the recoverable amount of an asset determined on an undiscounted basis is less than its carrying amount and should be measured by reference to the fair value of the asset. Because of the difficulties associated with the determination of cash flows on the basis of individual assets it will often be necessary to determine cash flows in respect of a cash generating unit and allocate them to the respective assets on a reasonable basis.

### **Reversals of Impairment Losses**

5. Do you agree that an impairment loss recognised in prior years for an asset carried on an historical cost basis 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?

Yes. The reversal of previously recognised impairment losses should be recognised in the profit and loss account.

6. Do you 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?

We agree that the circumstances in which reversal of impairment losses for goodwill and other intangible assets should be restricted as proposed. We believe that these restrictions will provide protection from the recognition of internally developed goodwill.

### **Scope**

7. Do you agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft?

Yes. We believe that the Standard should establish requirements which apply generally and that it is appropriate for requirements relevant to specific classes of assets to be included in other standards.

### **Identifying a Potentially Impaired Asset**

8. Do you agree that:
- (a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired; and

- (b) **the list of indicators of impairment included in paragraph 8 of the Exposure Draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired?**
- (a) Yes. We believe that the approach proposed in paragraph 7 is appropriate. In practical terms there is little point in performing an exercise unless the relevant indicators demonstrates that it is necessary. The recoverable amount in these circumstances should be determined on the basis of undiscounted cash flows. Where an impairment exists the impaired asset should be written down to its fair value.
- (b) Yes. The indicators in paragraph 8 are sufficiently comprehensive of the indicators of impairment.

### **Net Selling Price**

#### **9. Do you agree that net selling price should be determined:**

- (a) **based on “the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties” and that it is not necessary to determine net selling price by reference to an active market; and**
- (b) **after deducting from the amount obtainable from the sale of an asset the incremental costs that are directly attributable to the disposal of the asset (excluding finance costs and income tax expense)?**

As indicated above we do not support the use of net selling price (realisable value) except where an asset is held for disposal. In this case the basis of determining net selling price is supported.

### **Value in Use**

#### **10. Do you agree with the proposed requirements and guidance in the Exposure Draft for:**

- (a) **the basis for estimates of future cash flows;**
- (b) **the composition of estimates of future cash flows; and**
- (c) **selecting the discount rate?**

As indicated above we do not support the determination of recoverable amount on the basis of value in use. However, we believe that in determining the undiscounted cash flows, the approach which we support to determine whether an impairment exists, the basis of estimating future cash flows (paragraph 23) and the composition of the estimates of future cash flows (paragraph 25) provide a robust, consistent and verifiable approach to the determination of future cash flows.

## Cash Generating Units

- 11. Do you agree 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 asset's cash-generating unit?**

Yes, an appropriate level of aggregation is consistent with the way in which management judges the performance of assets. However the level of aggregation should be at a sufficiently low level to prevent effective avoidance of the requirements.

- 12. Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit?**

Yes, it is necessary to include all those items which are specific to the cash generating unit and allocable to it on a reasonable and consistent basis.

- 13. Do you agree with the requirement (and related guidance) to recognise and measure an impairment loss if there exists goodwill or other corporate assets (such as head office assets) that relate to a cash-generating unit?**

The approaches proposed appear to be reasonable. On a practical level we believe that in many cases it will be difficult to identify goodwill and corporate assets with cash generating units on a reasonable basis.

- 14. Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit?**

We agree with the approach adopted with the exception of paragraph 62 (c). Under our recommended approach there is no specific need to determine the net selling value of assets unless they are held for disposal.

## Disclosure

- 15. Do you agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose more information, such as the amount of impairment losses that can be reversed in subsequent periods?**

Yes.

**16. Do you agree with the disclosure requirements in paragraph 82 of the Exposure Draft and that an enterprise should not be required to disclose for each individual asset (or cash-generating unit) for which significant impairment losses have been recognised or reversed during the period:**

- (a) the value in use of the asset (cash-generating unit) if the recoverable amount is based on the net selling price of the asset (cash-generating unit);**
- (b) the net selling price of the asset (cash-generating unit) if the recoverable amount is based on the value in use of the asset (cash-generating unit);**
- (c) if the recoverable amount is based on the value in use of the asset (cash-generating unit):**
  - (i) the discount rate(s) used in the calculation; and**
  - (ii) the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates or for the market in which the asset (cash-generating unit) is used; and**
- (d) other key assumptions used to determine the recoverable amount of an asset?**

We do not agree with the disclosure requirements in paragraph 82. Where recoverable amount is determined on an undiscounted basis disclosures relating to net selling value and value in use are not warranted. However, information proposed in paragraphs 82 c(ii) and (d) may be useful in providing users contextual information about the impairment process.

**17. Do you agree with the disclosure requirements in paragraphs 83-84 of the Exposure Draft and that an enterprise should not be required to disclose information similar to that proposed in question 16 above for each individual asset (cash-generating unit) for which:**

- (a) recoverable amount has been determined during the period;**
- (b) no impairment loss was recognised or reversed during the period; and**
- (c) a small change in key assumptions could lead to the recognition or reversal of a significant impairment loss?**

The entity should only be required to disclose information in the event that impairment losses have been recognised. If the entity has complied with the requirements of the standard and no impairment exists the provision of detailed information would appear to be information overload. We believe that shareholders would take comfort in knowledge that the requirements of a standard have been complied with and do not expect chapter and verse of how compliance with the standard has been achieved.

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## FORTHCOMING IASC PUBLICATIONS

(A note from the Publications Director as at 28 August 1997)

### Expected Publication Date:

Exposure Draft on Interim Financial Reporting (E57) <i>Comments due by 31/10/97</i>	August 1997
Exposure Draft on Discontinuing Operations (E58) <i>Comments due by 15/11/97</i>	August 1997
Exposure Draft on Provisions, Contingent Liabilities and Contingent Assets (E59) <i>Comments due by 15/11/97.</i>	August 1997
Exposure Draft on Intangible Assets (E60) <i>Comments due by 15/11/97.</i>	August 1997
Exposure Draft on Business Combinations (E61) <i>Comments due by 15/11/97.</i>	August 1997
International Accounting Standard IAS 14 (revised 1997), Segment Reporting	5 September 1997
International Accounting Standard IAS 1 (revised 1997), Presentation of Financial Statements	5 September 1997
G4+1 Discussion Paper: International Review of Accounting Standards Specifying the Recoverable Amount Test for Long-Lived Assets (principal author, Jim Paul)	26 September 1997
G4+1 Discussion Paper on Performance Reporting	September/October 1997
IASC Insight, September 1997	26 September 1997
News From the SIC, October 1997	October 1997
IASC Update, November 1997	7 November 1997
International Accounting Standard on Leases (revised IAS 17)*	November 1997
Comment Letters on E56, Leases	November 1997
IASC Insight, December 1997	12 December 1997
Exposure Draft on Agriculture*	January/February 1998

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- 18. Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft?**

This disclosure is unnecessary where the initial test for impairment of an asset is based on undiscounted cash flows and, if impaired, the asset is written down to fair value.

- 19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined? If you believe that such information should be required, please indicate which details should be required.**

Yes.

- 20. Should an enterprise be required to disclose any information other than that discussed in questions 15-19 to this Invitation to Comment?**

Yes. We believe that where significant impairment losses have been recognised a description of the circumstances in which that has occurred should be included in the management discussion and analysis.

#### **Appendices**


- 21. Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix?**

We support the inclusion of an Appendix to illustrate the application of the requirements is useful to preparers. We also support the inclusion of the examples provided in the body of the standard. However, it is unclear, whether or not, these will be retained in the standard.

- 22. Do you agree with the consequential changes to IAS16, Property, Plant and Equipment?**

In principle the proposed changes to IAS16 Property, Plant and Equipment are supported as a means of achieving consistency in requirements.

Yours sincerely



**Bruce R. Brook**  
National President