

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

Basel, August 15, 1997

Subject: IAS E55 Impairment of Assets - Comment

Dear Sir,

We greatly appreciate the opportunity to comment on this important ED. While we are in agreement with the proposals as a whole, we have three general caveats:

- Much will depend on common sense in practical application. There is a built-in risk, even more so than with most standards, that this standard could lead to pressure from auditors for a lot of analysis which does not contribute to the value-creation process, just to minimize their own risks. In particular, some further thought should be given to implementation, since the creation of the bank of "previous calculations" which will obviate most of the potential high costs could itself be a massive investment (or rather consumption) of time. Also, with regard to the detailed instructions for calculating value in use and present values, "less would be more": the possibility of using more approximative estimations in less material situations would encourage meaningful application of the standard.
- The concept of cash-generating units may also be difficult to handle in many practical situations. E.g. where a product is supplied to global markets from several production plants through a common distribution system, it is difficult to foresee meaningful calculations for a cash-generating unit at a lower level than the product, despite potential impairment situations through (e.g.) obsolescence. In this context, it should be possible to write down individual assets because of obsolescence or underutilization, even though their cash-generating unit as a whole is "positive".
- The disclosure requirements are absurdly exaggerated. For any but the most material impairments the majority will not enable the user to understand better the financial position and performance of the enterprise but will impose higher information-gathering costs on preparers. It cannot be sufficiently stressed that it is not the role of the users of

financial statements to assess whether the assumptions used when preparing those statements are correct: that is the auditor's job.

To most of your specific questions, we agree/accept. We would like to expand only on the following points:

1. a) Approach b) is quite irrelevant in going-concern situations and serves only to move a step further towards a fair-value balance sheet - a trend which we reject.

6. The restriction seems to us too tight. If circumstances change, why not reflect that?

8 (b), 12, 14. While the proposals are good in theory, they need to be applied with good common sense to work in practice.

10 (a). The basis for estimates seems almost paranoically restrictive. The estimates should be prepared on a "prudent" basis (as defined in the "Framework"): if it can be justified, why shouldn't a higher than average or increasing growth rate be reflected? Neither does there seem much practical sense in insisting that budgets and financial forecasts should be "formally approved by management with an appropriate degree of authority": this is bureaucratic and a governance issue rather than accounting. The arguments in the ED are good theoretical economics from which there can be many exceptions in practice.

13. In our view the allocation of goodwill and corporate assets does not suit the concept of a cash-generating unit with identifiable flows. They should be treated as residuals unless they can be specifically identified to a cash-generating unit. In practice, it is generally very difficult to find reasonable and consistent bases to allocate goodwill and corporate items to specific cash-generating units.

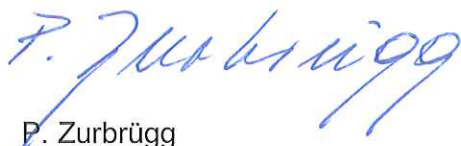
16, 17, 18. The disclosure requirements in paragraphs 82-85 are absurdly exaggerated for all but the most material situations. See our second general point above.

20. Any more than para. 81 would be excessive.

Thank you for the opportunity to comment and for taking our comments into consideration.

Yours sincerely,

F. Hoffmann-La Roche Ltd



P. Zurbrugg



A. Dangerfield