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

Dear Sir:

Deloitte Touche Tohmatsu International and its Member Firms are pleased to comment on the Exposure Draft E55, *Impairment of Assets* ("E55"), issued by the International Accounting Standards Committee. The recognition and measurement of impairment of assets has been a difficult practice problem for some time, and the current diversity in practice reflects the complexity of the judgments involved in the absence of clear guidelines. We support the Board's efforts to provide a better framework for accounting for impairment.

We do not agree, under any circumstances, that an impairment loss recognized in a prior period for an asset carried on an historical cost basis should be reversed. We believe the new carrying amount of an asset that has been written down should be its new costs basis, and upward adjustments in subsequent periods to restore previous impairment write-downs should be prohibited.

The additional comments in the Appendix to this letter are responses to the specific questions posed in E55 as well as our suggestions to further enhance and clarify certain proposed principles.

If you have any questions concerning our comments, please contact Mr. John T. Smith at (203) 761-3199.

Very truly yours,

*Deloitte Touche Tohmatsu*

**Appendix**  
**Deloitte Touche Tohmatsu International**  
**IASC Proposed International Accounting Standard**  
**Exposure Draft E55 *Impairment of Assets***

**Measurement of Recoverable Amount**

**Question 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 (paragraphs 5 and 12-40 of the Exposure Draft and paragraphs 7-30 of the Basis for Conclusion)?
- (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. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset, fair value would be estimated in a similar way to value in use as defined in the Exposure Draft (paragraphs 13-19 of the Basis for Conclusions)?
- (c) other (please specify)?

We agree that the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use (support approach (a)). Please refer to our comments to Question 9 regarding net selling price.
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**Question 2:** One consequence of the approach adopted in this Exposure Draft (or the alternative definition of recoverable amount based on fair value) is that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) (paragraphs 7-9 and 11-12 of the Basis for Conclusions). 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)?

We agree that present value techniques should be used to measure the recoverable amount of an asset, explicitly (value in use). We believe value in use is consistent with the decision to continue to operate an impaired asset. However, we believe the consistency between valuation methods applicable in different standards should be monitored by the Board. We would support development of a standard that provides general principles governing the use of cash flow information and present value techniques in accounting measurements of assets and liabilities.
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## Assets Held for Disposal

**Question 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 (paragraph 26 of the Basis for Conclusions)?

We 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. We believe that value in use and net selling price should be equivalent for an asset held for sale since operating cash flows are generally not significant in that case.

## Recognition of Impairment Losses

**Question 4:** Do you agree that an impairment loss should be recognized for an asset:

- (a) whenever the recoverable amount of the asset is less than its carrying amount (paragraph 41 of the Exposure Draft and paragraphs 59-67 of the Basis for Conclusions); and
- (b) only if the cash-generating unit to which the asset belongs is impaired (paragraphs 55-58 of the Exposure Draft and paragraphs 74-75 of the Basis for Conclusions)?

If you disagree with these proposals, please indicate criteria you would prefer for the recognition of an impairment loss in the financial statements.

We generally believe that an impairment loss should be recognized for an asset (a) whenever the sum of the expected net cash flows (undiscounted and without interest charges) of the asset is less than the carrying amount of the asset; and (b) only if the cash-generating unit to which the asset belongs is impaired. The use of undiscounted future net cash flows as a “screening mechanism” is a practical way to avoid recognition of impairments for usual and potentially frequent changes in fair value and discount rates. This approach provides an objective benchmark for determining whether there has been an impairment that requires recognition within the historical cost framework.

There is also support for the view that an impairment loss should be recognized 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. This approach is consistent with the approach used by a number of entities to guide decisions related to the purchase of productive assets.



## Reversal of Impairment Losses

**Question 5:** Do you agree that an impairment loss recognized 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 recognized (paragraphs 70-76 of the Exposure Draft and paragraphs 83-87 of the Basis for Conclusions)?

We do not agree, under any circumstances, that an impairment loss recognized in a prior period for an asset carried on an historical cost basis should be reversed. We believe the new carrying amount of an asset that has been written down should be its new costs basis, and upward adjustments in subsequent periods to restore previous impairment write-downs should be prohibited.

**Question 6:** Do you agree that an impairment loss recognized 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 (paragraphs 77-78 of the Exposure Draft)?

The Board also welcomes answers to the following questions, with reasons for those answers.

We do not agree, under any circumstances, that an impairment loss recognized in a prior period for an asset carried on an historical cost basis should be reversed. We believe the new carrying amount of an asset that has been written down should be its new costs basis, and upward adjustments in subsequent periods to restore previous impairment write-downs should be prohibited.

## Scope

**Question 7:** Do you agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft (paragraphs 1-4 of the Exposure Draft and paragraphs 106-110 of the Basis for Conclusions)?

We agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft. However, we believe assets held for satisfying insurance obligations and interests in associates and joint ventures accounted for using the equity method should also be excluded from the scope of Exposure Draft E55 and added to paragraph 1.

## Net Selling Price

**Question 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 (paragraphs 5 and 17-18 of the Exposure Draft and paragraphs 31-38 of the Basis for Conclusions); 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) (paragraphs 5 and 19-21 of the Exposure Draft and paragraph 35 of the Basis for Conclusions)?

If quoted market prices do not exist, we believe the net selling price of an asset should represent the fair value of an asset. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale, 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).

We support the following guidance. Quoted market prices in active markets are the best evidence of fair value and should be used as the basis for the measurement, if available. If quoted market prices are not available, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider prices for similar assets and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved, option-pricing models, option-adjusted spread models, and fundamental analysis.

## Value in Use

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

- (a) the basis for estimates of future cash flows (paragraphs 23-27 of the Exposure Draft and paragraphs 24 and 40-42 of the Basis for Conclusions);
- (b) the composition of estimates of future cash flows (paragraphs 28-35 of the Exposure Draft and paragraphs 43-46 and 50-58 of the Basis for Conclusions); and

- (c) selecting the discount rate (paragraphs 36-40 of the Exposure Draft and paragraphs 47-49 of the Basis for Conclusions)?

We 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. However, we do not believe long-term cash flow projections, paragraph 23(c), should be used unless an entity can support the long-term cash flow projections with firm contracts.

### **Cash-Generating Units**

**Question 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 (paragraphs 46-47 of the Exposure Draft)?

We 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.

**Question 12:** Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit (paragraphs 5 and 48-53 of the Exposure Draft)?

We agree with the requirements and guidance for determining the items that are included in a cash-generating unit.

**Question 13:** Do you agree with the requirement (and related guidance) to recognize 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 (paragraphs 59-61 of the Exposure Draft and paragraphs 79-81 of the Basis for Conclusions)?

We agree with the requirement (and related guidance) to recognize 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.



We agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose (a) through (d) for each individual asset (or cash-generating unit) for which significant impairment losses have been recognized or reversed during the period.

**Question 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 recognized 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?

(paragraphs 24 and 96-97 of the Basis for Conclusions)?

We believe the requirements of paragraph 83 should not be required disclosure. In addition, we believe the optional disclosures discussed in paragraph 84 should not appear in the final standard. The process of seeking reassurance on carrying values is a continuous one in relation to all assets. This requirement appears to be an inadequate and potentially misleading half-step in the direction of requiring a process of continuous valuation of all assets. Continuous valuation, though onerous, would give a regular stream of useful data. This proposed disclosure would merely highlight which assets have a carrying value only marginally lower than recoverable amount or vulnerable to rapid fluctuations, without offering information about other, possibly compensating, positive value changes in respect of other assets. This is disclosure which could prompt unwarranted speculation; such speculation should be unnecessary if the procedures proposed throughout the rest of the standard are adequately robust.

**Question 18:** Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft (paragraphs 24 and 100-101 of the Basis for Conclusions)?

We do not agree with the disclosure requirements in paragraph 85 of the Exposure Draft. The proposed disclosure raises unnecessary questions about the credibility of the financial statements.

**Question 19:** Do you agree that an enterprise should not be required to give information on how cash-generating units are determined (paragraphs 102-105 of the Basis for Conclusions)? If you believe that such information should be required, please indicate which details should be required.

We do not believe that an enterprise should not be required to give information on how cash-generating units are determined. We do not believe the information is valuable information to a potential reader.

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

We believe that enterprise should not be required to disclose any information other than that discussed in questions 15-19 to this Invitation to Comment.

## **Appendices**

**Question 21:** Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix? (Note: The Board does not intend to publish Appendix 3, Basis for Conclusions, with the final Standard.)

We do not have any proposed amendments or deletions to Appendix 1. However, we believe Appendix 3, Basis for Conclusions, should be published with the final standard.



**Question 22:** Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment (Appendix 2, Proposed Amendments to Other International Accounting Standards)?

We agree with the consequential changes to IAS 16, Property, Plant and Equipment.

**Other Comments**

**Question 23:** Do you have any other comments on the proposed International Accounting Standard?

We believe that in some cases where a company plans to dispose of impaired assets, a cash generating unit could be part of, or even identical to, a discontinuing operation. Therefore, it is important that the requirements of this standard are consistent with the discontinuing operations standard.