

August 25, 1997

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

Dear Sir:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants is pleased to offer comments on the exposure draft of a proposed International Accounting Standard, *Impairment of Assets* (the ED).

AcSEC supports a new historical cost basis approach for impairments that would prohibit reversals of previously recognized impairment losses. Additionally, we believe that the approach adopted should have an impairment trigger that would be based on a notion of "probability." That is, only when it is "probable" that some event or circumstance that has already occurred will result in the impairment of an asset would an impairment loss be recognized. The definition of the term "probable" should be similar to that used in IAS 10, *Contingencies and Events Occurring After the Balance Sheet Date*.

AcSEC believes that this approach will result in timely recognition of impairment losses and significantly reduce the cost and operating fluctuations that we believe would be caused by the ED's proposed approach.

As stated above, our preference would be that reversals of previously recognized impairment losses be prohibited. If, however, the IASC continues to support impairment reversals, a higher hurdle should be required. The event that triggers the reversal should indicate that the reversal is other than temporary and other than temporary reversals should be rare. We do not believe that reversal of the external event that caused the original impairment is a sufficient criterion to require reversal of that impairment. It also should be clear that the reversal will be other than temporary. We further believe that impairment loss reversals should be limited to the lower of net selling price or value in use or the depreciated historical cost of the asset had no impairment loss been previously recognized. This alternative, while not preferable in our view, is acceptable in that it will provide at least some relief from what we perceive as the high cost and frequent operating fluctuations of the ED's

proposed approach.

The Invitation to Comment requested answers to specific questions. AcSEC's responses to those questions follow.

Question 1

If the notion of probability is incorporated into the standard and reversals are prohibited, we could support either approach (a) or (b) in Question 1. If, however, the IASC continues to support reversals of previously recognized impairment losses, we would support approach (a) for impairment write-downs coupled with a requirement that reversals be limited to the lower of net selling price or value in use or the depreciated historical cost of the asset had no impairment loss been previously recognized.

Question 2

We 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).

Question 3

We agree that the definition of recoverable amount should be applied to both assets held for disposal and assets held for continuing use.

Also, if disposal is likely to occur, the likely net selling price should be considered in determining the recoverable amount. If a contract to sell assets exists, the selling price in the contract, less any costs of disposal, should be considered in determining the recoverable amount. This net selling price requirement could be made clearer if in the final standard, certain of the concepts of paragraph 58 of ED are incorporated in paragraph 5 of the ED.

Question 4

We agree with the requirements in Question 4 and, in fact, find them to be articulated more clearly in this question than in the ED. We recommend that the concept included in criterion (b) of question 4 be articulated more clearly in the final standard.

Question 5

As stated above, we do not support reversals of previously recognized impairment losses. We believe that if reversals are permitted, a higher hurdle, as discussed above, is needed to reduce the frequency of reversals. Otherwise, enterprises would be required to incur the high cost of continually assessing the recoverable amounts of all assets that had been previously written down

for impairment, regardless of the cause of the reversal. For example, if interest rates decrease, an enterprise would be required to assess the recoverable amounts of any and all previously impaired assets carried at value in use and compute impairment reversals.

Question 6

We are concerned with the requirements of paragraphs 77 and 78, based on our belief that impairment losses should not be reversed. This concern also applies to write-ups of previously impaired goodwill.

Question 7

We agree that the final standard should apply to all assets except those listed in paragraph 1 of the ED.

Question 8

We agree that the recoverable amount of an asset should be estimated if, and only if, there is an indication of impairment. Although we believe that the list of indicators in paragraph 8 is reasonably comprehensive, we are concerned that this list will require enterprises to estimate recoverable amounts whether or not significant risk exists that an asset is impaired. The final standard should require enterprises to estimate recoverable amounts only if there is both an indication that an asset may be impaired and that impairment is probable.

Question 9

We believe that if an active market for an asset exists, the price quote on that market must be considered. The term “arm’s length transaction” should be defined. The definition should encompass the notions that (a) the amount in question is a *current* amount based on a reasonable time for exposure in the open market and (b) the sale is not a forced or liquidation sale.

We believe that the costs to maintain or protect an asset after a decision has been made to dispose of the asset should be excluded from costs to sell. This concept should be stated explicitly in the final standard.

Question 10

We agree with the ED’s proposed guidance for determining value in use, if the asset that is the subject of the impairment assessment does not have any special tax attributes. However, in certain cases, the value of an asset (and an investor’s decision to invest in that asset) may be strongly influenced by the asset’s special tax characteristics. One example of an asset with influential tax characteristics in the United States is an investment in affordable housing (the investor’s return depends significantly on income tax credits generated by the investment). We recommend that the

guidance in paragraphs 36-40 regarding the selection of a discount rate be expanded to address tax-advantaged assets and allow for an adjustment to the pre-tax discount rate to include the impact of the asset's special tax incentives.

Question 11

We agree that if an asset does not generate cash inflows that are largely independent of those from other assets, the enterprise should determine the recoverable amount of the asset's cash-generating unit.

Question 12

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

Question 13

We agree with the requirement (and related guidance) to recognize and measure an impairment loss if goodwill or other corporate assets exist that relate to a cash-generating unit.

Question 14

We agree with the procedures for allocating an impairment loss of a cash-generating unit among the assets of that unit.

Question 15

We agree with the disclosure requirements of paragraph 79 and, except for paragraph 82(a) as discussed below, do not believe that any additional disclosures should be required.

Question 16

We agree with the disclosure requirements of paragraph 82(a) but believe that it would be more appropriate to require this disclosure in the segments standard (IAS 14 revised). We do not believe that the benefits of the other disclosure requirements of paragraph 82 would exceed the costs of compliance with these requirements and, therefore, recommend that they be eliminated.

Question 17

We do not believe that the disclosure requirements of paragraph 83 are relevant and, therefore, recommend that they be eliminated.

We do not object to the guidance in paragraph 84 because it is optional.

Question 18

We do not agree with the requirements of paragraph 85. We believe the requirements would result in excessive costs for preparers and seemingly would call into question the validity of the previously reported financial statements.

Question 19

We agree this information should not be required.

Question 20

As previously stated, we do not believe further disclosures should be required.

Question 21

We recommend that additional examples (including an example of an impairment of goodwill and a subsequent reversal of that impairment) be included in Appendix 1.

We believe that the Basis for Conclusion section of this (and all other standards) should be included as a part of the final standard. Inclusion of the basis for conclusions in the final document would help readers to understand the rationale underlying the conclusions reached. We do not understand the benefit to the IASC or to its constituency of omitting this section from a final standard.

Question 22

We agree that the consequential changes to IAS 16, *Property Plant and Equipment*, are appropriate.

Question 23

- (a) Paragraphs 51 through 53 of the ED could be interpreted to allow an unrealized gain on nonrecourse financing to be used to offset a clearly incurred impairment of the related asset, resulting in non-recognition of the impairment loss. We consider this a highly undesirable result and strongly recommend that the final standard specifically preclude such treatment.
- (b) Paragraph 86 of the ED provides the effective date for adoption of the impairment standard. We believe explicit transition guidance also is needed and recommend that this standard not

permit restatement. We believe this approach will improve financial statement comparability.

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Representatives of AcSEC would be pleased to discuss these comments with the Board or its representatives.

Sincerely,

G. Michael Crooch RS

G. Michael Crooch, CPA
Chair
Accounting Standards
Executive Committee