



THE BRITISH LAND CORPORATION LIMITED

ESTABLISHED IN 1856

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DIRECT LINE

The Secretary-General
International Accounting Standards Committee
167 Fleet Street
London
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Dear Sir

Proposed International Accounting Standard - Impairment of Assets

I now enclose a brief paper commenting on Exposure Draft E55.

Yours faithfully

C M J Forshaw

enc

Directors

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IMPAIRMENT OF ASSETS

This paper represents the views of The British Land Company PLC on the above exposure draft, comments on which have been invited by the International Accounting Standards Committee.

British Land is the second largest quoted property company in the UK, with total properties valued at £5.1 billion and funds under property management of £5.8 billion. The prime activity of the company is the ownership of long term income producing commercial properties; additionally, British Land maximises growth and potential through property trading and development.

There are two principal comments on the exposure draft:-

1. Measurement of Recoverable Amount

The exposure draft requires that the carrying values of assets should be reduced, if necessary, to the higher of net selling price (after disposal costs) and value in use.

British Land, in common with the majority of property investment companies, revalues its investment properties annually to open market value in accordance with The Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, which does not require that specific allowance be made for disposal costs.

The open market value of investment properties are generally arrived at after consideration of comparable market evidence, which may render a cash flow basis of valuation (i.e. the "value in use" basis) inappropriate or unnecessary; in which case the exposure draft would appear to require the deduction of the full cost of disposal even though a disposal would not take place for many years if at all. However, open market value is sometimes arrived at after considering and discounting future cash flows; the present value of any disposal costs included in this calculation is likely to be de minimus.

As investment properties are, by definition, held for the long term without the intention of disposal, it is inappropriate to deduct disposal costs in arriving at the balance sheet value.

2. Disclosure

The exposure draft requires disclosure for each individual asset, or cash generating unit, of a number of factors, including the amount of impairment loss recognised or reversed, the events and circumstances that led to its recognition or reversal, whether the recoverable amount of the asset is its net selling price or its value in use and, where it is based on value in use, the period of cash flows taken and the discount rate used.

It is impractical for a property company to report such matters on an asset by asset basis. In a declining market, this could result in British Land having to make such disclosure for each of its properties, which now number approaching 2,000. If the recoverable amount is based on value in use, it could also provide third parties with commercially sensitive information such as the carrying values and discount rates chosen which will vary on a property by property basis in accordance with the valuer's assessment of market worth.

It is therefore proposed that individual properties should not be treated as individual assets for the purpose of the standard, and that the disclosures required, particularly in relation to the calculation of value in use, are inappropriate for property investment companies.