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Arnhem,
 August 11, 1997

Dear Sir,

We would like to respond to your invitation to comment on Exposure Draft E55 "Impairment of Assets" as follows.

Measurement of Recoverable Amount

- 1 We prefer approach (a).
 We would like to point out, however, that in case of the selling price being higher than the value in use, management may still not decide to sell the assets if this would lead to additional expenses not included in the cost of disposal, like restructuring charges.
- 2 Yes, we understand that one of the consequences of the approach adopted in the Exposure Draft is the introduction of present value techniques. We oppose, however, to the piecemeal introduction of such techniques and recommend the Board to start a project to study and discuss this subject, as it has consequences for other exposure drafts (e.g. provisions) also.

Assets Held for Disposal

- 3 Yes, taking into account the comments made under 1.

Recognition of Impairment Losses

- 4 Yes, we agree that both criteria should be met for recognition of an impairment loss.

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Reversal of Impairment Losses

- 5 Yes.
- 6 No. Although we recognize the concern of the Board in respect of the potential recognition of internally generated goodwill, we question whether the reversal of impairment loss recognized on purchased goodwill could not result of future economic benefits that were previously not expected to flow from the asset and have been reassessed as probable.

Scope

- 7 No, in our view investments in subsidiaries accounted for under the equity method should be excluded, as the assets of these subsidiaries will be subjected to impairment tests themselves.

Identifying a Potentially Impaired Asset

- 8 a) Yes.
- b) Yes, however, we would like to make the following remarks.
Although we recognize that indication (a) may result in the recognition of an impairment loss, it could also be argued that in certain cases the recoverable amount is not seriously affected by the decrease in the market value of the assets, as its recoverable amount is not correlated with this market value but with the value in use, which is significantly higher (given significant positive cash flow from these activities). In those circumstances an enterprise should not be required to go through the whole process of estimating the value in use.

We propose the Board to put more emphasis on the fact that the sources of information under (d) "obsolescence and physical damage" and (f) "economic performance" should be significant. We propose to extend (d) with the wording "which are likely to decrease materially the asset's recoverable amount". Under (f) it should read "significantly worse than expected".

Net Selling Price

- 9 a) Yes.
b) Yes.
- 10 a) Yes. However, we object to the disclosure requirements mentioned in paragraph 25, 26 and 27. See also our answer to questions 16 and 17.
b) Yes.
c) Yes.

Cash-Generating Units

- 11 Yes.
- 12 Yes. However, we would like to point out that sometimes enterprises receive low-interest asset-related loans as a form of (government) grant for the asset. The difference between the market interest rate and the actual interest rate of the loan should be considered an element of the cash flow of the cash-generating unit.
- 13 We disagree with the allocation of corporate assets (excluding goodwill) to an asset's cash-generating unit. A possible impairment of corporate assets should be measured based on the carrying value of the entire enterprise. In our view it is incorrect to recognize an impairment loss for a cash-generating unit based on only an arbitrary allocation of corporate assets. Furthermore, it is unclear how the impairment loss should be allocated between the corporate assets and the assets of the cash-generating unit. Similar procedures should apply to shared assets on a site were several cash-generating units are operational. In respect of those assets only an impairment loss should be recorded if the carrying value of the entire site is impaired.

We agree with the allocation of purchased goodwill to an asset's cash-generating unit, if such goodwill was capitalized in the balance sheet.



- 14 If the impairment is not specifically attributable to a certain element of the cash-generating unit, our answer is yes. Otherwise, the impairment should be allocated to the asset that caused the impairment.

Disclosure

- 15 Yes and yes.
- 16 We oppose to the disclosure requirement of paragraph 82(d). In our view, as noted by the Board in paragraph 95 of the Basis for Conclusions, it is not the role of the users to verify how the recoverable amount was determined, but the role of the external auditors. Also the information proposed to be disclosed could be prejudicial to the interest of the enterprise.
Furthermore, we propose the Board to include guidance on aggregation of the information if various impairment losses were recorded, which relate to the same type of business.

Finally, we agree that an enterprise is not required to disclose the information mentioned under captions (a) through (d) of question 16.

- 17 No, we strongly oppose to the disclosure requirements of paragraphs 83-84.

In respect of paragraph 83 we would like to comment that if, based on the calculation made by management, an impairment loss for an asset or an asset's cash-generating unit or a reversal of an impairment loss should not be recognized, no disclosure should be required. The information proposed under paragraph 83 is not relevant for users of financial statements as no impairment loss or reversal thereof occurred after all.

In respect of paragraph 84, as mentioned in our answer to question 16, we do not believe that disclosure of key assumptions on the valuation of specific individual assets or cash-generating units are useful to users. Furthermore, we strongly believe that "what if" reporting should be avoided.



We agree that an enterprise should not be required to disclose captions (a) through (c) of question 17 for each individual asset or cash-generating unit.

18 No, we strongly oppose to the disclosure requirements of paragraph 85. The proposed disclosure in fact requires an enterprise to disclose impairment losses and reversals of impairment losses of former years had perfect foresight existed at the time the calculation was made. This is a rather fictitious assumption. Furthermore, making these disclosures suggests that errors were made in former impairment calculations, while differences normally will be fully related to the estimated elements of the calculation.

19 Yes.

20 No.

Appendices

21 We refer to our remarks on question 13.
In respect of example 3 we refer to our comments to question 6.

22 Yes.

Other Comments

23 No other comments.

Should you require any additional information or explanation in respect of the above replies and comments, do not hesitate to contact me.

Yours sincerely,

J.J.M. Derckx
Manager of the Management
Information Department

AKZO NOBEL

**Telefax transmittal
cover sheet**



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August 11, 1997
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6

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Remarks

4/1/98

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