



Chartered Accountants  
of Canada

Comptables agréés  
du Canada

The Canadian Institute  
of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario  
Canada M5V 3H2  
Tel.: (416) 977-3222  
Fax: (416) 977-8585  
<http://www.cica.ca>

December 29, 1997

Sir Bryan Carsberg  
Secretary General  
International Accounting Standards Committee  
166 Fleet Street  
London EC4A 2DY  
ENGLAND

L'Institut Canadien  
des Comptables Agréés  
277, rue Wellington Ouest  
Toronto (Ontario)  
Canada M5V 3H2  
Tél. : (416) 977-3222  
Fax : (416) 977-8585  
<http://www.cica.ca>

Dear Bryan:

### **IASC Exposure Drafts – Impairment of Assets (E55)**

I enclose comments of CICA Accounting Standards staff on this Exposure Draft. We apologize for not sending the response earlier but, given our current level of staff resources, we have found it very difficult to provide input to all IASC exposure drafts on a timely basis.

While we support the overall approach taken in E55, we believe that a number of issues need to be studied further before we would be comfortable in recommending that the Canadian Accounting Standards Board consider adopting this standard in Canada. This letter provides a summary of these issues.

In addition, we do have some overriding concerns that are interrelated with the proposals on intangible assets and goodwill. Specifically, we are concerned whether the impairment standards proposed in E55 are sufficiently robust given that it may be possible to justify very long amortization periods for intangible assets and goodwill under the proposals in E60 and E61. Indeed, we believe that it may not be possible to develop impairment standards that would justify amortizing intangible assets and goodwill over very long periods or, perhaps, not at all.

Canadian IASC Board members will be considering these concerns in preparation for the January Board meeting.

If you require clarification or additional information concerning our comments, please contact me or Kerry Danyluk at (telephone: +1 (416) 204-3274 / email: [kerry.danyluk@cica.ca](mailto:kerry.danyluk@cica.ca)).

Yours sincerely,

Sylvia Smith  
Director, Accounting Standards

cc. with enclosure: Canadian Members of the IASC Board & Technical Advisor  
K. Danyluk, CICA Accounting Standards  
I.P.N. Hague, CICA Accounting Standards  
S. Spector, CGA Canada  
W. Langdon, Society of Management Accountants of Canada

# IMPAIRMENT OF ASSETS - E55

## CICA ACCOUNTING STANDARDS STAFF COMMENTS

---

The following comments represent the views of members of the staff of the CICA Accounting Standards Board (AcSB) on IASC Exposure Draft E55, "Impairment of Assets." These comments have not been reviewed or endorsed by the AcSB and, accordingly, do not necessarily represent the views of the AcSB or its individual members.

### Identifying a potentially impaired asset

1. We agree that the recoverable amount of an asset should be estimated if there is an indication that the asset is impaired. We believe that the list of indicators in paragraph 8 will require the estimation of recoverable amount in most situations where there is a significant risk that the asset is impaired. However, consistent with E58, the list of indicators should include the approval and announcement of a plan for discontinuance. A cross reference to the Discontinuing Operations standard would also be helpful.

### Value in use

2. We agree that an asset's value in use should be determined using pre-tax cash flows that reflect the time value of money and risk. However, we are concerned that the proposed standard implies a degree of precision that cannot be achieved because the computation of value in use will always involve a number of very subjective estimates.
3. We are particularly concerned with the requirement to use a discount rate that reflects the risks specific to the asset under consideration. We recognize that our concern is part of a broader topic involving discounting generally. As a result, we believe that a separate project should be established to address this topic. In the meantime, however, for the purposes of finalizing this standard, our concerns would be somewhat alleviated if the standard took an approach similar to the one taken in the proposed Pensions standard by requiring the use of a specific risk-adjusted discount rate, such as the rate for high quality corporate bonds, in calculating the value-in-use for all assets. We recognize this approach is not as precise as the one proposed in the exposure draft. However, we believe it is preferable because it results in use of a rate that factors in an element of risk<sup>1</sup>, it is more objective than the rate suggested in the exposure draft and it results in an approach that is consistent with the one taken in the proposed Pensions standard.

---

<sup>1</sup> Note: In commenting on E54, Employee Benefits, we indicated some preference for using the minimum risk rate, rather than a high quality corporate bond rate. This is because of the particular risk characteristics of pension obligations. Such obligations include the risk that the future pension cost estimates may be too low. The existence of this type of risk would support use of a rate that is below the minimum risk rate. This risk is not present in an asset impairment test. As a result, we would be happier with a corporate bond rate in this circumstance.

4. In addition, we believe that the desirable disclosure in paragraph 84 should be required disclosure. Information on the key assumptions used to determine an asset's recoverable amount and the recoverable amount's sensitivity to changes in these assumptions when no impairment loss was recognized is important because of the subjectivity involved in making these estimations. We believe that the standard should also specify the key assumptions, such as the discount rate, that should be disclosed in this circumstance. Our reasons for supporting this type of disclosure are different from the one noted in paragraph 94 of the Basis for Conclusions. We do not believe disclosure of this information is important solely to enable users to "make their own judgement in respect of management's judgement." It is important to help users understand the subjective nature of these estimates and their sensitivity to changes in assumptions. Users are entitled to know this. They should not have to rely on warning signals and on further probing as suggested in 95(c) of the Basis.

### **Reversals of impairment losses**

5. We suggest that the final standard should provide guidance on how the reversal of an impairment loss is to be allocated to assets within a cash-generating unit. The standard should specify that a reversal is to be allocated in the opposite order to which the impairment loss was originally allocated (see paragraphs 62 and 63), i.e., the reversal should first be allocated to assets that have the "least" subjective values.
6. In addition, we also suggest that the standard should prohibit the reversal of impairment losses on goodwill and intangible assets with no active market. This requirement is too subjective and thus subject to manipulation. We do not believe that it will be possible for management to demonstrate clearly that improved cash flow projections result from the reversal of a specific event affecting goodwill rather than from the creation of internally generated goodwill. In addition, the requirement to identify a specific event affecting goodwill and other intangibles for which no active markets exist is not consistent with other parts of the standard. It is not clear how the discussion of a specific external event in paragraph 77 relates to the indications of impairment discussed in paragraphs 7 and 8 since these are not expressed in terms of specific events. Is such an external event intended to be a type of indication? Is it intended to be more specific than the external sources of information listed in paragraph 8? Paragraph 77 discusses a specific event affecting the impairment of goodwill on its own without relating it to the other assets in a cash-generating unit. It is not clear how this relates to paragraphs 59 to 61 since these paragraphs suggest goodwill needs to be associated with assets in a cash-generating unit in order to assess impairment. In interpreting paragraph 77 of the proposed standard, would it be possible for an entity to justify applying the impairment reversal to goodwill without applying it to the other assets in the cash generating unit of which goodwill is a part?
7. To summarize, we believe the final standard should provide guidance on how the reversal of an impairment loss would be allocated to assets within a cash-generating unit. We also believe that the standard should prohibit the reversal of an impairment loss recognized for goodwill and other intangible assets for which no active market exists. However, if paragraph 77 is to be maintained in the final standard, consideration should be given to:

- providing examples of the types of specific events envisaged;
- explaining how these events relate to the indications in paragraphs 7 and 8; and
- discussing how the reversal of the impairment loss would be applied when the goodwill and other intangibles being considered are part of a cash-generating unit.