



The Secretary-General  
International Accounting Standards Committee  
167 Fleet Street  
LONDON  
EC4A 2ES

29 August 1997

Dear Sir

## E55 - IMPAIRMENT OF ASSETS

1. Thank you for the opportunity to comment on Exposure Draft E55 - Impairment of Assets. In the limited time available we have not sought to answer all of the questions but have concentrated on a few specific points.
2. Thank you also for allowing us an extension to the deadline for submitting a response. This response is a joint response from the Faculty and Institute of Actuaries.
3. From the actuarial perspective, we strongly support the approach being adopted. The techniques underpinning 'value in use' are ones with which we are familiar and which we believe to be practicable. Clearly, there is a need for care to avoid over-estimation of the recoverable amount because of the subjectivity of projecting future cashflows. However, our experience is that a professional approach to these matters which balances prudence with economic realism leads to workable results which properly recognise the financial operations of a business. In this context, the combination of market value and 'value in use' works well.
4. We would raise two minor points:
  - 4.1 The calculation of 'value in use' is framed in terms of pre-tax cashflows and gross discount rates. While we agree that it is appropriate for many situations, there are areas - the UK life assurance industry being one - where corporation tax does not fall simply on trading profits, as reflected in net cashflows, but on net revenue flows, thereby partially taxing the enterprise and partially the individual saver. In this situation, gross cashflows and gross discount

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rates do not give sensible results. Accordingly we would suggest that the standard should provide for the use of post-tax cashflows and net discount rates where the taxation regime necessitates that approach; and

- 4.2 Regarding the choice of a discount rate, the description of the discount rate as 'market determined' may require clarification. Many discount rates adopted in stockmarket transactions will reflect not only the risk within an enterprise but also the wider business risks to which the enterprise as a whole is subject - for example poor management or changes in the legal or fiscal environment. In the context of balance sheet reporting, these are risks to which individual assets are not subject and should be excluded when setting a discount rate for assessing the 'value of use'. If you concur this view, the issue might be addressed directly in Paragraph 39.

5. We trust these comments are helpful and would be happy to expand on our comments if this would be useful.

Yours faithfully



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Secretary  
International Committee