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Mr Robert Garnett
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IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
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14th October 2010

Re: IAS 36 *Impairment of Assets* – Calculation of value in use

Dear Sir,

We are pleased to provide our comments on the IFRS Interpretations Committee's (the IFRS IC) tentative decision not to proceed with the agenda item on our request for guidance to clarify whether an entity can use dividend discount models (DDMs) when performing an impairment test under IAS 36 *Impairment of Assets*.

The issue that we have submitted is to be considered in the context of the impairment test of goodwill in the consolidated financial statements of an entity operating in the financial services sector (i.e. a banks or insurance companies) with regard to the determination of the recoverable amount of a cash generating unit (CGU) or group of CGUs to which the goodwill is allocated.

We believe that the wording of the IFRS IC' tentative decision could have a significant and undesirable effect in practice because according to our analysis of the European practices, the use of DDMs in testing goodwill for impairment is rather common in the financial services sector. Some important banks and insurance companies state in their notes to the financial statements to apply DDMs in testing the goodwill for impairment purposes. For your convenience we attach a copy of our analysis (Appendix 1).

We understand that, on one hand the IFRS IC considers the IAS 36 clear (the IFRS IC' tentative decision states that: *The Committee noted that the current principles in IAS 36 relating to the calculation of value in use of a CGU are clear and that any guidance it could provide would be in the nature of application guidance*), but on the other hand the IFRS IC provides a sort of interpretation stating: *The Committee observed that calculations using DDMs may be appropriate when calculating value in use of a single asset, for example when determining whether an investment is impaired in the separate financial statements of an entity. However, the Committee observed that calculations using DDMs would rarely be*

appropriate when calculating value in use of a CGU in consolidated financial statements. In our opinion, the reference to rare circumstances in which the DDMs may be applied is akin to an interpretation because it introduces facts not addressed by the principle. Therefore if the intention of the IFRS IC was to make an interpretation the required due process should be followed. On the contrary, if the intention was not to make an interpretation, the IFRS IC should remove the statement above pointed out.

We note that if the IFRS IC's intention is to highlight that it is not always appropriate to apply the DDMs then it would be preferable a more general statement, for example saying that the DDMs could be an appropriate method of calculating value in use in accordance with IAS 36 in specific circumstances, as already mentioned in the staff paper.

Moreover the IFRS IC's rejection notice on "IAS 36 Impairment of Assets — Calculation of value in use" mentions paragraphs 30–57 of IAS 36, but it does not consider paragraphs 74–79 of IAS 36, that seem to justify the inclusion of liabilities in the recoverable amount of a CGU. In particular:

- IAS 36.75 states that: *"The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined"* and
- IAS 36. 79 states that: *"For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities."*

Therefore, we recommend the IFRS IC to remove the reference to 'rarely be appropriate' from the wording for rejection. In addition, we suggest to the IFRS IC to amend the wording for rejection in order to clarify that DDMs can be applied provided these are consistent with the requirements of IAS 36.

Yours faithfully,
Angelo Casò
(Chairman)

APPENDIX 1

CONSOLIDATED FINANCIAL STATEMENTS ANALYSIS

Company	Disclosure
AXA	<p>Value in use consists of the net assets and expected future earnings from existing and new business, taking into account the cash generating units' future cash flows.</p> <p>Value in use calculations are also based on valuation techniques For Life & Savings businesses, such valuation techniques include discounted cash flows taking into account:</p> <ul style="list-style-type: none"> • the current shareholders' net asset value plus future profitability on business in force. <p>Such techniques (embedded value types of methodologies) are industry specific valuation methods which are consistent with the principles of discounted earnings approaches as the value of business in force results from the projection of distributable earnings. The current shareholders' net asset value is adjusted to take into account any difference between the basis of cash flows projections used in the value of business in force calculations and IFRS.</p>
Banco Sabadell	<p>The valuation method used was to discount the future distributable net profits associated with the operations of Banco Urquijo</p>
Deutsche Bank	<p>The Group determines the recoverable amount of its primary cash-generating units on the basis of value in use and employs a valuation model based on discounted cash flows ("DCF"). The DCF model employed by the Group reflects the specifics of the banking business and its regulatory environment. The model calculates the present value of the estimated future earnings that are distributable to shareholders after fulfilling the respective regulatory capital requirements.</p>
Generali	<p>The fair value of the Cash Generating Unit is determined on the basis of current market quotation or valuation techniques usually adopted (mainly DDM or Enterprise value).</p>

MPS	The impairment test process of MPS Group goodwill as of 31 December 2008 was carried out identifying the recoverable value of each CGU in the use value. The recoverable value of the MPS Group and of the CGUs was also determined thanks to a leading advising company (Advisor). The recoverable value of the MPS Group and of the banking CGUs was estimated with the Dividend Discount Model (DDM) method in the Excess Capital version determining the value of a company on the basis of future dividend flows which may be distributed to the shareholders taking into account the development expectations and in compliance with the capital requirements provided for by the Supervisory Authority discounted at a rate expressing the specific capital risk.
Societe generale	The recoverable amount of a CGU is calculated using the most appropriate method, notably by discounting net cash flows expected from the whole CGU rather than from individual legal entities. Cash flow used in that calculation are income available for distribution generated by all entities included in the CGU...
UBS	The recoverable amount is determined using a proprietary model based on discounted cash flows, which has been adapted to give effect to the special features of the banking business and its regulatory environment. The recoverable amount is determined by estimating streams of earnings available to shareholders in the next five years, discounted to their present values