

**ICAEW REP 13/05**

**FRED 37 INTANGIBLE ASSETS (IAS 38) AND FRED 38  
IMPAIRMENT OF ASSETS (IAS 36)**

*Memorandum of comment submitted in October 2005 by the Institute of Chartered Accountants in England and Wales, in response to Accounting Standards Board FRED 37 Intangible assets (IAS 38) and FRED 38 Impairment of assets (IAS 36), published on 28 July 2005*

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## INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the exposure drafts FRED 37 *Intangible assets (IAS 38)* and FRED 38 *Impairment of assets (IAS 36)*, published by the Accounting Standards Board on 28 July 2005.

## WHO WE ARE

2. The Institute of Chartered Accountants in England and Wales (the 'Institute') is the largest accountancy body in Europe, with more than 125,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy.

## RESPONSES TO SPECIFIC QUESTIONS

*ASB 1 The Board proposes to implement SIC 32 Intangible Assets - Web Site Costs as an Application Note to the UK IFRS-based standard IAS 38. Do you agree with the implementation of SIC 32 as an Application Note to the draft FRS?*

4. If the Board were to implement IAS 38 then it would be logical to implement SIC 32 as an Application Note.

*ASB 2 FRS 15 bases residual value on prices prevailing at the date of acquisition (or revaluation) whereas IAS 16 defines residual values as being the prices based on current value. One of the consequential amendments proposed by the draft FRS Impairment of Assets is an amendment the definition of residual value in FRS 15. Are you in agreement with the proposal to amend the definition of residual value? If not please explain why you disagree with the proposal.*

5. We do not think that the definition of residual value in FRS 15 should be aligned with that in IAS 16 until FRS itself is comprehensively reviewed. We disagree with this feature of IAS 16 on conceptual grounds.

*ASB 3 In the draft FRS Impairment of Assets, paragraphs 6A and 6B insert the definition of a business segment, geographical segment, primary reporting segment and secondary reporting segment. This is proposed so that the requirement set out in paragraph 80 of the draft FRS to allocate goodwill acquired in a business combination to cash-generating units which are no*

*larger than a segment defined by IAS 14 Segment Reporting are converged in UK and international standards. Do you agree with the proposal to insert the definitions from IAS 14? If not please explain why and what alternative you would propose.*

6. We are concerned that this proposal would lead to inconsistency between business segments defined under this standard and those used for segmental reporting under UK GAAP. We believe that the ASB should use the current definitions in SSAP 25 Segmental reporting.

*ASB 4 The draft FRS Impairment of Assets, includes no specific requirements for transition from FRS 11 to the new IFRS-based standard. Do you consider guidance is required? If so, do you consider an additional impairment test should be required on the introduction of the new IFRS-based standard?*

7. In general, we do not see a need for transitional measures on introduction of the potential new standard. However, it should be made clear that any additional impairment required under the new standard should be treated as a change in estimation and not as a prior year adjustment.

#### **DETAILED POINTS**

8. *FRED 37, paragraphs 129A and 130(b) These standards talk of reviewing only lives, but we would expect that residual values should also be reviewed.]*
9. FRED 37, paragraph 133B. New paragraph 25A of SSAP 4 is inconsistent with existing paragraph 16 of SSAP 4, which does not allow for recording asset and grant at a nominal value.
10. We have not made a thorough review of the exposure drafts for inconsistencies such as those identified above, but we suggest that this will be necessary if and when the ASB introduces these standards.