CL 25

Wesfarmers Limited
A.C.N. 008 984 049

2 April 2003

Sir David Tweedie
Chairmain
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir David,

ED109 Request for Comment on:
IASB ED3 'Business Combinations'
IASB ED of Proposed Amendments to IAS 36 'Impairment of Assets'
IAS 38 'Intangible Assets'

Enclosed are Wesfarmers Limited's comments on ED3 and amendments to IAS 36 and 38.

We generally support the proposals, as we believe they will improve the quality of financial reporting. However, we are concerned with a number of aspects that we believe need further consideration.

These concerns are detailed in our responses to the specific questions. In particular, we draw your attention to our responses in the following areas of concern:

- Provision for terminating or reducing the activities of the acquiree.
- Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
- The 12 month restriction on completing the initial accounting for a business combination and subsequent adjustments to that accounting.
- Frequency of impairment testing for cash generating units that include goodwill.
- The method of measuring value in use for assets.

- Allocation of goodwill to cash generating units.

- The detailed disclosure requirements for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives.

If you require any further explanations and/or comments in respect to these concerns, please do not hesitate to contact us.

Yours faithfully

B J H Denison
General Manager, Group Accounting
Wesfarmers Limited

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ED 3 "Business Combinations"

1 IASB SPECIFIC QUESTIONS

Question 1 – Scope

The Exposure Draft proposes:

(a) *to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control (see proposed paragraphs 2 and 3 and paragraphs BC9-BC11 of the Basis for Conclusions).*

Are these scope exclusions appropriate? If not, why not?

We support the scope of the Standard.

(b) *to include in the IFRS a definition of business combinations involving entities under common control, and additional guidance on identifying such transactions (see proposed paragraphs 9-12 and Appendix A, and paragraphs BC12-BC15 of the Basis for Conclusions).*

Are the definition and additional guidance helpful in identifying transactions within the scope exclusion? If not, what additional guidance would you suggest, and why?

Yes.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions).

Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

In our opinion, the purchase method should be applied for all business combinations where an acquirer can be identified. It is not appropriate applying the purchase method where an acquirer can not be identified. Where an acquirer can not be identified, it will result in a combination of book and fair values being applied.

Question 3 – Reverse acquisitions

Under IAS 22 Business Combinations, a business combination is accounted for as a reverse acquisition when an entity (the legal parent) obtains ownership of the equity of another entity (the legal subsidiary) but, as part of the exchange transaction, issues enough voting equity as consideration for control of the combined entity to pass to the owners of the legal subsidiary. In such circumstances, the legal subsidiary is deemed to be the acquirer. The Exposure Draft:

(a) *proposes to modify the circumstances in which a business combination could be regarded as a reverse acquisition by clarifying that for all business combinations effected through an exchange of equity interests, the acquirer is the combining entity that has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. As a result, a reverse acquisition occurs when the legal subsidiary has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37-BC41 of the Basis for Conclusions).*

Is this an appropriate description of the circumstances in which a business combination should be accounted for as a reverse acquisition? If not, under what circumstances, if any, should a business combination be accounted for as a reverse acquisition?

Yes.

(b) *proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraphs B1-B14 of Appendix B).*

Is this additional guidance appropriate? If not, why not? Should any additional guidance be included? If so, what specific guidance should be added?

Yes.

Question 4 – Identifying the acquirer when a new entity is formed to effect a business combination

The Exposure Draft proposes that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available (see proposed paragraph 22 and paragraphs BC42-BC46 of the Basis for Conclusions).

Is this appropriate? If not, why not?

In our opinion, the new entity formed should be treated as the acquirer and apply the purchase method for all entities acquired.

Question 5 – Provisions for terminating or reducing the activities of the acquiree

Under IAS 22, an acquirer must recognise as part of allocating the cost of a business combination a provision for terminating or reducing the activities of the acquiree (a 'restructuring provision') that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria. The Exposure Draft proposes that an acquirer should recognise a restructuring provision as part of allocating the cost of a business combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see proposed paragraph 40 and paragraphs BC55-BC66 of the Basis for Conclusions).

Is this appropriate? If not, what criteria should an acquirer be required to satisfy to recognise a restructuring provision that was not a liability of the acquiree as part of allocating the cost of a combination, and why?

In our opinion, the treatment of restructuring costs, whether relating to a business combination or otherwise, should be determined by a consistent application of the principles in IAS 37. We do not believe that there is a case for special/different accounting for restructurings occurring as part of a business combination. A liability under IAS 37 will exist in circumstances where the acquirer has publicly indicated its intentions (in say an offer document), to restructuring the entity to be acquired if its offer to acquire is successful.

Question 6 – Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably (see proposed paragraphs 36 and 45 and paragraphs BC80-BC85 of the Basis for Conclusions).

Is this appropriate? If not, why not?

In our opinion, a contingent liability should only be recognised when the liability meets the definition of a liability under IAS 37.

Question 7 – Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

IAS 22 includes a benchmark and an allowed alternative treatment for the initial measurement of the identifiable net assets acquired in a business combination, and therefore for the initial measurement of any minority interests. The Exposure Draft proposes requiring the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree will be stated at the minority's proportion of the net fair values of those items. This proposal is consistent with the allowed alternative treatment in IAS 22 (see proposed paragraphs 35 and 39 and paragraphs BC88-BC95 of the Basis for Conclusions).

Is this appropriate? If not, how should the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of a business combination be measured when there is a minority interest in the acquiree, and why?

We agree with the proposals.

Question 8 – Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions).

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

We agree that goodwill should be recognised as an asset in that it represents future economic benefits expected to flow to the entity. Goodwill should not be amortised and strongly support an approach where the carrying amount of the asset is tested for impairment when there is an indication of impairment, so that any reductions in its value are recognised as an expense in the periods in which the diminution in value occurs.

Question 9 – Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.)

Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

No. We believe that in a cost-based system the purchase price is the maximum amount at which the net assets of the acquired entity should be recognised and that as a consequence any excess should be allocated to the non-monetary assets acquired. In the event that an excess still remains it should be recognised in the profit and loss.

The suggested treatment is also inconsistent with an asset acquired in the ordinary course of business, where the cost of acquisition is less than its fair value. It is also inconsistent with the treatment of inventories that are brought to account at cost.

Question 10 – Completing the initial accounting for a business combination and subsequent adjustments to that accounting

The Exposure Draft proposes that:

(a) if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination occurs because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer should account for the combination using those provisional values. Any adjustment to those values as a result of completing the initial accounting is to be recognised within twelve months of the acquisition date (see proposed paragraphs 60 and 61 and paragraphs BC123-BC126 of the Basis for Conclusions).

Is twelve months from the acquisition date sufficient time for completing the accounting for a business combination? If not, what period would be sufficient, and why?

It is not always possible to complete a transaction within twelve months from acquisition. In many instances warranty claims, environmental obligations, legal proceedings, tax disputes etc. take more than twelve months to resolve. In these circumstances, it is not possible that a liability can be reliably measured within twelve months. It is suggested the standard requires the disclosures of the circumstances and amounts where adjustments are made outside twelve months.

(b) with some exceptions carried forward as an interim measure from IAS 22, adjustments to the initial accounting for a business combination after that accounting is complete should be recognised only to correct an error (see proposed paragraphs 62 and 63 and paragraphs BC127-BC132 of the Basis for Conclusions).

Is this appropriate? If not, under what other circumstances should the initial accounting be amended after it is complete, and why?

See comment in (a) above.

IASB ED of Proposed Amendments to IAS 36 "Impairment of Assets"

1. IASB SPECIFIC QUESTIONS

Question 1 – Frequency of impairment tests

Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

The impairment testing for intangible assets with indefinite useful lives and acquired goodwill should be tested on initial adoption of the standard and where there is a subsequent indication of impairment. More frequent testing will only result in additional cost to an enterprise that will become a routine exercise. The standard should give more guidance on the indicators of impairment.

Question 2 – Intangible assets with indefinite useful lives

The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with the requirements in IAS 36 for assets other than goodwill (see paragraphs C10-C11 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

We agree with these proposals.

Question 3 – Measuring value in use

The Exposure Draft proposes additional guidance on measuring the value in use of an asset. Is this additional guidance appropriate? In particular:

(a) *should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?*

We agree with the elements listed in proposed paragraph 25A and that those elements should be reflected either by way of adjustment to cashflows or to the discount rate applied. Either approach should result in the same valuation outcome.

(b) *should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?*

It is expected that companies would take account of previous experience when preparing new forecasts and as such paragraph 27(a)(ii) does not add value to the interpretation of measuring value in use. In particular the use of the word "accurate", in this context, raises some concern as to how it would be interpreted in practice.

(c) *is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?*

No. We comment as follows in respect to measuring value in use:

i. **Where the remaining useful life of the asset is considered to extend beyond the period forecast, it would be common commercial practice to include a terminal value in the cashflows based on expected future maintainable earnings from that asset.**

ii. **Proposed paragraphs 37 – 42 disallow capital expenditure that will improve or enhance an asset; we believe that a distinction should be made between expansion activities that should be excluded from**

forecast cashflows, such as new acquisitions and restructures, and enhancement programs that should be included. Inclusion or exclusion of capital expenditure should not be prescribed; rather it should be governed by reference to the industry in which the business operates, and the normal operating practices within that industry.

For example:

(a) Part of the normal operations of a retail business involves opening and closing stores, from time to time, from which the company believes it will benefit in the future; such expenditure, and associated benefits, would, under normal commercial practices, be included in measuring the value of that company.

***(b)* In the resources industry, a company will often undertake exploration and, if reasonable economic certainty exists, it would expect to develop the resource further in order to benefit from its exploitation in the future. Once again, common commercial practice would be to include such expenditure, and expected benefits, in the forecast cashflows.**

(c) In a manufacturing industry a company may decide to incur capital expenditure to de-bottleneck a plant or even expand the capacity of a plant. It is our view, that where the proposed plan to make such expenditure is reasonably expected i.e. publicly announced or well advanced, it should, along with associated benefits, be included in the forecast cashflows.

iii. Proposed paragraphs 43 and 48 specifically exclude income tax receipts and payments from future cashflows and dictate that the discount rate to be applied must be pre-tax. We believe that such exclusion should not be prescribed, rather it should be an election made by the company with the necessary adjustment made to the discount rate to be applied to take account of the pre- or post-tax nature of the cashflows.

iv. The term “interest rate” is used throughout Appendix B where the term “discount rate” should be used, e.g. the first line of paragraph B3 and again in sub-paragraph (a). Similarly, the word “because” is used in the last sentence of paragraph B3(a) where the word “where” should be used.

v. Paragraphs B5 and B6 should be removed as guidance on discount rates is provided (more appropriately) in paragraphs B15-B21. Furthermore, paragraph B5 would only hold true where such cashflows have a 100% probability of being realised.

vi. Paragraph B18(a) requires discount rates to be adjusted for market expectations of risk. We believe this should be the company’s expectations of risk as it is the value of the business to the company that is being assessed and it would be the company that would best be

able to assess such risks as it owns and understands the business being assessed.

vii. **Paragraph B19 incorrectly states that the discount rate should be independent of the entity's capital structure. The entity's capital structure impacts on the weighted average cost of capital and is therefore inherent in the discount rate used.**

viii. **Paragraph B21 is not clearly worded and should state that an entity *may* use separate discount rates for different future periods where:**

   (a) periods are expected to be subjected to differing risk profiles; and

   (b) interest rates payable are expected to differ (irrespective of what current terms may dictate) over periods.

Question 4 – Allocating goodwill to cash-generating units

The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash-generating units.

(a) Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18-C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

Yes, we support the use of the cash-generating unit, being the lowest level to which goodwill is allocated, as being the basis of the impairment test in most circumstances.
However, it should be recognised that in many cases (for example a network of similar stores) allocations, including those for goodwill, may be made that are arbitrary and subjective.

Therefore prior to recognising an impairment of goodwill on specific cash generating units it should also be reasonable that an impairment of that one asset has resulted in the impairment of goodwill.

In addition, the requirement should have sufficient flexibility to enable commercial factors to be taken into account in determining the level at which impairment testing is undertaken. For example, an entity may be engaged in retailing and have a chain of retail outlets such as shops, service stations etc. which it regards as a cash-generating unit. As part of its ongoing activities the entity may expand by purchasing additional outlets, either singly or in groups. In addition as part of its acquisitions it may result in an overlap in certain geographical areas. Closing one of these overlapping stores may, in certain circumstances, result in an increase in

the profitability (and value) of the combined company. It therefore be unreasonable and uncommercial for an impairment of goodwill to be recognised against the closed store.

Where an entity purchases an entity having a single shop and goodwill arises on the transaction, we consider it would be inappropriate to mandate that this shop be regarded as a cash-generating unit for the purposes of impairment testing, particularly where the retail chain is managed on a unified basis.

(b) If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

Yes.

(c) If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash-generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?

Yes.

Question 5 – Determining whether goodwill is impaired

The Exposure Draft proposes:

(a) that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount of the unit be measured?

Yes.

(b) the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions).

Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

Yes.

(c) that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).

Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

Yes.

Question 6 – Reversals of impairment losses for goodwill

The Exposure Draft proposes that reversals of impairment losses recognised for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions).

Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

We agree that goodwill impairments should not be reversed.

Question 7 – Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69-C82 of the Basis for Conclusions).

(a) *Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?*

No, it is not clear what objective is being served by requiring such detailed and comprehensive disclosures. Our impression from the proposed requirements is that they are seeking to provide information that would enable users to replicate the measurements and processes of management. In this regard we strongly oppose proposals to require disclosure of the difference between recoverable and carrying amounts as required by paragraph 134(d).

We have serious concerns about the level of detail and scope of the disclosure requirements. The proposals do not set out the case for, or purpose of, such comprehensive disclosures. Our concerns relate to the commercial sensitivity of the information and the potential impact on the competitive environment of the company. For example, the requirements are selective and take no account of how a company has grown with the result that a company that has grown through acquisition makes disclosures while another with similar, but internally-generated, intangibles does not. In some cases the disclosure is tantamount to valuing the company, or segment of the company, and are likely to expose directors to challenge where the margin between the carrying amount and the fair value is disclosed and differs from market estimates. In these circumstances the directors may be challenged that they have allowed a false/uninformed market in the company's shares where their estimates of fair values are different from those of the market. In addition, we believe that the costs of collecting the information and the audit costs if disclosures are required for each cash generating unit would not be justified. The disclosure should be limited to the accounting policies adopted in assessing recoverable amounts.

(b) *Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash-generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?*

No, we are concerned about the level of detail required.

IASB ED of Proposed Amendments to IAS 38 “Intangible Assets”

1. IASB SPECIFIC QUESTIONS

Question 1 – Identifiability

The Exposure Draft proposes that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable or arises from contractual or other legal rights (see proposed paragraphs 10 and 11 and paragraphs B6-B10 of the Basis for Conclusions).

Are the separability and contractual/other legal rights criteria appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset? If not, what criteria are appropriate, and why?

Where an item satisfies the definition of an asset and recognition criteria, it should be recognised as an asset (that is, future economic benefits and a cost or value that can be measured reliably). We do not see any grounds for treating intangible assets any differently than tangible assets in this respect.

Question 2 – Criteria for recognising intangible assets acquired in a business combination separately from goodwill

This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29-32 and paragraphs B11-B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard Business Combinations, an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree’s intangible assets, excluding an assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).

Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

We believe that if the definition and recognition criteria are satisfied, the entity should be recognised an asset. We believe that this principle should be applied consistently to all assets.

Question 3 – Indefinite useful life

The Exposure Draft proposes to remove from IAS 38 the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years, and to require its useful life to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period of time over which the asset is expected to generate net cash inflows for the entity (see proposed paragraphs 85-88 and paragraphs B29-B32 of the Basis for Conclusions).

Is this appropriate? If not, under what circumstances, if any, should an intangible asset be regarded as having an indefinite useful life?

We support these proposals.

Question 4 – Useful life of intangible asset arising from contractual or other legal rights

The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost (see proposed paragraphs 91 and 92 and paragraphs B33-B35 of the Basis for Conclusions).

Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed? If not, under what circumstances should the useful life include the renewal period(s)?

We support these proposals.

Question 5 – Non-amortisation of intangible assets with indefinite useful lives

The Exposure Draft proposes that an intangible asset with an indefinite useful life should not be amortised (see proposed paragraphs 103 and 104 and paragraphs B36-B38 of the Basis for Conclusions).

Is this appropriate? If not, how should such assets be accounted for after their initial recognition?

We support these proposals.