FAR

FAR is the institute for the accountancy profession in Sweden

CL 17

International Accounting Standards Board 31 March 2003
Attn. Annette Kimmitt, Senior Project Manager
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Exposure Draft ED 3 Business Combinations
Proposed Amendments to IAS 36 Impairment of Assets
Proposed Amendments to IAS 38 Intangible Assets

FAR, the institute for the accountancy profession in Sweden, has the pleasure to submit the following comments on the above exposure drafts. The answers to the detailed questions in each of the three exposure drafts are annexed to this letter. We would like to specifically draw the Board's attention to some areas of major concern that we address in our general comments. Our answers to the detailed questions should be read within the context of our general comments.

General comments
We have serious misgivings as regards the robustness of the impairment test model proposed in ED 3 and we do not believe that the cost allocation model should be abandoned until the valuation model has been appropriately field-tested. The list of examples of intangible assets satisfying the criteria for recognition separate from goodwill contributes to these concerns. We do not believe that some of these assets can be distinguished from goodwill and that these are capable of reliable measurement. The proposed standard further requires reversal of impairment losses of those assets, but prohibits such reversal for goodwill. This opens for accounting arbitrage.

We are also concerned as to the possibility in practice to measure these types of assets in a reliable way. The lack of rules for such valuations may result in quite different valuations for the same type of asset. We do not think that this contributes to reliable and comparable information and question therefore whether the analysis of costs and benefits of the proposed standard is supportive for the new approach. We suggest that the Board considers, in co-operation with the valuation profession, developing examples or even a standard for valuation methods.

The numerous references to the second phase of the business combinations project are disturbing. It would appear that there is no benefit to standard setting with the introduction of a revised standard that may be subject to further changes even before its effective date. We would, therefore, recommend IASB to postpone issuance of the revised standards till such time that those issues that are the subject of further deliberation to the second phase could also be included.

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We would prefer that the issue of combinations between entities under common control be not only defined, but that the accounting method for these combinations would also be laid down in the new IFRS. The establishment of an accounting method in this context is well overdue.

We find it inconsistent to address contingent liabilities but not contingent assets.

Additionally, we find the disclosure requirements, both in ED3 and the proposed amendments of IAS 36, excessive.

Please refer to the following pages for our answers to the detailed questions in the exposure drafts.

Yours sincerely,

Jan Buisman
Chairman, Accounting Practices Committee

Björn Markland
Secretary General

FAR

Exposure Draft ED 3 Business Combinations

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?

(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?

We agree with the exclusions from the scope of the IFRS business combinations. We would have preferred, however, that the accounting by a joint venture upon its formation had been dealt with in the proposed IFRS since it is an often encountered issue and guidance is urgently needed. We find it appropriate to include in the IFRS the definition of business combinations involving entities under common control. We find the discussion of "grooming" transactions in BC 15 helpful but would suggest that an example of what IASB considers to be "transitory" control would also be provided. While a definition is a step in the right direction, these combinations have been on the table for a long time and the establishment of an accounting method for these transactions is well overdue.

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?

We agree with the IASB proposal to eliminate the use of the pooling of interest method and to require the application of the purchase method for all business combinations, not so much on conceptual grounds but as a practical solution. We note, however, that the wording of some paragraphs is not unambiguous (paragraph 14 – "nearly all business combinations"; paragraph 18 "assumes that one of the parties … can be identified as the acquirer"; paragraph 20 – "it may be difficult to identify an acquirer"). This could give the impression that there may exist "true mergers". We also note in BC 23 and BC 29 that the Board is still considering whether the "fresh start" method would be appropriate for some combinations. We are not convinced that it benefits standard setting to address this issue in two phases, but believe that IASB should instead wait and issue all guidance in one standard.

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?

(b) proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraph 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?

We believe the description of the circumstances in which a business combination should be accounted for as a reverse acquisition is better addressed in ED 3 than in the existing standard IAS 22. The additional guidance is appropriate.

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?

While we agree with the Board's proposal, as it would reflect the substance of the transaction, we would welcome some guidance as to the manner in which the "Newco" is to be brought into the consolidated accounts.

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?

Although we find the proposed rules consistent with IAS 37, we believe this is an issue that should be deferred to phase II, as we would prefer to see convergence with US GAAP. We also find BC 63 – 64 unconvincing, i.e. whether it would in practice be possible to distinguish how the acquiree was compelled to initiate a restructuring plan. A possible solution would be to disregard any restructuring provisions that had not been communicated prior to initiation of negotiations.

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?

We are concerned with the inconsistency between recognition of acquired and non-acquired contingent liabilities and we do not subscribe to the adoption of these rules until the Board has revisited the role of probability in the Framework. Alternatively, the US GAAP approach should be considered, i.e. that a preacquisition contingency be included in the purchase allocation as follows:

(a) If the fair value of the preacquisition contingency can be determined during the allocation period (see question 10), that preacquistion contingency shall be included in the allocation of the purchase price based on that fair value.

(b) If the fair value of the preacquisition contingency cannot be determined during the allocation period, that preacquisition contingency shall be included in the allocation of the purchase price based on an amount determined in accordance with the following criteria:

(1) Information available prior to the end of the allocation period indicates that it is probable that an asset existed, a liability has been incurred, or an asset has been impaired at the consummation of the business combination. It is implicit in this condition that it must be probable that one or more future events will occur confirming the existence of the asset, liability, or impairment.

(2) The amount of the asset or liability can be reasonably estimated.

You will note that the US rules apply to both contingent assets and contingent liabilities. We find it inconsistent to address only contingent liabilities in the proposed IFRS.

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? While we agree in principle with the proposal, this is another issue that we would suggest the IASB defer to phase II and that it then also addresses the wider issue of minority interest, including presentation in the income statement and balance sheet as well as the acquisition and sale of minority holdings. As to contingent liabilities, refer to question 6.

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 concur in principle with the proposal to replace the cost allocation model with the valuation model but have grave misgivings as regards the robustness of the impairment test model, so grave that we cannot, for the time being, support the change. We would want to see the model field-tested before it is adopted as the new international accounting principle. We would also want to be convinced that the benefits outweigh the costs. We recognise that the current cost allocation model is arbitrary but would question if this is not, in fact, better, i.e. it being not precisely right, rather than it being exactly wrong! We do not support a free choice between the models.

Question 9 – Excess over the cost of 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 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?

An exchange between informed and willing partners must, by definition, be at fair value. An excess should, therefore, rarely remain if the valuations inherent in the accounting for business combinations are properly performed. The requirement in 55 (a) to reassess the identification of the acquiree's net assets is therefore most appropriate.

As to contingent liabilities, refer to question 6.

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?

(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?

We agree that a 12-month limitation for adjustments to provisionally determined fair values would seem appropriate. For the sake of convergence, however, we would suggest that IASB also considers the “allocation period” definition under US GAAP (which per se should usually not exceed 12 months, but allows for a longer period of time if the acquiring entity is waiting for information that it has arranged to obtain and that is known to be available or obtainable). We agree that subsequent adjustments should be recognised only to correct errors.

For the sake of clarity, the IASB should consider making it clear that paragraph 64 is an *exception* to the 12-month limit. Again, for the sake of convergence, we would suggest that IASB revisits this paragraph to consider convergence with US GAAP, which posts the adjustments directly to goodwill.

Other observations

We find some of the disclosure requirements to be excessive:

a) we question the need for the information required in paragraph 66 f) as this information would vary significantly depending on, for instance, the GAAP applied by the acquiree, the age of property acquired (and hence its depreciated net book value), etc.;

b) we would point out that paragraph 66 (h) would appear to require disclosure of details which the parties have agreed to be confidential;

c) we find the requirements of paragraph 66 (i) excessive, and in many cases not even available if the operations of the acquiree have been integrated with those of the acquirer;

d) we question the need for the proforma information required by paragraph 69; is this information relevant considering, for instance, restructuring measures taken? If upheld, the concept of undue costs and effort (see paragraph 70) should be clarified to have the same meaning as implied in the proposed standard on first-time application of IFRS.

e) while we can understand the reasoning for disclosure of gains or losses relating to assets acquired/liabilities assumed in a business combination that was effected in the current or previous reporting period (paragraphs 72 and 72 (a), BC 133 and BC 138), it raises the question of whether such assets and liabilities have been recognised at appropriate fair values.

Proposed Amendments to IAS 36 Impairment of Assets

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?

We agree that a proposed frequency of once a year is appropriate. However, we do not agree with the requirement in paragraph 8A that the recoverable amounts of intangible assets with an indefinite useful life be estimated at the end of each annual reporting period. Impairment tests for goodwill may be performed at any time during an annual reporting period, provided the test is performed at the same time every year (paragraph 93). The method for impairment testing of goodwill seems to result in the need to estimate the recoverable value of the intangibles within the CGE two times. We suggest that it is clarified that these intangible assets should be tested for impairment at the same time as the goodwill. As expressed in our general comments, we are of the opinion that some of these intangible assets are difficult to distinguish separately from goodwill. Impairment testing at the same time would therefore be more logical.

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?

Yes, we agree with the proposed principles. We refer however to our answer on question 6 with regard to the reversal of impairment losses.

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 paragraph C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?

Yes. We agree with the proposal to permit an entity to reflect the elements listed in paragraph 25A either as adjustments to the future cash flows or adjustments to the discount rate. However, we believe that there is always an advantage to propose one single method in an accounting standard. The possibility of using different methods may impair the usefulness of the information regarding an asset's value in use due to the fact that both comparability and reliability may be diminished if entities choose to use different methods.

(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?

Yes.

(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, what should be added?

In general we believe that the additional guidance is appropriate. However, we note that the statement in B19 that the discount rate is independent of the entity's capital structure could be interpreted as contradictory to the statement of B17a (the entity's weighted average cost of capital).

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 agree with the proposed allocation and level for impairment test for goodwill. We suggest however that the Board clarifies which level of management is intended. This is an important issue if the proposed changes are to result in convergence with US GAAP.

The wording of paragraphs 73 – 77 seems to include that goodwill can be allocated to cash-generating units that existed before the business combination. We suggest that the Board clarifies whether such allocation is intended or not.

(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. We agree with the proposal to include goodwill associated with a cash-generating unit in the carrying amount of an operation to be disposed, when determining the gain or loss on disposal on the basis of its relative value.

(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. We agree with the proposal to reallocate goodwill to cash-generating units in accordance with a reorganisation using a relative value approach.

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, we agree with the proposed method for measuring the recoverable amount of a cash-generating unit.

(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, we agree with the proposed method.

(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. We support the proposed approach of measuring impairment losses for goodwill. However, in our opinion paragraph 86(b) is difficult to apply in practice, especially in cases where more than one business combination or reorganisation has taken place. We refer to our general comments about the cost-benefit analysis for the impairment model. We believe that the appendix should also provide a practical example illustrating "the implied value technique".

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?

Yes, we agree with the proposal that reversals of impairment losses recognised for goodwill should be prohibited. We do however have serious concerns that reversals of impairment losses recognised for intangible assets with indefinite useful life (other than goodwill) are required rather than prohibited. As mentioned under our general comments, we are of the opinion that some of these intangible assets with indefinite useful lives are so closely related to goodwill that it will be difficult to distinguish these separately. The different treatment on the reversal of impairment losses may open for accounting arbitrage that does not result in comparable and reliable information for users of financial statements.

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. With the exception for Section 134 (a)–(d), we find the disclosure requirements in Section 134 to be too extensive and too far-reaching.

(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?

We agree with the proposed approach in paragraph 137. However, we believe that it may be enough with requirements in Section 137 (a) because the Section includes all goodwill and intangible assets with indefinite useful lives that are significant. Reasonably, the requirement for separately disclosures for a cash-generating unit within a segment will only be of interest if the goodwill and intangible assets related are significant.

Proposed Amendments to IAS 38 Intangible Assets

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?

Yes, we agree that the separability and contractual/other legal rights criteria are appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset.

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

The 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 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.

No. We do not agree with the proposal that sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination. The illustrative list of examples in ED 3 includes many intangibles that are dependent on the same cash flow and may therefore be difficult, if at all, to distinguish from goodwill. Examples are customer lists, customer contracts and non-contractual customer relationships. We are also concerned as to the possibility in practice to measure these types of assets in a reliable way. The lack of rules for such valuations may result in quite different valuations for the same type of asset. We do not think that this contributes to reliable and comparable information and question therefore whether the analysis of costs and benefits of the proposed standard is supportive for the new approach. We suggest that the Board considers, in co-operation with the valuation profession, developing examples or even a standard for valuation methods.

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?

Yes, we support the Board's proposal to remove the 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. However, in our opinion it would be helpful if the Appendix also provides examples of intangible assets with an indefinite useful life and the expenditures required to maintain the asset at its standard of performance. The Appendix gives only examples of intangible assets with a finite useful life.

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 periods(s)?

Yes, this is 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.

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?

Yes, this is appropriate.