Comment

by the "Intangible Assets in Accounting" working committee of the Schmalenbach Gesellschaft für Betriebswirtschaft e.V.

on the draft of an amended International Accounting Standard 38:

Intangible Assets

Answer to question 1:

Answer to question 2:

We do not agree that it can be assumed there is normally sufficient reliable information available to determine the fair values of intangible assets acquired in a business combination.

Usually only the major contributors to value added (key value drivers) are identified and valued separately in business combinations. Hence, there is only sufficient information available to value these intangible assets. It thus appears questionable to us to justify recognising and showing separately from goodwill all those intangible assets meeting the recognition criteria by arguing that the relevant valuation information is available and can be deemed reliable as defined in the IASB Framework. Equally, it cannot be assumed that the probability criterion is also met for those identified intangible assets which are not the major contributors to value added.

Answer to question 3:

We do not agree with the requirement to treat intangible assets with indefinite useful lives as if their useful lives were infinite.

The useful life of an asset can only be either limited or unlimited. There cannot be a separate and third, “indefinite useful life”, category. As an unlimited useful life cannot be indefinite, indefinite life can only ever be a sub-category of a limited useful life.

The fact that the useful life of an asset often cannot clearly be determined applies equally to many items in property, plant and equipment as well as intangible assets, up to now without leading to the requirement to dispense fully with their depreciation. It is questionable as to why such dispensation should lead to more useful financial statements than including a depreciation charge based on a useful life estimated using the facts available. The IASC itself has set out a number of criteria, with the help of which the useful lives of intangible assets are to be estimated (IAS 38.80). The draft standard also contains no arguments to support why these criteria should no longer be valid.

Answer to question 4:

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Answer to question 5:

The recommended requirement not to amortise intangible assets with indefinite useful lives is not correct. In our answer to question 3 we have already explained that intangible assets with indefinite useful lives should not be treated as intangible assets with infinite useful lives. As long as there is no impairment write-down, the income statement is shown as if there were absolutely no diminution in value. This is not correct.

This requirement would lead to the same matters being valued differently in consolidated financial statements prepared in accordance with IFRS. Some of the intangible assets with limited useful lives would be subject to regular amortisation, with the periodic amortisation charge reflected in the income statement. Other intangible assets would only be amortised, using the impairment-only approach, if the fair value of the intangible assets fall below their acquisition or production cost. No periodic amortisation charge would be recorded. This is not permitted by the IASB Framework (F.39).