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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 31.3.2003
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Dear Sir David,

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

We appreciate the opportunity to comment on the Exposure Drafts mentioned above and would like to submit our comments as follows:

General Remarks

Impairment only approach

We disagree with the impairment only approach of the Board. Purchased goodwill does not have an infinite life. Therefore, goodwill should be treated like non-current wasting assets and, hence, be amortised over its expected useful life. The reason why the value of goodwill, taken as a whole, generally does not decrease over time is that purchased goodwill is continuously replaced with internally generated goodwill provided that an entity is able to maintain the total value of goodwill. However, there should be no exception to the general principle that internally generated goodwill cannot be recognised. Furthermore, the impairment test is very complex and it is questionable if it provides more reliable results compared to an amortisation in

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combination with an impairment test (for further details please see our answer to Question 8, ED 3).

Restructuring Provisions

We would prefer to retain the current treatment of restructuring provisions under IAS 22 because we are of the opinion that the commitment of the acquirer to the cost of termination or reducing the activities of the acquiree is a result of the business combination and should therefore be recognised in this context (for further details please see our answer to Question 5, ED 3).

Contingent liabilities

In our view, recognising the acquiree's contingent liabilities separately at the acquisition date as part of allocating the cost of a business combination is not appropriate. Similar items should not be accounted for in a dissimilar manner only because they arise in connection with a business combination. Hence, there should be no exclusion of contingent liabilities from the scope of IAS 37 for business combinations (for further details please see our answer to Question 6, ED 3).

Accounting for negative goodwill

We disagree that negative goodwill should result in an immediate gain in any case and, therefore, would prefer to retain the current treatment pursuant to IAS 22. Expectations of future losses cannot always be allocated to the assets of the acquiree because the definition of fair value does not contain expected future losses of an entity. Therefore, future losses may be included in the negative goodwill and, hence, it would not be reasonable to recognise such a negative goodwill as gain immediately (for further details please see our answer to Question 9, ED 3).

Reversals of impairment losses for goodwill

We disagree with prohibiting the reversals of impairment losses recognised for goodwill. A compensation of acquired goodwill with internally generated goodwill could be avoided if a reversal of an impairment would only be permitted if an identifiable external reason for an impairment of goodwill does no longer exist (for further details please see our answer to Question 6, ED IAS 36).

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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?

(a) We would have preferred a comprehensive Draft Standard including principles with regard to business combinations in which separate entities or operations of entities are brought together to form a joint venture as well as business combinations involving entities under common control. However, due to the practicality reasons as mentioned by the Board and in order to facilitate timely improvements of the accounting for business combinations, we accept that these aspects will be included in the scope of the Phase II of the business combinations project.

(b) We consider that the definition of business combinations involving entities under common control as well as the explanations provided in BC 14 and BC 15 are helpful.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and requires 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 acknowledge most of the reasons for eliminating the use of the pooling of interest method and we agree with the proposal of the Board in principle.

However, the Board did not rule out the possibility of a business combination in which one of the combining entities does not obtain control of the other combining entity or entities. Applying the purchase method to such ”true mergers” may not be an appropriate representation of the economic reality because this could result in an arbitrary selection of an acquirer with negative impact on the comparability of accounting information. In our opinion, pursuant to the criteria stated in ED 3.20 an acquirer cannot be identified in any case.

Therefore, the Board should consider whether in these extremely rare cases the pooling of interests method should be retained or alternative methods should be applied. One alternative could be the fresh start approach. Since the fresh start method is, in substance, an extension of the purchase method without requiring the identification of an acquirer, it may be an appropriate treatment for ”true mergers”.

Furthermore, for entities having used the pooling of interests method in the past, the Board should allow within the transitional provisions to retain the resulting recognition and measurement of assets and liabilities.

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 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?

(a) We agree with the circumstances pointed out by the Board in which a business combination should be accounted for as a reverse acquisition.

(b) In our view, the guidance on the accounting for reverse acquisitions is appropriate in principle. However, in our opinion it is not reasonable that pursuant to ED 3.B5 and B6 one should first look at the fair value of the as if issued shares of the legal subsidiary and only after that at the fair value of the actually issued shares of the legal parent. Both fair values should be the same and, hence, one should always refer to the fair value which is more reliably determinable. Therefore, we agree to the principle stated in ED 3.B4 and propose to delete ED 3.B5 and B6.

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?

We agree 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. However, there might be cases in which identifying an acquirer is not possible. In this respect we refer to our answer to Question 2.

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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?

We disagree with the Board and would prefer to retain the current treatment under IAS 22. As mentioned in BC 58, the expected cost of restructuring is an important part of many acquisitions which often influences the price paid by the acquirer and, therefore, should be taken into account in measuring goodwill. Furthermore, we share the opinion that the commitment of the acquirer to the cost of termination or reducing the activities of the acquiree is a result of the business combination and should therefore be recognised in this context.

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?

As mentioned in our general remarks in our view, recognising the acquiree's contingent liabilities separately at the acquisition date as part of allocating the cost of a business combination is not appropriate. According to BC 61 similar items should not be accounted for in a dissimilar manner only because they arise in connection with or in the absence of a business combination. Hence, in case of a business combination there should be no exclusion of contingent liabilities from the scope of IAS 37 which does not allow the recognition of contingent liabilities. Moreover, the proposed changes would result in a different and, therefore, inconsistent accounting treatment of contingent assets and contingent liabilities in a business combination.

As mentioned in BC 82 the Framework as well as IAS 37 only permit a liability recognition when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation. Due to a business combination the probability of such an outflow does not change. Until the role of probability is considered more generally as part of a later Concepts project on “probability”, the current recognition criteria should be maintained in accounting for all contingent liabilities, both in a separate entity and in a business combination.

In BC 85 the Board states that negative goodwill as determined under IAS 22 could arise as a result of the failure to recognise contingent liabilities of the acquiree but paying a reduced purchase price because of those contingent liabilities. This rationale would require the recognition of all expected losses that relate to the future business activity as contingent liabilities as well. However, because of the absence of a past event, most of these future losses do not met the definition of contingent liabilities.

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 that any minority interest in the acquiree will be stated at the minority’s proportion of the net fair values of the acquiree’s identifiable assets and liabilities.

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 capitalised like an asset. However, it should be kept in mind that most of the elements constituting goodwill do not fulfill the definition of an asset because there is no control of the reporting enterprise over those elements.

We disagree with the impairment only approach of the Board as mentioned in our general remarks.

Purchased goodwill does not have an infinite life. Therefore, goodwill should be treated like non-current wasting assets and, hence, be amortised over its expected useful life. The problem of determining the useful life is not unique to purchased goodwill. Estimation issues arise in many situations, also with regard to the problem to determine the appropriate useful life of assets. Thus, the useful life of purchased goodwill has to be estimated taking into account the exercise of prudence (see Framework, paragraph 37). The necessity of estimates is no reason against amortisation of goodwill. Furthermore, also in case of an impairment only approach one has to estimate the useful life of goodwill due to the determination of the present value of expected future cash flows.

Moreover, we are concerned that non-amortisation along with the specific impairment test for purchased goodwill, as proposed in the Exposure Draft, is not entirely consistent with the manner how other assets that are less “ambiguous” and more reliably measurable than goodwill are accounted for. In principle, we believe that the degree of reliability that is associated with an asset should be reflected in the way the asset is accounted for. That is, less reliably measurable assets should be accounted for in a more prudent manner than more reliably measurable assets should be (see Framework, paragraph 37). Accounting for purchased goodwill as proposed in the Exposure Draft is not consistent in that regard.

The reason why the value of goodwill, taken as a whole, generally does not decrease over time is that purchased goodwill is continuously replaced with internally generated goodwill provided that an entity is able to maintain the total value of goodwill. This is acknowledged by the Board in BC 107. Therefore, non-amortisation of purchased goodwill (partly) offset the fact that costs associated with internally generated goodwill that continuously replaces a purchased goodwill have to be charged to expense when incurred. Amortisation of acquired goodwill over its limited useful life with regular impairment testing ensures that the carrying amount of acquired goodwill is reduced to zero at the end of its estimated useful life. This leads to a more faithful representation of the acquired goodwill than the impairment only approach proposed in ED 3, even if the useful life only can be determined by way of estimation.

Having in mind the continuous replacement of purchased goodwill with internally generated goodwill, under the approach of the Exposure Draft, recognition of internally generated goodwill as an asset does not reflect the "true value" of internally generated goodwill (or the cost incurred to internally generate goodwill, respectively), but is restricted to the amount previously recognized as purchased goodwill (that is, the amount that was originally assigned to goodwill when a business combination was effected). It might be asked what economic relevance an asset has to financial statements users the nature of which is internally generated goodwill but the amount of which is determined by the cost of purchased goodwill incurred some time in the past. In addition, we believe that non-amortisation of purchased goodwill impairs comparability of financial statements. While enterprises that acquired business units containing goodwill in the marketplace are permitted to partly recognize internally generated goodwill, enterprises whose business units have internally grown are not.

Finally, the impairment test is very complex and it is questionable if it provides more reliable results compared to an amortisation in combination with an impairment test. We are afraid that comparability between financial statements will be reduced.

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?

As mentioned in our general remarks we disagree that the excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities should result in an immediate gain in any case and, hence, would prefer to retain the current treatment pursuant to IAS 22.

We are concerned that pursuant to ED 3 on the one hand goodwill is treated as an asset although not all components of goodwill are assets and on the other hand the "excess" is - after the necessary reassessment - generally accounted for as a bargain purchase and recognised immediately as a gain, because the components of the "excess" are no liabilities or contingent liabilities.

It appears preferable to us that the Board reconsiders the implications of this different accounting treatment, keeping in mind that both goodwill and "excess" are only residuals, neither "pure" assets nor (contingent) liabilities. Furthermore, expectations of future losses cannot always be reflected in the fair value of the acquiree's identifiable assets and (contingent) liabilities, because fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Thus, the fair values do not contain expected entity-specific future losses. Therefore, future losses will be included in the negative goodwill and, hence, it would not be reasonable to recognise such a negative goodwill as gain immediately.

In spite of theoretical reservations we suggest the use of the established term "negative goodwill" instead of the impractical term "excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities".

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 with the Board's proposals.

Other Comments

It is unclear what is meant by “adjustments to those fair values relating to previously held interests of the acquirer” in ED 3.58. Does this mean that the acquirer has the choice to revalue all assets and liabilities of former acquisitions at the date finally gaining control?

In our view, the disclosure of the carrying amounts of purchased assets on the books of the acquiree according to ED 3.66 (f) does not provide useful information in consolidated financial statements and, therefore, should be deleted.

In ED 3.B15 (i) the last sentence of IAS 22.39 (i) is deleted and, hence, the corresponding text in IAS 12.67 should be deleted as well.

Exposure Draft of 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?

Pursuant to ED IAS 8A (b) goodwill acquired in a business combination should be tested for impairment annually, i.e. at any date during the reporting period. However, in our view goodwill as well as intangible assets with indefinite useful life should be tested for impairment at each balance sheet date. Due to practicality reasons a period a reasonable time before the balance sheet date also seems to be acceptable for the performance of an impairment test as long as major events influencing the value of goodwill between the period in which the impairment test has been performed and the balance sheet date are taken into account determining the amount recognised as goodwill in the financial statements.

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 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 should be accounted for in accordance with the requirements of IAS 36 for assets other than goodwill. However, as pointed out in our answer to Question 8 to ED 3 with regard to the measurement of goodwill, we disagree with an impairment only approach for intangible assets with an indefinite useful life for the same reasons.

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?

(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?

(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?

We agree with the proposals of the Board.

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?

(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?

(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?

(a) We agree that the allocation of goodwill to one or more cash-generating units should 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. However, the Board should make clear that the management mentioned above should be the management responsible for the whole group for which the consolidated financial statements are prepared.

(b) and (c) In our view, the Board should set up principles on how to allocate goodwill to cash-generating units immediately after the acquisition of an entity. In our opinion, goodwill should be allocated to each unit according to the definition of the implied value in ED IAS 36.86. I.E. goodwill is the recoverable amount of the cash-generating unit as a whole (i.e. capitalised value of the expected earnings of the cash-generating unit) less the net fair value of the cash generating units assets and liabilities. In case of the disposal or reorganisation of operations the goodwill should be reallocated using the same approach as for the first allocation of an acquired goodwill. In contrast to this, the relative fair value approach proposed by the Board will to be inappropriate because there is no correlation between goodwill and fair value of the assets and liabilities of a cash-generating unit in any case.

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?

(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?

(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?

(a) We agree with the proposal of the Board.

(b) and (c) We do not agree with the two step impairment approach proposed by the Board because according to the first step comparing the carrying amount with the recoverable value of the cash-generating unit, an impairment of goodwill might be netted with increases in value of assets and decreases in value of liabilities and, hence, the first step is not a reliable indicator for an impairment of goodwill. Therefore, only the second step of the impairment test comparing the implied value of goodwill (which amounts to the difference between the cash-generating unit's recoverable amount and net fair value of assets and liabilities of the cash-generating unit) with the carrying amount of goodwill should be performed at each balance sheet date.

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?

As mentioned in our general remarks we disagree with prohibiting the reversals of impairment losses recognised for goodwill. If the Board is of the opinion that an impairment test is a reliable approach to measure the impairment of goodwill, the same impairment test should provide reliable information of a reversal of an impairment in the past. To avoid a compensation of acquired goodwill with internally generated goodwill a reversal of an impairment should only be permitted if an identifiable external reason for an impairment of goodwill does no longer exist.

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?

(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?

In our view the disclosure requirements – especially ED IAS 36.134 (e) (iv) and (f) (ii) – are burdensome. However, because of the limited reliability of the results of the impairment test, we agree with the extensive disclosure requirements proposed by the Board.

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Exposure Draft of 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?

We agree with the proposal of the Board because in our opinion 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. Furthermore, it should be kept in mind, that an asset is a resource controlled by the reporting entity (see Framework, paragraph 49 (a)) also with regard to a purchase price allocation in case of a business combination.

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 disagree that the recognition criteria in IAS 38 shall – with the exception of an assembled workforce – always be satisfied for an intangible asset acquired in a business combination.

As stated in the Framework and IAS 38 the probability of future economic benefits is an important requirement for the recognition of an asset. The probability of future economic benefits, however, does not change in case of a business combination. There should be no different accounting principles for separate entities and business combinations.

Furthermore, we are in doubt whether sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination and, therefore, the recognition criterion to measure the fair value reliably cannot be subsumed within the identifiability criterion for classifying an asset as an intangible asset and recognising it separately from goodwill. An asset that has an underlying contractual or legal basis is not always clearly associated with specific cash flows, and the demonstration of separability is not always based on the fact that others have transferred or rented similar items as discrete units, which suggests the availability of a price and a means to estimate fair value. In order to provide a faithful representation and reliability, we prefer to subsume intangible assets that cannot be measured properly into goodwill because goodwill is known to be a residual comprising different components which should not be recognised separately.

ED IAS 38.32 requires an acquirer to recognise any of the acquiree’s in-process research and development projects that meet the definition of an intangible asset as an asset separately from goodwill. According to the proposal this will be the case when the project meets the definition of an asset and is identifiable.

Subsequent expenditure on an in-process research or development project acquired in a business combination and recognised as an intangible asset must be accounted for applying the guidance on internally generated intangible assets. Accordingly, the expenditure shall be

- recognised as an expense when incurred if it is in the nature of research expenditure,
- recognised as an expense when incurred if it is in the nature of development expenditure that does not meet the recognition criteria, and
- added to the carrying amount of the acquired in-process research or development project if it is in the nature of development expenditure that meets the recognition criteria (ED IAS 38.67 and 68).

As a result, the accounting treatment of one ongoing in-process research or development project may be split up in two different parts (recognition at acquisition date vs. no recognition after acquisition date). We consider this as confusing and unsatisfactory.

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 disagree due to objectivity and practicality reasons with the removal of the rebuttable presumption that the useful life of intangible assets or goodwill cannot exceed twenty years. A higher degree of uncertainty in case of an indefinite useful life should result in a more prudent estimation of useful life and, therefore, a ceiling for useful life should be maintained.

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 agree with the proposal of the Board. However, if the renewal period would be included in the determination of the useful life, one would also have to take this extended useful life into consideration when measuring intangible assets at the date of a business combination.

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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?

As pointed out in our answer to Question 8 to ED 3, we disagree with the impairment only approach. The arguments brought forward against the impairment only approach (and in favour of amortisation over the useful life) of goodwill apply to the impairment only of intangible assets with an indefinite useful life as well.

Yours sincerely

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Executive Officer