The Secretary General
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH

CL 20

30 March 2003

Dear Sir

Exposure draft of proposed amendments to IAS 38 Intangible Assets

I am writing in response to the request for comments on the above exposure draft. I am the Chairman of the IATA Accounting Policy Task Force (the "IATA APTF") which operates under the direction of the IATA Financial Committee, itself made up of Chief Financial Officers of a number of IATA Member airlines. One of the key roles of the IATA APTF is to keep abreast of developing accounting issues affecting the airline industry and ensure its views are conveyed to the relevant accounting standards bodies.

The APTF would like to respond specifically to Question 2 in the invitation to comment to the above exposure draft. The question asks, *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 required in a business combination? If not, why not?*

The APTF believe that circumstances do exist where it is not possible to measure reliably the fair value of an intangible asset in the context of a business combination. As requested by the IASB, we have addressed this concern by way of an example, being the acquisition of one airline by another.

Airlines draw upon various intangible assets in the furtherance of their business, which appear to fall within the proposed definition of an intangible asset in the exposure draft. Important examples include route rights and slots (and, indeed, we note example 6 in Appendix A to IAS 38 refers to the useful life of route rights). Whether or not an airline can separately realise the value inherent in individual route rights or slots is, however, far from certain in some countries - for example, within the EU there are differing views as to the ownership rights attaching to slots. Even so, market practice is such that at some slot restricted airports, slots can be of significant value as there are potentially many carriers who want slots at peak travel times. Slots are typically allocated for nominal consideration by governmental or aviation authorities and, once allocated, "grandfathering" rights generally apply. Slots cannot be sold directly by an airline and if not utilised, they usually have to be given up to the allocation body for nil consideration.

For a slot restricted airport such as London Heathrow, there is a history of individual or small numbers of slots being 'swapped' between airlines, usually a non peak slot for a peak time slot, accompanied by a significant cash payment by the airline acquiring the peak time slot. This effective trade in slots indicates that they do have value. For individual transactions in slots, therefore, the consideration attributed by agreement enables the cost or fair value of the intangible to be readily ascertained. As far as we are aware, there is no similar market for exchanging route rights, which can only be acquired through the acquisition of the entity owning these rights (subject to regulatory constraints).

However, the APTF doubts that when one airline acquires another, involving the transfer of control of a large number of slots and /or route rights, that the fair values of the slots and route rights can always be reliably disaggregated from the overall goodwill attributable to the acquisition. We have the following observations in this regard:

- transactions involving the transfer of individual slots occur relatively infrequently. An airline may be prepared to fine tune its network by paying a significant sum to acquire an individual slot, albeit that such a transaction would not necessarily be representative of the value of all other slots, even with corresponding departure/landing times. As a result, using valuations from single slot sales for valuing a large bundle of slots on a business combination could well lead to a fair value attributed to the slots that is misleadingly disproportionate to the assets acquired;

- the consideration for many airline acquisitions is driven by the strength of the total network, rather than an aggregation of the earning potential of the individual routes in isolation or a desire to acquire particular slots. In those circumstances the allocation of fair values between goodwill, route rights, slots, gates and other intangibles is likely to be somewhat arbitrary at best;

In summary, the APTF has real concerns as to the practicality of attributing fair values to slots and route rights on an airline acquisition. We believe that there will be circumstances where such fair values cannot be 'reliably' measured. For this reason we ask that you reconsider the proposed paragraph 30 of IAS 38 which states that "sufficient information *should always* exist to measure reliably the fair value of an asset that has an underlying contractual or legal basis or is capable from being separated from the entity". We consider that the standard should allow for circumstances in which sufficient information is not available to attribute fair values reliably to intangible assets.

We would be very willing to discuss our views with you directly if that would be of assistance. Please contact me directly on +31 206493033 or altematively Robert Allison of KPMG on +44 20 7311 2166.

Yours faithfully

John Vierdag
Chairman, IATA APTF