NORSK REGNSKAPSSTIFTELSE

CL 51

Sir David Tweedie

Chairman IASB

4 April 2003

Dear Sir David,

The Norwegian Accounting Standards Board is pleased to comment on the Exposure Drafts, ED3 – *Business Combinations*, Amendments to IAS 36 – *Impairment of Assets* and Amendments to IAS 38 – *Intangible Assets.*

We fully support the Board's objectives in the Business Combinations Project. Taking steps of convergence for business combinations is important in order to achieve global harmonisation on a larger scale.

General and overall remarks:
We support the proposal to eliminate the use of pooling of interests accounting as we believe that in almost all business combinations an acquirer can be identified.

In a few cases we have noticed there to be minor deviations compared to the corresponding US GAAP-rules. We do not believe this is justified at this moment. In order to achieve convergence, the technical objections of less important nature should be postponed at this stage, and removed to later convergence and improvement projects.

Specific questions:
In the Appendices to this comment letter we have provided answers to the questions that are included in the Invitations to Comment.

If you would like further clarification of our comments, please contact Harald Brandsaas or myself.

Yours sincerely,

Idar Eikrem
Chairman
Norwegian Accounting Standards Board

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 agree with the Board's proposal 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 on the basis that those were already excluded from the scope of IAS 22 and that they will be included in the scope of the Phase II of the project and will therefore be included in the revised IFRS due in 2004.

(b) We consider that the definition of business combinations involving entities under common control is helpful and constitutes on improvement over IAS 22 where such transactions were excluded from the scope but not defined. We also consider that the explanation given in the basis for conclusion paragraphs BC 14 and BC 15 are also helpful but believe additional guidance should be given on the meaning of the word "transitory" used in the definition.

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 proposed standard; that there should be only one method of accounting for business combinations, and that identifying an acquirer is possible in the vast majority of business combinations (other than the formation of joint ventures). In certain mergers though, this may be impossible. In such cases, we recommend that there should be an option to use the "fresh start method".

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 Board's description of the circumstances in which a business combination should be accounted for as a reverse acquisition as we agree that the draft IFRS should not include any departures from the control concept to identify an acquirer.

The proposed text will need further interpretation. An example is how the control aspect is to be interpreted in relation to the *owners*. In a legal merger, the combining entities form a new a entity, and as such making a meaningful judgment on which part controls the other without looking askance at the transaction as seen from the owners perspective seems to us impracticable.

(b) We regard the proposed additional guidance as necessary and appropriate.

In addition, we also believe that the IASB should make it clear in the standard itself that the comparative figures presented should be those of the legal subsidiary (or of the absorbed company in case of a merger).

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 with the Board that a business combination in which a new entity is formed to issue equity instruments to effect the combination is, in substance, not different from a transaction in which one of the combining entities that existed before the combination obtains control of the other combining entity. We therefore consider it appropriate that such pre-existing entity be adjudged the acquirer. The Norwegian business combination standards have had a similar requirement for several years, with no difficulties in practice to our knowledge.

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?

IAS 22.31 requests an acquirer to 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.

We agree with the Board that the requirement in ED 3 should be amended, in order to align the recognition criteria with those outlined in IAS 37 for similar provisions.

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 agree to the Boards proposal, as this would properly reflect the fair value of the contingent liabilities assumed in the acquisition. We recognise that the accounting for contingent liabilities with low probabilities will be different if assumed in a business combination compared to the general rule in IAS 37. We do not see this as a problem though.

We do, however regard it as inconsistent to recognise contingent liabilities at fair value but not contingent assets.

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 proposal of the Board.

The allowed treatment under the existing IAS 22 has been the only treatment acceptable under NGAAP.

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 acquired in a business combination should be recognised by the acquirer as an asset even though it is arguable that goodwill does not fulfil the definition in the framework. We believe accounting for goodwill at cost less any impairment losses is an acceptable method, if not conceptually well founded. In order to achieve convergence, the US GAAP solution should be implemented.

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?

We agree with the proposal as we find the treatment in accordance with the conceptual framework of IFRS. There are other treatments that all have some merits, but the proposed treatment is acceptable. We will point out that the presentation of such an item in the income statement need to be separated.

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?

(a) We agree with the Board's proposal to provide an acquirer with a period of twelve months after the acquisition date to finalise the accounting for a business combination as we consider such period reasonable.

(b) Thereafter adjustments are proposed only to be made to correct errors with the exception of adjustments to the cost of a business combination contingent on future events or adjustments related to the subsequent recognition of a deferred tax asset existing at the acquisition date but not recognised at that time.

Paragraph 64 of the draft standard continues without reconsidering the rules of IAS 22 where later adjustments due to deferred tax assets being recognised are recorded as a write-down of the goodwill and as negative income tax. We strongly disagree with this method of adjustment as it distorts pre-tax earnings severely. The Norwegian standard advise a treatment whereby such reclassification is made in the balance sheet only, and we recommend this method to be applied, being more meaningful to the users.

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?

Frequency of impairment tests

We agree with the Board's proposal relating to the frequency of impairment testing both for goodwill as well as for intangible assets with indefinite useful lives, i.e. annually and whenever there is an indication of possible impairment. Although this could be very burdensome for preparers, we regard such frequency as acceptable in view of draft paragraphs 20A (intangibles assets with indefinite useful life) and 96 (cash generating units to which goodwill has been allocated) which permit the most recent detailed calculation of the recoverable amounts made in a preceding period to be used in the current period's impairment test, providing certain criteria are met.

Timing of impairment test

We do not agree with the Board's proposal in draft paragraphs 8A and 93 which require that an indefinite life intangible asset should be tested for impairment at the end of each annual reporting period and that goodwill acquired in a business combination be tested for impairment annually at any time during an annual reporting period, provided the test is performed at the same time every year. We believe that requiring annual impairment tests at different dates for indefinite useful life intangibles (at end of each annual reporting period) and for acquired goodwill (at anytime during an annual reporting period) is impractical. We agree with the Board's proposition to permit the annual impairment test for goodwill to be performed any time during the annual reporting period in order to reduce the cost of applying the test, however we believe that the exposure-draft should grant the same permission for the annual impairment tests of intangible assets with indefinite useful lives.

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?

Although we agree with the Board that there is no conceptual reason why the treatment of impairment losses and reversal of impairment losses for intangible assets with indefinite useful lives should differ from those applying to intangible assets with finite useful lives, we are concerned that requiring different treatments of impairment losses and reversal of impairment losses for goodwill and for intangible assets with indefinite useful lives may lead to accounting arbitrage especially as reversals of impairment losses are not authorised for goodwill.

We recommend that the Board reconsiders its approach taking also in view the fact that US GAAP require the same treatment for impairment losses and reversals of impairment losses for goodwill and intangible assets with indefinite useful lives.

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?

(a) We agree that an asset's value in use should reflect the elements listed in draft paragraph 25A and that an entity should be permitted to reflect these elements either as adjustments to the future cash flows (expected cash flow approach) or adjustments to the discount rate (traditional approach).

(b) We agree with the Board that cash flows projections used in measuring value in use must in principle be based on reasonable and supportable assumptions that take into account both past actual cash flows and management's past ability to forecast cash flows accurately; however we ask the Board to clarify how this can be done in practice.

(c) We agree that the additional guidance proposed in Appendix B on using present value techniques in measuring an asset's value in use is appropriate.

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) The wording of the proposed paragraphs 73-77 is slightly different from the corresponding US GAAP text. Some may read a stricter requirement to test for impairment on a lower level than under US GAAP. We fully support the proposal insofar it does not create new differences to US GAAP.

In addition, we recommend that the word "management" as used in paragraph 74 of the Exposure Draft should be more precisely defined: e.g. does the definition include entity or segment's management or subsidiary's management? We believe that without such additional guidance the standard may create a lack of comparability in the levels at which goodwill's impairment is tested.

We agree with the Board's proposal that a cash generating unit to which goodwill is allocated should not be larger than a segment based on the entity's primary reporting format determined in accordance with IAS 14 Segment Reporting.

(b) For the reasons explained in the Basis for Conclusion, we agree with the Board's proposal that, if an entity disposes of an operation within a cash generating unit to which goodwill has been allocated, the goodwill associated with that operation should be:

- included in the carrying amount of the operation when determining the gain or loss on disposal; and

- measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

(c) For the reasons explained in the Basis for Conclusion, we agree with the Board's proposal, that when an entity reorganises its reporting structure in a way that changes the composition of cash generating units to which goodwill has been allocated, the goodwill should be reallocated to the units affected using a relative value approach similar to the one used when an entity disposes of an operation within a cash generating unit.

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 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.

b) We regard as appropriate the use of a screening mechanism for identifying potential goodwill impairment whereby, if the recoverable amount of the cash-generating unit exceeds its carrying amount including goodwill, the goodwill allocated to that unit shall be regarded as not impaired.

c) We consider the use of the proposed screening mechanism as appropriate.

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 reversals of impairment losses recognised for goodwill should be prohibited as:

- this would achieve convergence with US and many other national GAAP;
- we have accepted that no distinction can be made between originally aquired goodwill and additional internally generated goodwill and therefore reversal of impairment losses resulting from internally generated goodwill would not be acceptable.

Question 7 – Estimates used to measure recoverable amounts of CGUs 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?

(b) We consider proper disclosure of the underlying assumptions to be important to the users of the financial statements. However, we question whether it is too burdensome to set up strict rule-based requirements. A more principle-based approach should be considered. Also, the disclosures may be subject to limitations, especially for cash-generating units where the recoverable amount is materially above the carrying value. Some of the requirements seem difficult to present meaningfully as different cash-generating units within a segment may have very different assumptions underlying the cash flow projections etc.

(c) No comment in addition to the above.

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 Board that the usefulness of financial statements would be enhanced if intangible assets acquired in a business combination were distinguished from goodwill.
We also agree that "identifiability" was not defined nor clearly articulated in the old IAS 38 and clarification was needed.

The separability criterion already exists in IAS 38 paragraph 11 and does not constitute a change from the existing standard but will require additional guidance to be consistently applied. We agree with the Board that separability is not the only criterion of identifiability and that, although contractual or other legal rights do not form par of the definition of an asset, they provide a strong indication that the entity controls the futures economics benefits embodied in the item. We therefore believe that the application of such criteria should result in more recognition and reporting uniformity in the intangible assets that are recognised apart from goodwill.

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 have no comments to this question.

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, in those rare cases where such indefinite useful life exist.

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)?

Yes, we support the useful life requirements in paragraphs 91 and 92.

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, if there is no foreseeable limit on the time over which the future economic benefits embodied in an asset are expected to be consumed, amortisation of that asset over an arbitrary determined period would fail to reflect the underlying economics. We therefore agree that an intangible asset with an indefinite useful life should not be subject to the amortisation requirements in IAS 38 but should be tested for impairment only.

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