AWG Plc
Anglian House
Ambury Road
Huntingdon
Cambs PE29 3NZ

Tel 01480 323300
Fax 01480 323224

Our ref

Your ref

Ms. Annette Kimmitt
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

1st April 2003

Dear Ms. Kimmitt

ED3 - Business Combinations
Amendments to IAS 36 - Impairment of Assets
Amendments to IAS 38- Intangible Assets

On behalf of AWG Plc, I am writing to comment on the IASB's Exposure Draft 3, and proposed amendments to IAS 36 and IAS 38.

Generally we agree with the IASB's conclusions. We set out our detailed answers to the questions posed as an appendix to this letter, however our main points are as follows:

Abolition of "pooling of interests" accounting

We are supportive of the decision to abolish merger ("pooling of interests") accounting provided that due consideration is given to devising an appropriate method of applying fresh start accounting to those few business combinations where an analysis of all the circumstances demonstrates that there is no clear distinction between acquirer and acquiree.

Recognition of intangible fixed assets and non-amortisation of goodwill

We also agree in principle with the decision to prohibit systematic amortisation of goodwill, although we believe that a case might be made to permit smaller entities to continue to employ amortisation.

However we are concerned that the application of the separability and legal/contractual criteria to the identification of intangible fixed assets is subjective and will result in a high degree of variability between entities. This is especially likely in jurisdictions where there is no current requirement to make this analysis, for example the United Kingdom.

We suspect that there will be significant differences in practice between entities. Some will identify many different classes of intangible assets, others will be less rigorous. The temptation will be to push as much of the difference between cost and tangible assets and liabilities into goodwill, in order to avoid systematic amortisation.

We are particularly concerned by the Board's decision (at its March 2003 meeting) to require recognition of intangible fixed assets with a corresponding adjustment to goodwill upon first time adoption of IFRS. It is unclear whether the Board is changing its view (expressed in paragraph IG40 to ED1) that intangible assets not recognised at the date of the combination are not recognised in the opening IFRS balance sheet.

We consider it unrealistic to expect entities to revisit acquisitions made a number of years ago, and consider how to divide goodwill and other intangibles, given that this exercise would not have been carried out at the time.

In addition, such an allocation would inevitably be tainted by hindsight, and therefore would not reflect the choices that management would have made at the time. We consider that the Board had reached the correct analysis when it stated:

> *"However the Board decided to prohibit restatement of goodwill for other adjustments[1] reflected in the opening IFRS balance sheet, because of the Board's conclusion that full restatement of past business combinations would involve undue cost or effort. "[2]*

We urge the Board to reconsider its conclusion, and revert to the proposals set out in ED1.

Contingent liabilities and in-process research and development

We do not agree with the proposals to apply different recognition criteria for contingent liabilities and in-process research and development. As a general principle, we consider that the criteria for recognising assets and liabilities should be no different in a business combination from those applied to an entity that grows organically. We accept that the IASB may wish to reconsider the role of probability in financial statements, and in principle have no objection to this. However we consider that this piecemeal approach to probability does not serve the overall principle of comparability of financial information.

---

[1] Being any adjustments other than elimination of a previously recognised intangible asset not meeting the recognition criteria set out in IAS 38.

[2] Paragraph 44 to Basis for Conclusions on ED 1.

Negative goodwill

We do not agree with the conclusion that any negative goodwill remaining after the fair value exercise must result from a bargain purchase, and therefore should be immediately recognised as a profit. We consider that the Board should reconsider their conclusions on this matter.

Disclosure

We are concerned that the level of disclosure required of intangible assets is excessive, and includes information that entities might reasonably consider to be commercially confidential.

Finally, from the perspective of a user, I am concerned that the level of subjectivity in the Board's approach to financial reporting is increasing to the point that there is a risk that users will no longer be able to draw meaningful conclusions from comparing one entity's financial statements with another's. I am sure that I am not alone in viewing this as undesirable.

If you would like to discuss any of the points raised in this letter further, please contact me.

Yours sincerely

Andrew Tempest

Andrew Tempest
Financial Controls Manager

cc Janie Crichton — Accounting Standards Board

Exposure Draft 3 — Business Combinations

Response to IASB Questions

IASB Question 1

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-BC1 1 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 BC1 2-BC 15 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?

Our comments:

a) The exclusion of these types of business combination from ED3 is acceptable, provided that the IASB follows through its intent to address these topics in the second phase of the business combinations project.

b) The guidance given is helpful and welcome. We consider that, as with all standards, the IASB should monitor developments in practice in this area with a view to expanding the definition and guidance should circumstances so require.

IASB Question 2

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?

Exposure Draft 3 - Business Combinations

Response to IASB Questions

Our comments:
We agree with the IASB that in most business combinations it is possible to identify an acquirer, and that therefore adopting the purchase method of accounting is appropriate and gives superior financial information.

Nonetheless we believe that for a small number of business combinations, a case can genuinely be made that neither party is dearly the acquirer. In such circumstances we believe that the fresh start method of accounting may well be more appropriate, and would encourage the IASB to develop a standard for the application of this method as soon as practicable.

IASB Question 3

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?

Exposure Draft 3 - Business Combinations

Response to IASB Questions

Our comments

a) *We concur with the proposed definition of a reverse takeover, and agree that the identification of the acquirer should be based on an analysis of all the relevant data, and not just relative ownership of the combining entities.*

b) *The proposed additional guidance is helpful. We believe that the situation where a new "shell" entity is incorporated to acquire an existing entity (commonly referred to as a "group reconstruction" in the UK) could usefully be added to the examples in paragraph BC39.*

IASB Question 4

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?

Our comments:
We agree with the general principle that the acquirer in a business combination should be determined after due consideration of all available evidence. Where a new entity has been formed specifically to effect a business combination, it is generally highly probable that either one of the pre-existing entities will be demonstrably the acquirer, or else the use of fresh start accounting will be appropriate. We therefore believe that paragraph 22 is not strictly necessary, but should remain in the standard for the avoidance of doubt.

IASB Question 5

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).

Response to IASB Questions

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?

Our comments:

We consider that the principles for recognising liabilities set out in lAS 37 should be used without amendment in accounting for business combinations. Accordingly no provision should be made for the costs of any future reorganisation of the business of the acquiree except to the extent that these were liabilities of the acquiree at the date of acquisition.

IASB Question 6

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?

Our comments:

We do not agree with this proposal. As stated in our answer to question 5, we consider that the provisions of/AS 37 as they stand are appropriate to be used in accounting for business combinations.

A particular danger in the proposed IASB approach is the recognition of contingent liabilities with a low probability of occurrence, but a high value; for example in the tobacco and asbestos industries.

As a general principle we believe that it is inappropriate for contingent liabilities to be accounted for differently merely because they arose in a reporting entity as a consequence of an acquisition.

We note the IASB's view that the role of probability in the Framework may require reconsideration and amendment, but do not agree that a departure from normal principles is justified in the context of a business combination.

Although not addressed within this question we also consider that the IASB's proposal to adopt different recognition criteria for in-process research and development to those set out in IAS 38 is inappropriate for the same reason.

We accept that the practical consequence of this view is that unrecognised contingent liabilities (and for that matter unrecognised contingent assets) will be subsumed into consolidation goodwill.

IASB Question 7

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?

Our comments:

We consider that minority interests should be stated at the minority's proportion of the net fair value of assets and liabilities acquired (excluding goodwill). We do not consider that the current "benchmark" approach in the existing IAS 22 provides useful information to the user of accounts.

It has been suggested that this principle should be extended so as to include the minority's implied share of goodwill. We do not support this proposal. Goodwill remains the difference between the price the acquirer is prepared to pay and the fair values of the underlying identifiable assets and liabilities. It is not, in our view, appropriate to attribute a value to goodwill derived from the assumption that the minority places the same value on the business as the acquirer.

Exposure Draft 3 — Business Combinations

Response to IASB Questions

IASB Question 8

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?

Our comments:

We agree that goodwill acquired in a business combination should be recognised as an asset. We further agree in principle that goodwill should not be subject to systematic amortisation, but should be subject to an annual impairment test.

We note and agree however the IASB's conclusion that the practical effect of this approach results in acquired goodwill being "cushioned" against impairment by internally-generated goodwill. We too are unable to suggest any practicable solution to this problem.

We are aware that many commentators favour allowing a choke between an annual impairment test and systematic amortisation. Generally, we are not in favour of allowing options in IFRS's as this reduces comparability between reporting entities.

However in this case consideration might be given to allowing smaller entities the option to amortise goodwill, and only require an impairment test when there was an indicator of impairment.

IASB Question 9

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?

Our comments:

We agree with the proposal set out in part (a) of the question, save that we do not agree with the proposed treatments for contingent liabilities and in-process research and development (see answer to question 6).

We do not agree with the proposal that any remaining excess should be recognised immediately in the profit and loss account. There are other circumstances besides a bargain purchase where the fair value of assets acquired might exceed the consideration given, and an inflexible rule such as that proposed may lead to some unexpected results in practice.

In our view where the excess relates, for example, to expected future losses in the acquired entity, recognition of the excess in the profit and loss account should be spread over the period that those losses are recorded.

In practice we suspect that most preparers of financial statements will deal with any apparent excess by reassessing the fair value of assets and liabilities acquired.

IASB Question 10

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).

Exposure Draft 3 - Business Combinations

Response to IASB Questions

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?

Our comments:

In principle we agree with the proposal, however note that for practical purposes, entities are unlikely to finalise the fair values of an acquisition until shortly before publishing the next set of results following the expiry of the twelve month period.

We believe that a sensible compromise would be to adopt the principle currently employed in FRS 7 paragraph 25, which requires the fair value exercise to be completed by the end of the first full financial year following acquisition.

We also agree with the proposal that after the expiry of the period allowed for the initial accounting of a business combination, adjustments should only be made to the carrying amount of goodwill in order to correct an error, or as required in paragraphs 32, 33 and 64.

Proposed Amendments to IAS 36— Impairment of Assets

Response to IASB Questions

IASB Question 1

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?

Our comments:

We see no logic in the decision to adopt different requirements for testing goodwill and indefinite life intangibles. We believe that both classes of asset should be tested at the same time in the accounting period, preferably at or shortly before the period end.

Furthermore, where there is an indicator of impairment during an accounting period, it is unclear whether the IASB intends that the impairment review necessary should be carried out before the period end, or before the next interim results are published. We consider that this should be stated.

IASB Question 2

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 C10C11 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?

Our comments:

We agree with the proposal, while recognising that the differing requirements for indefinite fife intangible assets and goodwill does leave some scope for manipulation of results.

Proposed Amendments to IAS 36 - Impairment of Assets

Response to IASB Questions

IASB Question 3

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?

Our comments:

We agree with the Board's proposals. We are aware that some commentators consider the requirement to take into account management's past ability to forecast cash flows to be subjective and difficult to apply. However we consider that this is a useful check against the temptation to seek to avoid recognising impairments by taking an unduly optimistic view of future cash flows. We believe that auditors will take into account management's forecasting ability when auditing impairment reviews.

IASB Question 4

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?

Proposed Amendments to IAS 36 - Impairment of Assets

Response to IASB Questions

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?

Our comments:

We agree with the Board's proposals.

IASB Question 5

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?

Our comments:

As noted in our response to ED3, we consider that the process proposed by the Board is reasonable, given the conceptual difficulties in distinguishing between acquisition goodwill and internal goodwill generated post-acquisition.

The proposed screening mechanism, while it could result in an impairment of goodwill being masked by an increase in the value of other intangible assets, is a reasonable approach, and we consider it an appropriate compromise between complete accuracy and pragmatism.

IASB Question 6

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?

Our comments:

We agree with the proposal. Once a goodwill impairment has been recognised, it is impracticable to determine whether any subsequent increase in value is due to a reversal of impairment of acquisition goodwill, or an increase in the value of internally-generated goodwill.

We note however that the Companies Act may require amendment in order for this proposal to have legal effect in the United Kingdom.

IASB Question 7

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?

Proposed Amendments to IAS 36 - Impairment of Assets

Response to IASB Questions

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?

Our comments:

We are committed to the basic principle that financial statements should contain adequate disclosure to enable the reader to form a view of the position of the entity.

However we are concerned that the disclosure requirements in paragraph 134 are extensive, and, in a complex group, could run to many pages. In addition, many entities will consider that some of the disclosures would result in the entity having to disclose large quantities of commercially sensitive Information.

The likely consequences of this would be:

- *a temptation to avoid recognising goodwill by attributing excessive values to amortised intangible assets, or;*
- *disclosures that are expressed in general terms and are so bland as to be of limited use to the user.*

We consider that the requirement in paragraph 134(d) to disclose the amount by which recoverable amounts exceed carrying amounts in each segment would harm the commercial interests of entities, and is not in the interests of either shareholders or other users of financial statements.

We believe that the Board should reconsider the detailed requirements in paragraphs 134(e) and 134(f) with a view to reducing the scale of disclosures required and achieving a better balance between accurate reporting and protection of commercially sensitive information.

We agree with the principle as proposed in paragraph 137, subject to the concerns expressed about the nature and scale of disclosures required

Proposed Amendments to lAS 38- Intangible Assets

Response to IASB Questions

IASB Question 1

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 0 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?

Our comments:

We agree that the criteria are appropriate, however the list of examples of intangible assets separable from goodwill is extremely lengthy and could be interpreted as being the definitive list. We are also concerned that it might prove difficult to calculate values for individual in tangible assets within the list, *and that disclosure of intangible assets, particularly in an acquisitive company, might become excessively long and difficult for a user of financial statements to assess.*

IASB Question 2

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 B1i-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.

Proposed Amendments to IAS 38 - Intangible Assets

Response to IASB Questions

Our comments:

As already noted in our response to ED3, we do not agree with the Board's conclusion that the normal recognition requirements for contingent liabilities and in-process research and development should be disregarded in accounting for a business combination

As a general principle, we are opposed to adopting different treatments for the same types of assets and liabilities depending on whether or not they resulted from a business combination.

If the Board considers that the role of probability in financial statements requires reconsideration, this should be done as part of a separate project, and should be applied to all circumstances, not just business combinations.

IASB Question 3

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?

Our comments:

We agree that the existing presumption that the useful life of an intangible asset cannot exceed 20 years is artificial and unrealistic. However we believe that the correct action would be to substitute a more realistic presumption, perhaps 100 years.

Otherwise there is the risk that entities might a void the burden of annual impairment tests of long-lived intangible assets by, for example, assessing them as having a useful life of 999 years rather than an indefinite useful life.

Proposed Amendments to IAS 38- Intangible Assets

Response to IASB Questions

IASB Question 4

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)?

Our comments:

We agree with the Board's conclusions.

IASB Question 5

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 in itial recognition?

Our comments:

We agree with this proposal in principle, although note that the assessment that an intangible asset has an indefinite useful life is highly subjective, and therefore susceptible to management bias.