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Attention: Annette Kimmitt
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The Chairman
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Dear Madam/Sir

Invitation to Comment on ED 3 "Business Combinations", ED of Proposed Amendments to IAS 36 "Impairment of Assets", and ED of Proposed Amendments to IAS 38 "Intangible Assets"

Thank you for the opportunity to provide comments on the above Exposure Drafts.

In general, the Commonwealth Bank of Australia (the Bank) supports the concepts proposed in the Exposure Drafts, however, there are several issues we believe need to be addressed.

1. ED 3 "Business Combinations"

1.1 Provisions for terminating or reducing the activities of the acquiree

We believe the proposed requirement to recognise a restructuring provision only prior to acquisition date in the acquiree's accounts is an unrealistic business outcome. In practice this will result in a restructuring provision being booked by the acquiree prior to acquisition in a 'friendly' takeover situation, and no provision being booked by the acquiree in a 'hostile' takeover. Provided the acquirer has a detailed restructuring plan in place within three months of the date of acquisition then the restructuring provision should be treated as pre-acquisition in our view.

1.2 Contingent liabilities

We believe the proposed requirement to recognise an acquiree's contingent liabilities at acquisition date is inappropriate. It is inconsistent with the 'probability' recognition criteria to recognise any fair value for a contingent liability.

Further, the proposals are internally inconsistent in the sense that contingent liabilities are required to be recognised in a business combination but not contingent assets. We believe that if the proposal to recognise contingent liabilities is retained, the principle should be applied consistently to include contingent assets.

At 30 June 2002 the Bank had over $50 billion of contingent liabilities, principally being commitments to provide credit to customers, which at any point in time have not been taken up. The possible funding of these loans is a contingent liability. To ignore the corresponding contingent asset, being the loans that will come on balance sheet, as an asset in a business combination, is inconsistent.

1.3 Completing the initial accounting for a business combination and subsequent adjustments to that accounting

We believe that in the vast majority of cases it is reasonable to expect adjustments to be made within one year of the date of acquisition. However, while this may ordinarily be the case, twelve months from acquisition may not be adequate in certain circumstances including resolution of the requirements of regulators such as competition authorities, environmental obligations, legal proceedings and tax disputes. Such issues may be very material and may not be quantifiable for several years after. Where completion has not occurred within twelve months of acquisition, the entity should be required to disclose why it has not done so. We believe a rebuttable presumption is appropriate, such that a twelve-month time limit is mandated, but exceptions are allowed where they are material and fully disclosed.

2. Proposed Amendments to IAS 36 "Impairment of Assets"

2.2 Measuring value in use

We believe that further guidance on the calculation of the value in use alternative would be of assistance. Also, we suggest that further guidance on the use of present value techniques would be useful to facilitate implementation, for example on the use and significance of terminal values and the use of post-tax discount rates.

In addition, we believe that the standard should set out the objectives of the valuation process and establish the principles to be applied.

2.2 Allocating goodwill to cash-generating units

We do not support the proposal to test for goodwill impairment at the cash-generating unit level. Under US Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", goodwill must be tested for impairment at a level of reporting referred to as a reporting unit. A reporting unit is an operating segment (per US Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related

Information"). The reporting unit represents the level at which management internally reviews the performance of the various operating segments of the business. For this reason, we support the US approach to allocating goodwill only down to the operating segment level for impairment testing, and not further down to the cash-generating unit.

2.3 Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

We do not agree with the detail and scope of the proposed disclosure requirements. It is not clear what objective is being served by requiring such detailed and comprehensive disclosures. Our impression from the proposed requirements is that they are seeking to provide information that would enable users to replicate the measurements and processes of management. In this regard we strongly oppose the proposals that require disclosure of the difference between recoverable and carrying amounts as required by paragraph 134(d).

The proposals do not set out the case for, or purpose of, such comprehensive disclosures. Our concerns relate to the commercial sensitivity of the information and the potential impact on the competitive environment of the company; for example, in a small industry sector and/or geographical region. The requirements are selective and take no account of how an entity has grown. This results in an entity that has grown through acquisition making disclosures, while another with similar but internally generated intangibles is not required to make such disclosures. In some cases the proposed disclosure is tantamount to valuing the company and may expose directors to challenge where the margin between the carrying amount and the fair value is disclosed and differs from market estimates. In these circumstances, the directors may be challenged that they have allowed a false/uninformed market in the entity's shares where their estimates of fair values are different from those of the market. In addition, we believe that the costs of collecting the information and increased audit costs if disclosures are required for each cash generating unit would not be justified.

3. Proposed Amendments to IAS 38 "Intangible Assets"

3.1 Identification

We believe the criteria for identification of an intangible asset in an acquisition should be limited to contractual and other legal rights, and should not extend to separability.

Non-contractual Customer Relationships
In acquiring a bank there are many contractual and non-contractual customer relationships. It is arguable that nearly all of its assets and liabilities and the related contractual and non-contractual customer relationships are separable in various product groupings (eg housing loans, credit cards, personal loans, finance leases, savings deposits, commercial property loans).

All of a bank's housing loans and business loans are contractual arrangements, which have a future profit stream that is capable of valuation. At the end of the contractual relationships with the customer at the repayment of these loans (maybe after 2 or 3 years), there is generally a much longer non-contractual relationship which could run for another 20 years (eg a renegotiated loan, a new loan, a credit card, an investment in a managed fund). The question that arises is, is this more in the nature of goodwill than a non-contractual relationship that should be identified and valued as an intangible asset? The guidance provided on this by IAS 38 is not very clear.

Measurement

The identifiable intangible assets under the proposed criteria for identification are expected to include the value of both contractual and non-contractual customer relationships. In separating out these assets, it is expected that there will be a fair degree of uncertainty around their measurement, which would give rise to concerns whether the reliable measurement criterion for recognition of such customer relationships would be satisfied.

It is conceivable that longer term loan and debt contracts could be valued based on profit projections and discounted cash flow methodology. However, the value of non-contractual customer relationships is likely to be uncertain and subject to significant variables eg: customer loyalty, economic factors, pricing decisions, competition etc. In this context, whether the valuation of such customer relationships can be reliably measured is a major concern. On this basis we believe it more appropriate to err on the side of conservatism and reliability and not recognise such 'intangible' assets because their value could not be determined reliably.

Amortisation Term
Further, the useful life of such non-contractual customer relationships is considered to be indeterminate. Unless one can readily assess a useful life, then it is not appropriate that a company is required to decree an amortisation period for such an asset.

Summary
In summary, given the uncertainties involved in identifying, measuring and amortising such non-contractual customer relationship 'intangible' assets, it is considered more appropriate to regard them as part of the goodwill on acquisition which is measured as a residual item. The criteria for identification of an intangible asset in an acquisition should be limited to contractual and other legal rights, and should not extend to separability.

The anomaly that arises in recognising most identifiable intangible assets is the requirement to amortise them over an arbitrarily determined useful life, while residual goodwill recognised is not amortised, and at the same time the fair value of the total business acquired is more likely to be increasing in value.

3.2 Criteria for recognising intangible assets acquired in a business combination separately from goodwill

We believe that if the definition and recognition criteria are satisfied, the entity should recognise an asset. We believe that this principle should be applied consistently to all assets. Accordingly, we believe that the value of non-contractual customer relationships could not generally be reliably measured and therefore would not be recognised as intangible assets (refer Comments under 1 above).

Guidance should be included in IAS 38 to suggest that such non-contractual customer relationships be excluded from identification as intangible assets.

4. Other Issues

There is a presumption that purchased goodwill has an indefinite life. However, in some circumstances purchased goodwill may have a finite life. For example, in the extractive industries the useful life of purchased goodwill may be tied to the life of a mine. We suggest that there should be some acknowledgment in the proposals that in some limited circumstances goodwill has a finite life.

Further guidance on the assessment of goodwill where there is a minority interest in the acquiree would aid implementation, that is, whether it is the parent entity share only or whether it is 100%.

Our detailed response is contained in the **appendix attached**.

If you have any questions, or would like to discuss further, please don't hesitate to contact me.

Yours sincerely

Gary Thursby
Group Financial Controller

Geoff Steel
Executive Manager
Group Accounting

Appendix

The Commonwealth Bank of Australia (the Bank) detailed response to Invitation to Comment on ED 3 "Business Combinations", ED of Proposed Amendments to IAS 36 "Impairment of Assets", and ED of Proposed Amendments to IAS 38 "Intangible Assets"

<u>ED 3 "Business Combinations"</u>

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?

The Bank agrees with the scope of the standard. However, we anticipate that the Board will deal with the creation of dual listed entities and similar structures in Phase 2 of this project.

(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?

Yes.

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?

In view of recent international developments, particularly in the USA, the Bank supports the use of the purchase method as in the vast majority of cases one entity obtains control of another.

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?

Yes.

(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?

Yes.

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 strongly support this position. To identify a newly formed holding company entity as the acquirer would in many cases create a significant goodwill amount, which is not representative of the substance of the transaction. The acquirer must be one of the combining entities that existed before the combination.

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?

No. This is an unrealistic business outcome. In practice this will result in a restructuring provision being booked by the acquiree prior to acquisition in a 'friendly' takeover situation, and no provision being booked by the acquiree in a 'hostile' takeover. Provided the acquirer has a detailed restructuring plan in place within three months of the date of acquisition then the restructuring provision should be treated as pre-acquisition. In our view, the recognition criteria contained in IAS 37 are sufficiently stringent.

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?

No, we do not believe it is appropriate to recognise separately the acquiree's contingent liabilities in a business combination. Such a requirement is inconsistent with the 'probability' recognition criteria, as by definition a contingent liability is not probable of occurring.

Further, the proposals are internally inconsistent in the sense that contingent liabilities are required to be recognised but not contingent assets.

We believe that if the proposal to recognise contingent liabilities is retained the principle should be applied consistently to include contingent assets.

At 30 June 2002 the Bank had over $50 billion of contingent liabilities, principally being commitments to provide credit to customers, which at any point in time have not been taken up. The possible funding of these loans is a contingent liability. To ignore the fair value of the loans that will come on balance sheet as an asset is inconsistent.

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?

The Bank agrees with the proposals (except per 6 above re contingent liabilities). The initial recognition of an acquisition is at the cost of acquisition and fair values are used to allocate the cost of the acquisition to the identifiable assets and liabilities acquired.

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?

The Bank agrees that goodwill should be recognised as an asset in that it represents future economic benefits expected to flow to the entity. The Bank believes that goodwill should not be amortised and strongly supports an approach where the carrying amount of the asset is tested for impairment on a regular basis so that any reductions in its value are recognised as an expense in the periods in which the diminution in value occurs. The Bank believes that this approach is consistent with the increasing use of fair values in respect of other assets and liabilities and best reflects the way in which management assesses the operations and performance of a business.

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?

Yes.

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?

We believe that in the vast majority of cases it is reasonable to expect adjustments to be made within one year of the date of acquisition. However, while this may ordinarily be the case twelve months from acquisition may not be adequate in certain circumstances including resolution of the requirements of regulators such as competition authorities, environmental obligations, legal proceedings and tax disputes. Such issues may be very material and may not be quantifiable for several years after. Where completion has not occurred within twelve months of acquisition the entity should be required to disclose why it has not done so. It is recommended that a twelve month time limit be mandated, but exceptions be allowed for where they are material and fully disclosed. This could be achieved by a rebuttable presumption.

(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?

No. See comments under (a) above.

<u>ED of Proposed Amendments to IAS 36 "Impairment of Assets"</u>

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?

The Bank supports the impairment testing of assets to coincide with reporting dates.

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?

Yes.

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?

The Bank suggests that further guidance on the calculation of the value in use alternative would be of assistance.

Also, the Bank suggests that further guidance on the use of present value techniques would be useful to facilitate implementation, for example on the use and significance of terminal values and the use of post- tax discount rates.

While companies would normally take previous experience into account in preparing forecasts and making estimates we do not consider that the points in (b) warrant this emphasis. We are also concerned about the use of the word "accurate" in this context and how it would be interpreted in practice.

The Bank believes that the standard should set down the objectives of the valuation process and establish the principles to be applied.

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?

Under US Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", goodwill must be tested for impairment at a level of reporting referred to as a reporting unit. A reporting unit is an operating segment (per US Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information"). The reporting unit represents the level at which management internally reviews the performance of the various operating segments of the business. For this reason, the Bank supports the US approach to allocating goodwill only down to the operating segment level for impairment testing, and not further down to the cash generating unit.

We agree with the ability to reallocate goodwill following a reorganisation of the business.

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?

Yes.

(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?

Yes.

(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?

Yes.

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?

Yes.

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?*

No. It is not clear what objective is being served by requiring such detailed and comprehensive disclosures. Our impression from the proposed requirements is that they are seeking to provide information that would enable users to replicate the measurements and processes of management. In this regard we strongly oppose proposals to require disclosure of the difference between recoverable and carrying amounts as required by paragraph 134(d).

The Bank has serious concerns about the level of detail and scope of the disclosure requirements. The proposals do not set out the case for, or purpose of, such comprehensive disclosures. Our concerns relate to the commercial sensitivity of the information and the potential impact on the competitive environment of the company. For example, the requirements are selective and take no account of how a company has grown. This results in a company that has grown through acquisition making disclosures while another with similar, but internally-generated, intangibles does not. In some cases the disclosure is tantamount to valuing the company and are likely to expose directors to challenge where the margin between the carrying amount and the fair value is disclosed and differs from market estimates. In these circumstances the directors may be challenged that they have allowed a false/uninformed market in the company's shares where their estimates of fair values are different from those of the market. In addition, we believe that the costs of collecting the information and the audit costs if disclosures are required for each cash generating unit would not be justified.

(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?

No. The Bank is concerned about the level of detail required and the intrusive nature of the matters to be disclosed.

The Bank believes that although impairment is tested at the cash generating unit level disclosure would be more appropriate at the segment level. There is a presumption that management in identifying reportable segments takes account of the source and nature of the entity's risks and returns.

ED 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 believe the criteria for identification of an intangible asset in an acquisition should be limited to contractual and other legal rights, and should not extend to separability.

Non-contractual Customer Relationships

In acquiring a bank there are many contractual and non-contractual customer relationships. It is arguable that nearly all of its assets and liabilities and the related contractual and non-contractual customer relationships are separable in various product groupings (eg housing loans, credit cards, personal loans, finance leases, savings deposits, commercial property loans).

All of a bank's housing loans and business loans are contractual arrangements, which have a future profit stream that is capable of valuation. At the end of the contractual relationships with the customer at the repayment of these loans (maybe after 2 or 3 years), there is generally a much longer non-contractual relationship which could run for another 20 years (eg a renegotiated loan, a new loan, a credit card, an investment in

a managed fund). The question that arises is, is this more in the nature of goodwill than a non-contractual relationship that should be identified and valued as an intangible asset? The guidance provided on this by IAS 38 is not very clear.

Measurement

The identifiable intangible assets under the proposed criteria for identification are expected to include the value of both contractual and non-contractual customer relationships. In separating out these assets, it is expected that there will be a fair degree of uncertainty around their measurement, which would give rise to concerns whether the reliable measurement criterion for recognition of such customer relationships would be satisfied.

It is conceivable that longer term loan and debt contracts could be valued based on profit projections and discounted cash flow methodology. However, the value of non-contractual customer relationships is likely to be uncertain and subject to significant variables eg: customer loyalty, economic factors, pricing decisions, competition etc. In this context, whether the valuation of such customer relationships can be reliably measured is a major concern. On this basis we believe it more appropriate to err on the side of conservatism and reliability and not recognise such 'intangible' assets because their value could not be determined reliably.

Amortisation Term

Further, the useful life of such non-contractual customer relationships is considered to be indeterminate. Unless one can readily assess a useful life, then it is not appropriate that a company is required to decree an amortisation period for such an asset.

Summary

In summary, given the uncertainties involved in identifying, measuring and amortising such non-contractual customer relationship 'intangible' assets, it is considered more appropriate to regard them as part of the goodwill on acquisition which is measured as a residual item. The criteria for identification of an intangible asset in an acquisition should be limited to contractual and other legal rights, and should not extend to separability.

The anomaly that arises in recognising most identifiable intangible assets is the requirement to amortise them over an arbitrarily determined useful life, while residual goodwill recognised is not amortised, and at the same time the fair value of the total business acquired is more likely to be increasing in value.

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.*

No. The Bank believes that if the definition and recognition criteria are satisfied the entity should recognise an asset. We believe that this principle should be applied consistently to all assets. Accordingly, we would believe that the value of non-contractual customer relationships could not generally be reliably measured and therefore would not be recognised as intangible assets (refer Comments under 1 above).

Guidance should be included in IAS38 to suggest that such non contractual customer relationships are excluded from identification as intangible assets.

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.

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.

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.

<u>OTHER ISSUES</u>

1. **There is a presumption that purchased goodwill has an indefinite life. However, in some circumstances purchased goodwill may have a finite life. For example, in the**

extractive industries the useful life of purchased goodwill may be tied to the life of a mine. We suggest that there should be some acknowledgment in the proposals that in some, limited, circumstances goodwill has a finite life.

2. **Further guidance on the assessment of goodwill where there is a minority interest in the acquiree would aid implementation, that is, whether it is the parent entity share only or whether it is 100%.**