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UBS AG
Financial Services Group
P.O. Box
Bahnhofstrasse 45
CH-8098 Zürich
Tel. +411-234 11 11

Group Tax and Accounting Policies

William Widdowson
Tel. +411-234-55 65
Fax+411-234-20 44
william.widdowson@ubsw.com

www.ubs.com

Sir David Tweedie
Chairman
International Accounting
Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

April 04, 2003

CL 83

RE: Business Combinations, Impairment and Intangible Assets

Dear Sir David:

UBS AG is pleased to have the opportunity to comment on the Exposure Draft ED-3, *Business Combinations* and the Proposed *Amendments to IAS 36, Impairment of Assets and IAS 38, Intangible Assets.* UBS AG utilises IAS as its primary reporting framework and is one of the largest companies to have adopted IAS. As such, we have a keen interest in the further development of IAS standards.

Overall, we generally agree with the proposals outlined in the Exposure Drafts. We support the IASB's proposal to eliminate the pooling of interests method and to no longer amortise goodwill and certain other intangible assets. While we believe that there are instances where a dominant party to a business combination can not be identified, we acknowledge that those cases are rare. We believe eliminating the pooling of interests method will improve comparability by removing a major contributor to cross-border accounting differences. However, while we agree that every business combination should be accounted for using the purchase method, we have noted several areas in its proposed application that we believe should be further analysed prior to the issuance of a final standard.

We believe that an acquirer should only recognise an acquiree's contingent liabilities when they meet the recognition criteria established in IAS 37, *Provisions*, *Contingent Liabilities and Contingent Asset*, or if the parties to a business combination agree to adjust the purchase price by a specific amount because of the contingency. We believe requiring contingent liabilities to be recorded at fair value, regardless of whether it is probable of occurring will introduce a double standard for the accounting for contingencies. We believe this inconsistency has no theoretical basis and will be confusing for users of financial statements. Further we believe that any rules relating to contingent liabilities should also apply to contingent assets.

We do not agree with mandating the relative value method when an operation within a cash-generating unit is disposed of or when an entity reorganises. The relative value method results in an arbitrary distribution of goodwill, which may not accurately allocate goodwill to the group of assets to which it relates. We believe that management should first determine whether it is possible to allocate goodwill to the unit being disposed of, or the reorganised units using the same methodology as that applied when the goodwill was initially acquired. If an entity were unable to allocate the goodwill on a reasonable basis, then we would agree to use the relative value method.

We have included answers to the specific questions raised in ED-3, IAS 36 and IAS 38 in Appendix A, B, and C respectively.

Thank you again for the opportunity to comment. If you would like to discuss any comments that we have made, please contact Ralph Odermatt, Managing Director (+41-1-236-8410) or John Gallagher, Executive Director (+1-203-719-4212) at your convenience.

Yours sincerely,

UBS AG

William Widdowson
Managing Director

Ralph Odermatt
Managing Director

Appendix A - Specific Questions Asked in ED-3

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?

Answer:

(a) We agree with the scope exclusions for the reasons provided in the Basis for Conclusions.

(b) We agree with the definition of business combinations involving entities under common control and believe that it provides beneficial guidance for determining which combinations are excluded from the scope of the draft standard.

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?

Answer: Although we believe that there are instances where a dominant party to a business combination can not be identified, we acknowledge that these cases are rare. As a result, UBS agrees with the IASB proposal to eliminate the pooling of interests method of accounting and require all business combinations to be accounted for under the purchase method. We agree that allowing two methods of accounting for business combinations impairs comparability. Further, we strongly support the convergence of IAS and US GAAP on this topic.

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?

Answer:

(a) We agree with the proposal to account for a business combination as a reverse acquisition when the legal subsidiary obtains enough voting equity to effect control of the combined entity. We believe that it is appropriate that the controlling entity be deemed the acquirer.

(b) Yes, we believe that the proposed additional guidance is appropriate.

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?

Answer: We agree that when a business combination occurs one of the combining entities should be adjudged the acquirer. This determination should be made based on all of the facts and circumstances involved in the combination. Identifying the new entity, as the acquirer is inappropriate as the new entity has no economic substance.

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?

Answer: We agree with the Exposure Draft proposal. We believe that the requirement is appropriate, as it will help ensure that only those liabilities directly associated with the acquisition are recorded. We believe that the Exposure Draft as well as IAS 22 provides helpful guidance in the booking of these liabilities.

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?

Answer: UBS disagrees with the proposed requirement to record a liability equal to the amount that a third party would charge to assume an acquiree's contingent liabilities. This rule will result in different accounting for contingencies acquired in a business combination and those that are incurred in the ordinary course of business by the acquirer. Recording contingent liabilities at fair value will result in the recognition of amounts, which do not meet the definition of a liability under the IASB Framework. We believe this inconsistency is confusing for users of financial statements and has no theoretical basis. Under the proposed rules a contingent liability will be recorded regardless of whether its occurrence is remote. We do not believe that it is appropriate to record a liability for an item, which is not likely to occur. We believe that both contingent assets and contingent liabilities should be recorded if the acquirer and acquiree agree to adjust the purchase price because of their existence, or if they meet the recognition requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

Question 7: Measuring the identifiable assets acquired and liabilities contingent

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?

Answer: We agree that the acquirer should record its interest in the acquiree's net assets at fair value. However, we do not agree with the proposal to fair value the minority interests' portion of the acquiree's net assets. We agree that there should not be alternatives in the accounting standards and that one of the two methods described in IAS 22 should be eliminated. However, we believe that the more appropriate approach is the Benchmark treatment, which requires the minority's portion to be recorded at the pre-acquisition carrying amounts. We do not believe that it is appropriate to record assets and liabilities that are not owned by the entity at fair value. The proposed method results in a gross-up of the acquirer's balance sheet and income statement. We do not see how grossing up the balance sheet for these items will benefit users of financial statements. The merits of carrying these minority interests at fair value have not been adequately explained and therefore, we do not believe it is appropriate to open up another difference to US GAAP in this area.

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?

Answer: UBS agrees with the IASB proposal to recognise acquired goodwill as an asset and account for it at cost less accumulated impairment. We agree with the Board that the useful life of acquired goodwill and the pattern in which it diminishes are generally difficult to predict. As such, the depreciation of goodwill is arbitrary and adds little value to investors. We do not believe that this change will have significant impact on investors as they have been looking at pre-amortisation performance for many years. We acknowledge that there are certain conceptual weaknesses in performing an annual impairment test. However, we do not believe that those weaknesses are significant enough to overcome the continued practice of arbitrarily amortising goodwill or the benefits achieved from worldwide convergence on this issue.

Question 9 Excess over the cost of a business combination over the cost 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?

Answer: We agree with the IASB proposal for the reasons provided in the Basis for Conclusions. Recording "negative goodwill" as a liability is inappropriate, as it does not meet the definition of one under the IFRS Framework.

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?

(b) If not, what period would be sufficient, and why? 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?

Answer: We agree that twelve months is a sufficient period to complete the initial accounting of a business combination. However, we would like to point out that we do not believe it is appropriate to include a strict rules based deadline of one year in a principles based standard. We believe that the standard should be amended to state that any adjustments to provisional values should be made within a reasonable time, which would normally be 12 months after the acquisition date. Entities should be able to determine what a reasonable time is based on the facts and circumstance of the transaction. We strongly support the IASB's principles based approach, and urge the Board to develop accounting guidance based on principles rather than rules.

Appendix B - Specific Questions Asked in IAS 36

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?

Answer: For the reasons provided in the Basis for Conclusions we agree with the proposal regarding the frequency of impairment tests. Although we would agree performing all impairment tests at the same time would be desirable, we believe it is impractical. Entities with several cash generating units and multiple intangible assets will be significantly overburdened if they were required to perform this test for all at the same time.

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?

Answer: We agree that the recoverable amount of an intangible with an indefinite useful life should be measured and impairment losses accounted for in accordance with the requirements in IAS 36. We believe that the impairment measurement and accounting methodology for intangible assets with indefinite useful lives should follow the method applied to all other similar assets.

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?

Answer: For the reasons provided in the Basis for Conclusions, we agree with the methodology proposed for measuring value in use.

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?

Answer:

a. We agree that goodwill should be tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill. However, we would like to point out that the definition of management as proposed in the Exposure Draft is vague and may lead to varied application. We believe that the standard should be amended to clarify that a cash generating unit is the lowest level in which management responsible for making the strategic operating decisions monitors the return on investment in assets that include the goodwill. The management responsible for making the strategic operating decisions would typically be at the level of the highest board of the consolidated group.

b. We disagree with the Board's requirement to only use the relative value method when an operation within a cash-generating unit is disposed of. We disagree with the Board's conclusion that goodwill can only be arbitrarily allocated to an asset group at a lower level than a cash-generating unit. As stated in our response above, we believe that a cash-generating unit is the lowest level at which management makes strategic operating decisions. As a result, we believe that there may be instances where it is possible to further allocate goodwill below the cash-generating unit. We recommend an approach whereby management first determines if it is possible to further allocate goodwill to the unit being disposed of. If a reasonable allocation can not be made, then we agree that the relative value method should be applied. This approach could result in a situation where no goodwill is allocated to an operation within a cash-generating unit that is placed up for sale.

c. As stated in b. above, we disagree with the requirement to use the relative value method. We believe that when a reorganisation occurs an entity should reallocate goodwill using the same methodology as that applied when the goodwill was initially acquired. If the relative value method is applied in a reorganisation, the end result could be that goodwill is arbitrarily allocated to a group of assets that may have no relation to the goodwill. As a result, upon the first annual impairment test the goodwill that was arbitrarily allocated to the new cash-generating unit will be determined to be impaired. We would only support the use of the relative value method, when an entity is unable to allocate goodwill on a more reasonable basis.

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?

Answer:

a. We agree with the proposal for measuring recoverable amount as the higher of the unit's value in use and net selling price. We believe that there are cash-generating units that may have an internal value to an organisation that far exceeds its net selling price to a third party. Ignoring this value would result in acquired goodwill inappropriately being considered impaired.

b. We agree that the proposed screening method is an appropriate method for identifying potential goodwill impairments. We support the argument for this approach as outlined in the Basis for Conclusions.

c. We agree with the method proposed for measuring the amount of any goodwill impairment as the excess of the goodwill's carrying amount over its implied value. This method ensures that goodwill is reflected at its actual value.

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?

Answer: We agree that entities should not be permitted to reverse previously recorded goodwill impairment losses for the reasons provided in the Basis for Conclusions. As it would be impossible to clearly identify the reasons way there is a goodwill recovery, we do not believe it should be permitted. However, we note that the Exposure Draft permits the reversal of impairment for other intangibles. We believe that the Exposure Draft should be amended to prohibit the reversal of impairment charges on all intangible assets. We see no reason to draw a distinction between goodwill and other intangibles.

Question 7: Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69- C82 of the Basis for Conclusions).

(a) Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?

(b) Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash- generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

Answer: We believe that the proposed disclosures are excessive. We believe that they require entities to provide a significant amount of information that may not be easily understood by financial statement users. The information to be disclosed relating to the determination of recoverable amount are onerous and excessive and will serve only to confuse financial statement users. We believer that it should be sufficient to state which method, value in use or net selling price, was used to determine the recoverable amount.

Appendix C - Specific Questions Asked in IAS 38

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?

Answer: We agree that an asset should be treated as meeting the identifiability criterion of an intangible asset when it is separable or arises from contractual or other legal rights as defined in paragraphs 10 and 11 of the Exposure Draft.

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.

Answer: For the reasons stated in the Basis for Conclusions we agree that the probability recognition criteria will always be satisfied for an intangible asset acquired in a business combination.

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?

Answer: We agree with the removal of the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years. Using a 20 years limit is arbitrary and does not reflect the true economic life of some assets. As a result, we support the IASB's move to more accurately reflect the amortisation period of intangible assets.

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)?

Answer: We support the IASB's proposal for the reasons stated in the Basis for Conclusions.

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?

Answer: We agree that intangible assets with indefinite useful lives should not be amortised. We do not believe that an arbitrary amortisation period provides useful information to investors.