Invitation to comment
ED 3 'Business combinations'

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?

We agree that these scope exclusions are appropriate for phase I. Our understanding is they are to be dealt with under phase II of the business combinations 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?

We find it helpful that joint control is defined within the terms of the standard. However, we believe that more guidance on what would constitute 'transitory' should be included in Appendix A, in order to further position the standard against 'grooming' transactions.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions).

Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

We agree with the IASB that in almost all cases, it is possible to identify an acquirer in a transaction, and welcome the increase in comparability of financial statements brought about by ensuring all transactions within the scope of the draft IFRS are accounted for using the purchase method.

We also agree that the pooling of interests method is not appropriate for 'true mergers' as the business interests of both companies change after the transaction to accommodate those of the other.

One area we consider has not yet been satisfactorily resolved is transactions where it is very difficult to identify reliably an acquirer. We look forward to the consideration of

'fresh start' accounting for such transactions in phase II of the project. However, it is our view that such transactions are extremely rare and, although some comparability issues may arise regarding arbitrary selection of an acquirer, these must be balanced against loss of comparability caused by introducing 'fresh start' accounting and once again having more than one method for business combinations.

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?

We believe that this is an appropriate description of situations in which reverse acquisition accounting is applicable. It seems sensible to reflect the substance of the acquisition in such cases, rather than the legal form, as this will provide more useful information to users of the accounts.

(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?

We believe the guidance is appropriate to assist in implementing the new standard.

Question 4 – Identifying the acquirer when a new entity is formed to effect a business combination

The Exposure Draft proposes that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available (see proposed paragraph 22 and paragraphs BC42-BC46 of the Basis for Conclusions).

Is this appropriate? If not, why not?

We agree with the proposal to view such transactions from the point of view of one of the pre-existing entities. Any such transaction will have been initiated by one or both of the pre-existing entities, and the new entity formed as part of the mechanism of the transaction. Thus the new entity cannot be viewed, in substance, as the acquirer. In

addition, if the IFRS allowed the new entity to be defined as the acquirer, a mechanism for achieving the equivalent of 'fresh start' accounting in any business combination would exist, reducing comparability.

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?

We agree with the IASB that restructuring provisions that are not liabilities of the acquiree at the date of acquisition should not be recognised, in order to be consistent with IAS 37 'Provisions, contingent liabilities and contingent assets'. This prevents differing treatment of similar items in an acquisition situation and otherwise.

Question 6 – Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably (see proposed paragraphs 36 and 45 and paragraphs BC80-BC85 of the Basis for Conclusions).

Is this appropriate? If not, why not?

We do not believe that the recognition of the acquiree's contingent liabilities at the acquisition date is appropriate.

This treatment will result in contingent liabilities that do not meet the requirements for recognition as provisions under IAS 37 'Provisions, contingent liabilities and contingent assets' being recognised as part of a business combination and thereafter being carried at fair value following the combination. This differing treatment was part of the argument for excluding provisions for restructuring that are not liabilities of the acquiree at the acquisition date (see BC 61), and thus the approach to contingent liabilities appears inconsistent with this. In addition, it will be difficult to measure the fair value of these items.

A consistent approach should be taken. If the recognition of contingent liabilities at fair value is considered to be appropriate, it should be addressed within IAS 37 'Provisions, contingent liabilities and contingent assets'.

Question 7 – Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

IAS 22 includes a benchmark and an allowed alternative treatment for the initial measurement of the identifiable net assets acquired in a business combination, and therefore for the initial measurement of any minority interests. The Exposure Draft proposes requiring the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree will be stated at the minority's proportion of the net fair values of those items. This proposal is consistent with the allowed alternative treatment in IAS 22 (see proposed paragraphs 35 and 39 and paragraphs BC88-BC95 of the Basis for Conclusions).

Is this appropriate? If not, how should the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of a business combination be measured when there is a minority interest in the acquiree, and why?

We welcome the increase in comparability which will result from reducing the options in initially recognising the net assets acquired. In addition, we believe that the fair value method of accounting for the assets owned by a minority interest more properly represents control of the resources available to the parent entity, in accordance with [draft] IAS 27 'Consolidated and Separate Financial Statements'.

In accordance with our answer in question 6, we would wish to see the requirement to recognise contingent liabilities at fair value removed.

Question 8 – Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions).

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

We agree that goodwill acquired in a business combination should be recognised as an asset and with the arguments presented by the IASB in the basis for conclusions (BC96 to B102) regarding the initial recognition of goodwill. We agree that cost less any accumulated impairment losses is the most appropriate carrying amount for goodwill.

Question 9 – Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.)

Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

We agree with proposal (a) since negative goodwill is rare in practice and may contain elements relating to incorrect measurement of fair values which should be eliminated to ensure that a 'true' negative goodwill position exists.

The board's argument in BC112 of the basis for conclusions is that any forward looking items such as expectations of future costs or losses are already included in the fair value of the acquiree's assets and liabilities. The example provided is not clear, and does not cover the case where a company is expected to be loss making in the future. We suggest that future losses and future expenses are not necessarily reflected in the fair value of assets and liabilities, although they are likely to affect the purchase price of the business.

However, to allow negative goodwill to be carried in the balance sheet is effectively to allow a provision for future losses and expenses. This does not align with IAS 37. For this reason, we agree that taking these items to the profit and loss immediately is the most satisfactory treatment.

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 agree that 12 months should be sufficient time for completing the accounting for a business combination.

(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?

We agree that subsequent adjustments should generally only be made to correct an error, in line with [draft] IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

We agree that adjustments to the cost of the acquisition should continue to affect the carrying amount of goodwill (paragraphs 32 and 33).

However, we do not understand the reason behind the exception relating to deferred tax assets (paragraph 64) and believe this exception should be removed at a future date in order to align the IFRS with IAS 8. There does not seem to be any rationale for treating

deferred tax assets differently from other assets and liabilities.

We understand both these exceptions will be considered in phase II of the project.

Proposed amendments to IAS 36 'Impairment of assets'

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?

We agree with the proposals to impairment test intangible assets with indefinite lives at the end of each reporting period and goodwill (if it is not to be amortised) annually.

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?

We agree that the treatment of impairments to intangible assets other than goodwill falls outside the scope of the business combinations project. It is therefore appropriate to continue reviewing these items for impairment under IAS 36. We look forward to the future review of IAS 36 in its entirety to align potentially the treatment of goodwill and other intangibles with indefinite lives.

Question 3 – Measuring value in use

The Exposure Draft proposes additional guidance on measuring the value in use of an asset.

Is this additional guidance appropriate? In particular:

(a) should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?

(b) should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?

(c) is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?

(a) We agree that an asset's value in use should reflect the factors listed. It also appears reasonable that either future cash flows or discount rate can be adjusted, provided that the end result is the present value of future cash flows.

(b) It seems reasonable to include an element relating to management's past performance in forecasting cash flows when formulating future cash flow projections. It is assumed that this would be in the form of an adjustment for any consistent over or under prediction, or a probability element derived from how far out previous management forecasts have been (in either direction).

(c) We agree that the additional guidance in Appendix B on using present value techniques is appropriate. Paragraph B20 refers to the requirement in paragraph 48 of the ED that a pre-tax discount rate is used. We believe it would be preferable to allow either a pre or post-tax rate to be used, depending on which was more appropriate for the entity.

Question 4 – Allocating goodwill to cash-generating units

The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash-generating units.

(a) Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18-C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

(b) If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

(c) If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash-generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?

(a) We agree that the lowest level at which management monitors the return on the investment, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format, is the most reliable level to allocate goodwill and test for impairment as it is the generally the lowest level for which reliable, separable management information is available.

Practically, however, difficulties may arise where goodwill cannot be reliably attributable to specific segments. For example, an acquisition may be expected to generate worldwide revenue synergies, but the specific geographical region where these are expected, if this is an entity's primary segment reporting, may not be identifiable. We believe in such a case, an

entity should be permitted to allocate goodwill on a specific acquisition to a CGU which spans more than one primary reporting segment if management continues to monitor the goodwill in that CGU at that level.

(b) We agree that goodwill should be included in the carrying amount of an operation when determining the gain or loss on disposal of a portion of a cash generating unit. The relative value approach is one reasonable method of allocating goodwill in this situation. However, we consider that if another method was more appropriate in specific circumstances, it should be used. Therefore, we suggest the standard prescribes that the relative value method is used unless another method can be shown to be more appropriate, and if another method is used, this is disclosed.

(c) We agree that the relative value allocation proposed for a reorganisation is appropriate, in order to be consistent with the treatment when a portion of a cash generating unit is sold.

Question 5 – Determining whether goodwill is impaired

The Exposure Draft proposes:

(a) that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount of the unit be measured?

(b) the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions).

Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

(c) that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).

Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

(a) We agree that the basis of measurement described for the recoverable amount is appropriate.

(b) We do not believe that the screening mechanism will identify all impairments of acquired goodwill. It is likely that acquired goodwill will, over time, be replaced by internally generated goodwill, Alternatively, an acquired business may be fully integrated within an existing cash generating unit of the acquirer with substantial existing internally generated goodwill. In either case, the screening mechanism described will not necessarily pick up impairments of the acquired goodwill.

Indeed, C16 in the Basis for Conclusions states that it is not possible to distinguish between acquired goodwill and internally generated goodwill. Avoiding the effective capitalisation of internally generated goodwill is a primary argument for amortising goodwill, as noted in answer 8 of our response to ED3.

(c) We agree that this is an appropriate method for measuring impairment losses on goodwill.

Question 6 – Reversals of impairment losses for goodwill

The Exposure Draft proposes that reversals of impairment losses recognised for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions).

Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

We agree that it is appropriate to prohibit the reversal of impairment losses for acquired goodwill in order to avoid recognising internally generated goodwill and thus maintain consistency with IAS 38.

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?

We disagree with the requirement to disclose all the information in paragraph 134. We believe much of this information is of little relevance to users of the accounts. In addition, most of it is commercially sensitive.

Relevance

We disagree with the Board's conclusion that all the information required, supposedly to assists users in assessing the reliability of information in the financial statements is relevant. So much detailed information appears to have been included that readers of the accounts will believe they can re-perform the impairment tests and draw their own conclusions. This provides the potential for users to misinterpret this information.

The reliability of information in the financial statements is a matter of good corporate governance, including the entity's control culture, and for the entity's auditors to form an opinion on. We do not believe that disclosures should be added whose primary function would seem to be that of providing a means for users to 'check' the work of management and the auditors.

Furthermore, such detailed disclosures regarding assumptions are not given when other

accounting estimates are included in the accounts, for example, the impairment testing of a tangible fixed assets, the net realisable value of stock or the valuation of a financial instrument with no quoted price.

We support the inclusion of qualitative information on how impairment testing has been performed. An entity should be required to indicate the key assumptions that materially affect the impairment calculations, for example, state the basis for calculating long-term growth rates beyond the period for which detailed budgets are available. However, listing these rates for various geographical segments does not appear to provide additional useful information to users.

Commercial sensitivity

It may be highly commercially sensitive for an entity give much of the information proposed in example 9 of Appendix A. For example, an entity would not wish to publish details of budgeted margins and market share to its competitors, or even its expectations of foreign exchange rates or raw material inflation. Such information may be even more sensitive when it is required to be analysed by geographical segments, by types of customer or by product line, depending on an entity's segment reporting which dictates a maximum level for its cash generating units.

Invitation to comment

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 agree that the criteria proposed are appropriate and will provide a more definitive basis for identifying intangible assets.

Question 2 – Criteria for recognising intangible assets acquired in a business combination separately from goodwill

This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29-32 and paragraphs B11-B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard *Business Combinations*, an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree's intangible assets, excluding an assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).

Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

We do not agree. It will be a difficult and judgmental process to attribute a fair value to intangible items that have been internally generated by the acquiree. The Board acknowledges in B14 of the Basis for Conclusions that the 'probability criteria' of receiving future economic benefits is effectively overridden for intangibles acquired in a business combination. This calls into question the usefulness of these intangible assets being disclosed separately from goodwill.

Such intangibles could not only reduce goodwill, but could create negative goodwill which under ED3 gives rise to an instant profit. We are uneasy with recognising a profit in a situation where the concept of probability of economic benefits has been overridden.

We would prefer judgement to be directed to whether the cost of an asset can be reliably measured following a business combination, rather than the standard prescribing that it is possible (excluding an assembled workforce) and then requiring an estimate of fair value to

be made.

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?

We agree with the removal of the 20 year rebuttable presumption, as an arbitrary limit for the useful life of an intangible asset is not satisfactory.

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)?

We agree it is appropriate to include the renewal period only if renewal can be accomplished without significant cost. Should significant cost be expended on renewal, a new asset should be recognised.

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?

We agree that it is appropriate not to amortise an intangible asset with an indefinite economic life but to test it for impairment annually or more frequently if there is an indication of impairment.

HSBC Holdings Plc