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MAZARS

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Paris, April 4th 2003,

Exposure Drafts on Business Combinations and Amendments to IAS 36 and 38

Dear Sir David,

We welcome the opportunity to comment on the Exposure Drafts on Business Combinations and Amendments to IAS 36 and 38, published by the IASB last December.

The main comments included in this letter and the detailed answers to your invitation to comment provided in Appendix 1 represent the common viewpoint throughout the Mazars Group. They have been prepared by a joint team o our European technical experts, representing our offices in France, Belgium, Germany. the United Kingdom, the Netherlands, Spain and Italy. Our opinions are backed up by our international experience, acting as auditors for large public corporations.

In our view, the Board's proposals raise the most critical concerns in the following areas:

- Excluding from the cost of acquisition the restructuring costs directly resulting from the combination impairs understanding the transaction as a whole.

- ED 3 and draft amendments to OAS 38 are not consistent with the framework or IAS 37 when dealing with the accounting for intangible asset's acquired or contingent liabilities assumed in a business combination. Identification and recognition criteria for the same assets and liabilities should be consistently applied, whether the assets and liabilities are acquired or assumed in a

business combination or separately. Furthermore no conceptual change should be introduced without appropriate due process.

- The two-step impairment testing is potentially a very costly process without achieving any significant or necessary improvement. The impairment test as designed in present IAS 36 and requited at an annual frequency provides the rigorous approach needed when switching from amortisation to impairment testing.

Should you wish to discuss our answers, we would be happy to hear from you.

Yours sincerely,

Patrick de Carnbourg
Chairman

Appendix 1

Mazars' answer to ED3 BUSINESS COMBINATIONS and ED Amendments to: IAS 36 - IMPAIRMENT OF ASSETS IAS 38 - INTANGIBLE ASSETS

ED3 Business Combinations

<u>Question 1</u>: 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 1 of the Basis for Conclusions).

Are these scope exclusions appropriate? if not, why not?

We do not object to the scope exclusions at this stage, although we believe that the accounting for such situations need to be defined.

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 Conclusion).

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 welcome the additional guidance as helpful.

<u>Question 2</u>: 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).

ls this appropriate 2 If not, why not 2 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 disagree.
In our opinion, true mergers, although rare, do happen. In such situations we do not think that the purchase method gives a true and fair view of the economic substance of the new entity resulting from the combination.
Our understanding is that the Board has included the appraisal of the fresh start method in phase II of the Business Combinations project. We therefore believe that no change should be made to the accounting for mergers of equals before an appropriate substitute for pooling has been identified We acknowledge that there has been some abuse in the past and that more stringent criteria are needed in order to distinguish true mergers from acquisitions. We believe that the conditions set out in FR$ 6 (UK GAAP) have proven to be quite effective in avoiding abuse. We therefore recommend that similar conditions be required by the future IFRS.

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 opera ting policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37BC41 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 agree with the Board's proposals.
We however recommend that the wording of § 21 be reviewed, to make it clear that 19-20 apply in determining which entity has control and that all attempts at describing such circumstances be excluded from this paragraph.

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?

The guidance provided is adequate.

Question 4: **IDENTIFY 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?

Yes, we agree. However, no entity should be adjudged the acquirer in the case of a true merger. Please refer to our answer to question 2.

<u>QuestIon 5:</u> 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, we disagree with the Board's proposal. We believe that the acquirer's restructuring program for the acquiree is part of the acquisition plan and that, accordingly, it would be more relevant to reflect the restructuring costs as part of the acquisition cost.
This should however be subject to very stringent conditions:

- The restructuring involved should without any doubt be part of the acquirer's acquisition plan. Therefore, the acquirer should have, at, or before, the date of acquisition, developed the main features of a plan that involves terminating or reducing the activities of the acquiree;
- The main features of the plan should have been announced at, or before, the date of acquisition, in such a manner that a valid expectation that the plan will be implemented has been raised in those affected by the plan;
- A restructuring provision should have been recognised in accordance with IAS 37 before the end of the cost allocation period.

Provisions that are not used in the manner or periods originally expected should be re-allocated to the cost of acquisition accordingly

<u>Question 6:</u> CONTINGENT LIABILITIES

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as pert 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 agree.
Identifiable and measurable contingent liabilities may have influenced the total consideration that management agreed to in the acquisition.
However we believe that no liability should be recognised that does not meet IAS 37 definition and recognition criteria. Therefore contingent liabilities arising from an acquisition should not be allocated as part of the cost of acquisition even if their fair value can be measured reliably, unless they meet IAS 37 criteria before the end of the allocation period.

<u>Questign 7</u> : MEASURING THE IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES AND CONTINGENT LIABILITIES ASSUMED

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

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

We agree with the elimination of the option and with the treatment retained.

<u>Question 8</u>: 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 7 If no4 how should it be accounted for initially, and Why 7 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 that it should be accounted for after initial recognition at cost less any accumulated impairment losses. However such an Impairment only regime must be supported by a robust, reliable, easy to perform impairment test (please refer to our answer to IAS 36 amendments question 5).

<u>QUESTION 9:</u> 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 CONTINGENTS 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 that prior to recognising any negative goodwill a reassessment of the acquiree' & identifiable assets and liabilities is desirable.
However we do not believe that negative goodwill should be recognised as a gain immediately after the acquisition, whatever the circumstances are.

We recommend that the present IAS 22 requirements for negative goodwill be maintained, so that negative goodwill arising from future losses, planned restructuring and contingent liabilities should be recognised in profit and loss in the period when the corresponding losses are incurred. Until such time, it should be shown as a liability. (IAS 22 § 61).

Furthermore, negative goodwill not yet recognised in income should be regularly tested in order to check that future losses are still expected to arise.

<u>QUESTION 10 :</u> COMPLETING THE INTIAL 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 pro visionally, 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 pan graphs 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?

Twelve months from the acquisition is 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 with the present draft requirements.

Amendments to IAS 36

<u>Question 1</u>: FREQUENCY OF IMPAIRMENT TESTS

Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful fives 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 believe it is reasonable to carry out an annual impairment test of intangible assets with indefinite useful lives and acquired goodwill. However we recommend that the Board adjust slightly its proposals in order to:

- set up the same frequency for both intangible assets with indefinite useful lives and acquired goodwill: the impairment tests for goodwill should be carried out right after the impairment tests for intangible assets, and be included in the same exercise;
- leave to the entity the choice of when those tests should be carried out during the year, provided that it is carried every year at the same date; the period chosen by the entity, if not the fourth quarter, should be such as to permit the use of the last forecasts approved by management as soon as they are available.

On top of a such systematic approach, we agree that an impairment test should be carried out every time there is an indication that an asset may be impaired, whenever such an indication arises.

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 intangible assets with indefinite useful lives cease to be amortized and should be subject to impairment testing. We indeed believe that intangible assets with indefinite life should be accounted for in a similar manner as goodwill.
However, unlike goodwill, intangible assets are clearly identifiable. We therefore believe that reversals of impairment losses should be accounted for.

<u>Question 3 :</u> 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 7 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 CU and COT of the Basis for Conclusions) ? if not, which approach should be required?

The exposure draft is consistent with present IAS 36 in requiring that:

- *value in use be based on the most recent forecasts approved by management ,*
- *any investment increasing performance or capacity of the assets under review or restructuring cost be excluded from the forecasts,*

However we believe that both conditions are impractical.. Management most recent forecasts always reflect restructuring plans or investments increasing performance that they intend to carry out, showing corresponding outflows and subsequently improved inflows. We therefore recommend that those forecasts be retained and IAS 36 be amended accordingly.

Aside from that first comment, we believe that paragraph 25A describes appropriately how an asset's value in use should be determined. However we feel that more guidance is needed as to the determination of the discount rate to be used. We believe that an entity should be permitted to reflect those elements either as adjustments to the future cash flows or as adjustments to the discount rate.

(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) (Il) and paragraphs C66 and C67 of the Basis for Conclusions) 7 If not, why not?

Although we understand the motives of such a proposal, we do not think that it can valuably be carried out in practice.
Each specific situation would have to be subjectively assessed, as measuring management's past ability to forecast cash flows accurately does not solely rely on an objective measurement of the differences between forecasted and realised figures. Discrepancies do not arise solely from errors or management inability to forecast, but are also derived from events that without warning change the course of action intended by management. Moreover cash flows forecasts are prepared by management, and management would be appointed as both judge and juror by such a requirement.
For the reasons above, we believe the information most relevant and useful to users would be:

- to retain management's last forecasts as the basis for impairment testing,
- to require that an analysis by management be disclosed, explaining how and why their last projections were under- or over- met.

<u>Question 4 :</u> 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?

We disagree with the Board's proposal. In our view the most useful information is provided to users when aggregating cash generating units that constitute businesses with similar characteristics, notwithstanding the fact that they may be monitored independently in internal reporting review. Also the allocation of goodwill should be consistent over time. The lower goodwill is allocated, the less consistent will that allocation be since it becomes more sensitive to any change in the reporting structure We therefore recommend to leave management with the discretion to identify and justify the adequate level at which goodwill should be allocated in order to give better hindsight into the underlying economics.

(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 7 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?

We agree with both parts of the proposal.

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?

We agree that goodwill be re-allocated and we agree with the proposed approach.

<u>Question 5:</u> 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 C1 7 of the Basis for Conclusions)
is this appropriate? if not, how should the recoverable amount of the unit be measured?

We agree with the basis for conclusions.

(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, we agree that this is the appropriate method for identifying whether goodwill has been impaired. We however do not believe that this step should be viewed as a screening mechanism. We believe that the one-step approach included in the present IAS 36 constitutes an effective impairment test, that does not call for any improvement. The identification of cash-generating units relies on the inter-dependency of assets including goodwill. We therefore believe that impairment testing should not be carried out at a lower level, and in our view, the present impairment test required in IAS 36 is rigorous enough to ensure that no cash generating unit is presented in the balance sheet in excess of its recoverable value, We also believe that requiring an impairment test to be carried out systematically at least once a year adequately strengthens the accounting for goodwill when switching from amortisation to impairment testing.

(c) that If an entity Identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).
Is this an appropriate method for measuring impairment losses for goodwill ? if not, what method should be used, and why?

Our answer to question b) sets out clearly that we disagree with such *a* second step and reject it as inconsistent with the definition of cash generating units.

We furthermore believe the proposed impairment test is flawed. In applying the proposed impairment test, goodwill may have to be impaired because of a gain in value of one asset belonging to the cash generating unit to which it has been allocated, although that gain in value would never be recognized, if the asset was still to be carried at historical cost. There is no attempt to value goodwill appropriately, on the grounds that have lead to it being recognised as an asset Furthermore, determining the implied value of goodwill as defined would be both costly and burdensome.

<u>Question 6:</u> 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.

<u>Question 7</u> : 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 In formation 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 believe that the list of information to be disclosed as displayed in § 134 and § 137 is excessive (mainly 134 (e) and (f)) and that users would be better served by information being limited to what is really necessary for their understanding.
With such extensive disclosures we believe that:

- cost incurred by the entities exceeds benefits by the users,
- cost incurred by the users in processing all data provided exceeds the benefit they may derive from their analyses.

Amendments to IAS 38

<u>Question 1:</u> 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 separabie 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 contractuaUother iegal rights criteria appropriate for determining whether an asset meets the identifiablilty criterion In the definition of an intangible asset ? If not, what criteria are appropriate, and why?

Yes, we agree.

<u>Question 2</u> ; 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 in formation should always exist to measure its fair value reliably (see proposed paragraphs 2942 and paragraphs 911-815 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 in formation 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 disagree on this issue. First of all, this proposal would lead to applying different recognition criteria to either internally generated and externally acquired intangible assets, and would not be consistent with the frameworkd Moreover, we do not believe that the assumption made by the Board would prove right, and that all intangibles acquired with the exception of a workforce would prove measurable, in all circumstances when acquired in a business combination.

<u>Question 3:</u> 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 7 If not, under what circumstances, If any, should an intangible asset be regarded as having an indefinite useful life?

Yes we believe it is appropriate.

<u>Question 4:</u> *USEFUL LIFE OF INTANGIBLE ASSET ARISING FROM CONTRACTUAL OR OTHER LEGAL RIGHTS*

The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost (see proposed paragraphs 91 and 92 and paragraphs B33-B35 of the Basis for Conclusions).

Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed ? If not, under what circumstances should the useful life include the renewal period(s)?

Yes we believe it is appropriate.

<u>Question 5:</u> 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 7 if not, how should such assets be accounted for after their initial recognition?

Yes we believe it is appropriate.