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

Re: IASB Exposure Draft - ED 3 Business Combinations and Proposed Amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets

Dear Ms. Kimmitt:

J.P. Morgan Chase & Co. appreciates the opportunity to provide its views on the International Accounting Standards Board's ("IASB") Exposure Draft of its proposed International Financial Reporting Standard, ED 3 Business Combinations ("IFRS"), and the proposed amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets.

We support the efforts of the IASB in their work towards convergence of accounting standards worldwide and development of principle-based accounting standards. The proposed IFRS on business combinations, along with the proposed amendments to IAS 36 and IAS 38, offers a challenging opportunity to achieve these objectives.

As requested, please find our comments in response to the IASB's questions on its Exposure Draft of the proposed IFRS and proposed amendments to IAS 36 and IAS 38 in the attached appendix.

If you have any questions or would like to discuss our comments, please do not hesitate to contact David M. Morris at (212) 648-0377 or me.

Very truly yours,

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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?

(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 agree with the conclusion reached in the Exposure Draft ("ED") that joint ventures and business combinations involving entities under common control should be excluded from the scope of this IFRS. The issues involving such entities, which are combined under these circumstances, are broad and diverse enough to warrant separate consideration and guidance through the issuance of a separate IFRS. Further, we agree that the proposed sections in the ED that define business combinations involving entities under common control will aid users of this standard in understanding the scope exclusion.

However, the definition of a business combination for purposes of applying this standard is vague and lacks a comprehensive view that may result in inconsistent application of the proposed guidance. The definition should emphasize that a business combination is not just the bringing together of two or more entities as one reporting entity, but is the acquisition of the net assets of a fully operational, ongoing business. The IASB should strive to better define and identify events and transactions that would qualify as business combinations keeping in mind the concept of substance over form. This would support convergence with the Financial Accounting Standards Board's ("FASB") SFAS 141, "Business Combinations," and EITF 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business."

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 support the proposal to require only one method, the purchase method, to account for business combinations. Limiting the accounting to only one method provides for better comparability of the financial statements of entities that have engaged in business combinations. Use of the purchase method provides for greater transparency compared to application of the pooling method. Further, requiring the purchase method, which is the method of choice of the FASB as indicated in SFAS 141, is another step in achieving convergence of accounting principles worldwide.

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?

We do not object to the circumstances described in the ED under which a business combination is accounted for as a reverse acquisition. However, we question whether the definitions of an acquirer and acquiree are readily workable in a business combination. Therefore, we suggest that this section of the ED provide more descriptive guidance to aid users in identifying what constitutes the "acquirer" or "acquiree" in a business combination where equity shares are issued. Additionally, the ED refers to "all pertinent facts and circumstances" in paragraph 21, but does not provide examples. Scenarios to illustrate identification of the acquirer in the transaction should be included in the final IFRS.

The additional guidance provided in B1-B14 of Appendix B is helpful and, therefore, should be included in the final IFRS.

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?

The fact that one entity emerges from the transaction indicates that a business combination has occurred and, therefore, there is an acquirer and an acquiree. However, as discussed in Question 3, more explicit guidance for determining which party is considered the acquirer should be provided, including examples illustrating situations where substance over form should be considered. To further promote convergence on this issue, such guidance should be modeled after the guidance provided in SFAS 141.

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 that any restructuring provision or contingent liability that is documented and triggered by the business combination should be recognized as a cost of the transaction. We also believe that where the acquirer has a definite plan in place at the time of acquisition to restructure the acquired entity, one that can be reliably estimated, the restructuring costs should be recognized in the process of allocating the cost of the business combination. This should be the case even though such provision or liability is not on the balance sheet of the entity being acquired.

However, the ability to recognize a restructuring provision as part of allocating the cost of a business combination should not be arbitrary. The final IFRS should require the acquirer to follow guidance similar to the requirements stipulated in EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Under EITF 95-3, an acquirer is permitted to recognize restructuring costs such as costs of exiting an activity of the acquired company as liabilities assumed in a business combination if certain conditions are met. These conditions include, among others, management's assessment and formulation of a plan to exit an activity and finalization of such plan not beyond one year after the consummation of the business combination.

Provisions that do not meet restrictions similar to the above should be considered subsequent transactions of the combined businesses and accounted for as an expense or capitalized as appropriate based on facts and circumstances.

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 concur with the proposal that contingent liabilities of the acquiree at the acquisition date, those that can be reliably measured or that are triggered by the consummation of a business combination, should be recognized as part of allocating the cost of the business combination. Further, we support the guidance in paragraph 46 of the ED, requiring that any subsequent adjustment to the fair value of a contingent liability be recognized in net income in the period in which the revaluation occurs. This methodology will promote consistency with the FASB's accounting guidance on contingencies acquired in a business combination.

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 concur with the ED's proposal. The application of the purchase method requires that all assets and liabilities acquired in a business combination be recorded at fair value. Therefore, the minority interest should only reflect its proportionate share of the fair value of the net assets of the acquiree. Goodwill, which represents the excess of the purchase price over the fair value of net assets, reflects the synergies expected to be realized by the acquirer. These benefits may accrue through value added to the acquired business or may accrue to existing businesses through the acquired business. Consequently, there is no definitive support for goodwill benefits to be reflected in minority interest.

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?

Given the issuance of SFAS 142, we agree that goodwill is an asset that represents the amount that the acquirer is willing to pay over the fair value of the net assets acquired. It is not a wasting asset and, thus, should not be amortized, but rather subject to periodic impairment review. Although the annual process of having to measure, monitor, and evaluate goodwill for impairment can be an onerous one, the concept is no different in principle than that applicable to any other asset subject to assessment for impairment.

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 that "negative goodwill" (i.e., the excess of fair value of acquired net assets over the cost of the business combination) can arise. However, negative goodwill should not be defined as a liability. We agree with the proposal that when negative goodwill does exist, then the procedure of reassessment of the net assets purchased as described in (a) above should be performed. We do not agree with the proposed action in (b), which is to recognize immediately into income, the remaining negative goodwill after reassessment of the assets and liabilities acquired. We object to any immediate gain recognition in a business combination. The acquisition of a business is not a transaction that creates income and that treatment is not prudent or logical. The use of a rational and systematic process of allocating the negative goodwill to the acquired assets and liabilities where possible is appropriate. Any remaining negative goodwill should be recorded as a deferred credit and amortized over a period as appropriate to the facts and circumstances.

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?

(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 concur with the proposal that when a business combination must be effected by the end of a reporting period and the initial accounting has been determined provisionally, such amounts should be used for accounting purposes. The time limitation of 12 months is a reasonable period in which to have all pertinent terms of the business combination known and finalized.

Once the combination is finalized, any adjustments to amounts previously recognized to correct an error should be made retrospectively to all periods being presented with adjustments made to the amount of goodwill originally recorded. Any other adjustments to the amounts recorded (i.e., change in estimate) should be made prospectively. It would be helpful if the ED included examples to aid users in distinguishing between adjustments to the fair values of net assets assigned at the acquisition date and those deemed to be related to events subsequent to the business combination.

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 frequency of impairment testing proposed for acquired goodwill and intangible assets with indefinite useful lives. However, we also support more frequent testing for impairment of intangible assets with indefinite useful lives if indications of impairment arise between reporting periods similar to the treatment for goodwill. Further, to reduce the process burden involved in the valuation process, we suggest that criteria be provided to allow carryforward of fair values from one year to another if there are facts available to support the conclusion that there has not been a significant change in the financial condition of the reporting unit.

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 conceptually there is no difference in the need to test intangible assets for impairment, whether they have defined useful lives or have indefinite useful lives. However, previously recognized impairment losses for intangible assets should not be reversed. We believe that for an asset carried at cost, any impairment loss adjusts the cost basis of the asset and, therefore, there is no basis to recognize a recovery of such loss. A recovery would represent a write-up of the intangible asset above its adjusted cost basis.

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?

We support the proposal to use present value methodologies to determine the fair values of intangible assets with indefinite useful lives when there is no active market pricing available. Accordingly, the items listed should be considered when using the present value methods because they are basic elements for such valuation methodologies.

Any present value calculation must incorporate past assumptions about cash flows and consider management's historic ability to accurately forecast the assumptions. Therefore, the additional guidance provided in Appendix B is useful and should be included in the amended IAS. However, the use of a cash flow valuation method should not be the only method permitted to value intangible assets. The use of alternative valuation methods acceptable in practice should be permitted for different types of intangible assets as appropriate to the facts and circumstances. Valuation methods continuously evolve as techniques improve or are developed to enhance the accuracy of such estimates.

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?

We believe that goodwill should be allocated to major business segments at a high level because goodwill represents the premium above fair value paid in acquiring cash-generating units. Accordingly, the goodwill value relates to the benefits and synergies achieved between the acquired unit and the business segment that benefits from the acquisition of that unit. Goodwill should be considered a part of the basis of that unit when such unit is disposed of or affected by a reorganization. Further, this approach reduces the burden that will arise as a company restructures its cash-operating units within and across its business segments. When a cash-operating unit is moved across business segments or disposed of, then goodwill should be allocated based on its relative fair value to the entire segment.

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?

We agree that the proposed method to measure a cash-generating unit's recoverable amount by comparing the greater of the unit's value in use or the net selling price to the carrying value of that unit is an appropriate first step in the process necessary in evaluating goodwill for impairment. In circumstances where the net selling price or quoted market value is not available or cannot be determined, the present value of future cash flows (i.e., the value in use method) is one acceptable method to value the entity. However, alternative methods acceptable in practice should also be permitted.

The screening mechanism required to identify potential goodwill impairments is appropriate and logical in approach.

Impairment losses for acquired goodwill should be measured as the difference between the carrying value of goodwill recorded and its implied 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?

We agree that reversals of impairment losses for goodwill should be prohibited. Reversal of impairment losses previously recognized raises the question as to whether the recovered value is related to the impaired goodwill or arises from the capitalization of internally generated goodwill.

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?

The proposed disclosures in paragraphs 134 and 137 of the ED are excessive and cumbersome, offering more details than would be useful. Disclosures required in the final IAS should focus primarily on balances of intangible assets and related impairment losses separately by reporting unit or segment.

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?

Certain types of intangible assets will be more readily measurable than others. For example, intangible assets regularly traded in the marketplace (e.g., licenses) can be more easily valued than certain other intangibles (i.e., customer relationships), which are rarely traded and require more subjective analysis to value. However, we concur with the proposed definition of an "intangible asset," a nonphysical asset that warrants recognition separate and apart from goodwill if derived from a contractual or legal right whether or not separable from other rights and obligations.

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 concur with the presumption that the probability recognition criteria will always be satisfied when intangible assets are purchased as part of a business combination. However, as stated in Question 1, certain intangible assets will lend themselves more readily to the valuation process than other intangible assets. For example, the same reason that an acquired workforce has been excluded from the definition of an intangible asset due to the difficulty in placing a value on this asset can be applied to customer-related intangible assets. However, customer-related intangible assets cannot be excluded since they generally can be separated and represent a legal or contractual right that the acquirer has obtained.

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 concur that it is appropriate to define an intangible asset's useful life as "indefinite" when all the relevant factors point to the fact that the acquiring or reporting entity will benefit from the asset beyond the foreseeable horizon (i.e., no foreseeable time limit on the cash flow contribution of the intangible asset to the reporting entity). The life attributed to an intangible asset should be consistent with the time period over which the intangible asset provides value.

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 with the proposal that any intangible asset derived from a legal or contractual right that can be renewed or extended without substantially additional expense should be included in the determination of the asset's useful life. Such extension to the useful life should be supported by strong historical evidence.

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 believe that intangible assets that have been subject to extensive evaluation and determined to have an indefinite useful life are not wasting assets. As stated in Question 3, the amortization period should be consistent with the useful life of the intangible asset. Accordingly, if the intangible is deemed to have an indefinite life, then, absent a change in facts, the intangible should not be amortized.