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Welcome to a session on: Intangible Assets, including Digital Assets

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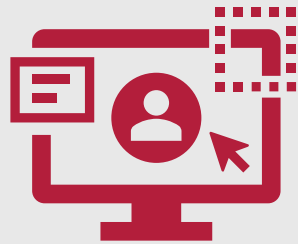
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Intangible Assets

Stakeholder feedback on intangible assets from the Third Agenda Consultation



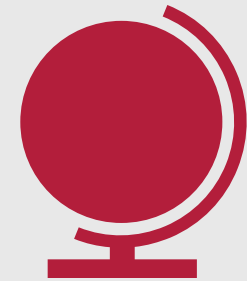
Most stakeholders rated a project on intangible assets as high priority



A project on intangible assets is important to users

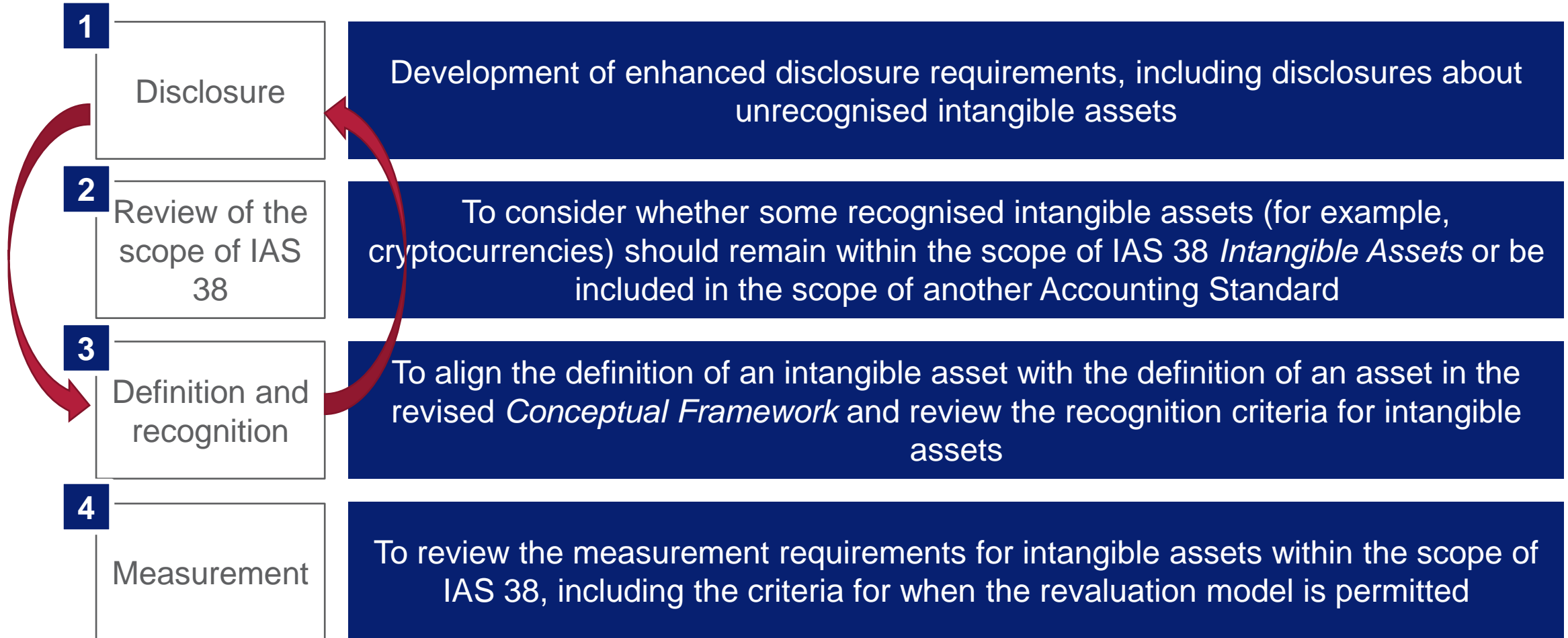


Stakeholders highlighted deficiencies in the reporting of intangible assets

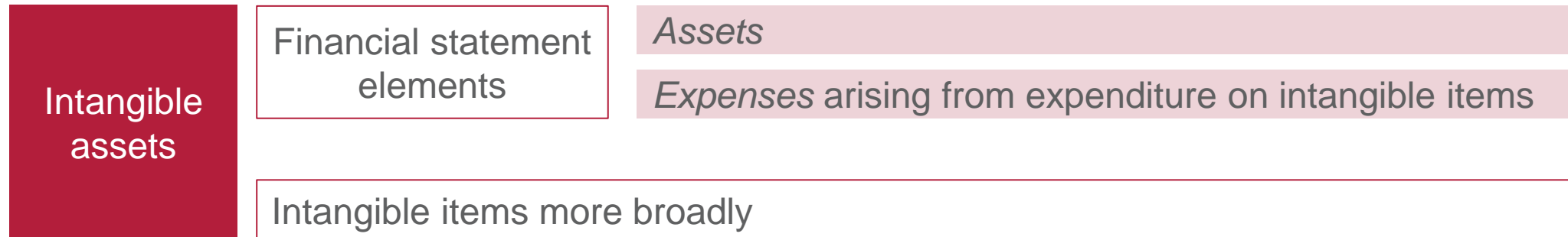


The matters raised by respondents are pervasive

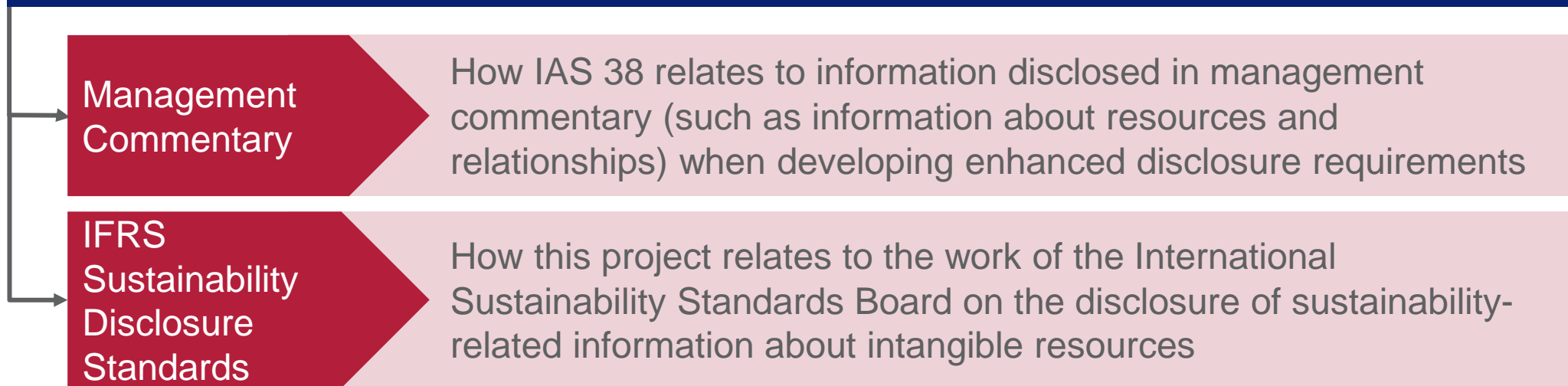
Scope of the project – to be decided



Key considerations



Interaction with other projects



IASB ongoing discussion

Extent of use of FVM

- relevant information for decision making
- faithful representation
- differences in country and stakeholders' preferences

BVE vs MVE – the gap?

Use of judgements and estimates

Examples

- Business Combinations – identification of separate intangibles
- Impairment



Digital assets - Cryptocurrencies

In 2019 the IFRS Interpretations Committee discussed how IFRS Accounting Standards apply to holdings of cryptocurrencies

A holding of cryptocurrency meets the definition of an intangible asset in IAS 38

A holding of cryptocurrency is inventory if the company holds cryptocurrencies for sale

The IASB decided not to add a project on Cryptocurrencies and Related Transactions to its work plan, noting that:

- Such transactions may not be prevalent in many jurisdictions or have pervasive effect in the financial statements
- A project on cryptocurrencies may be premature as cryptocurrencies are part of new and rapidly evolving ecosystem
- The 2019 Agenda decision permits fair value measurement in an active market if IAS 38 applies
- The project on Intangible Assets will review the scope of IAS 38, including whether cryptocurrencies should remain in it

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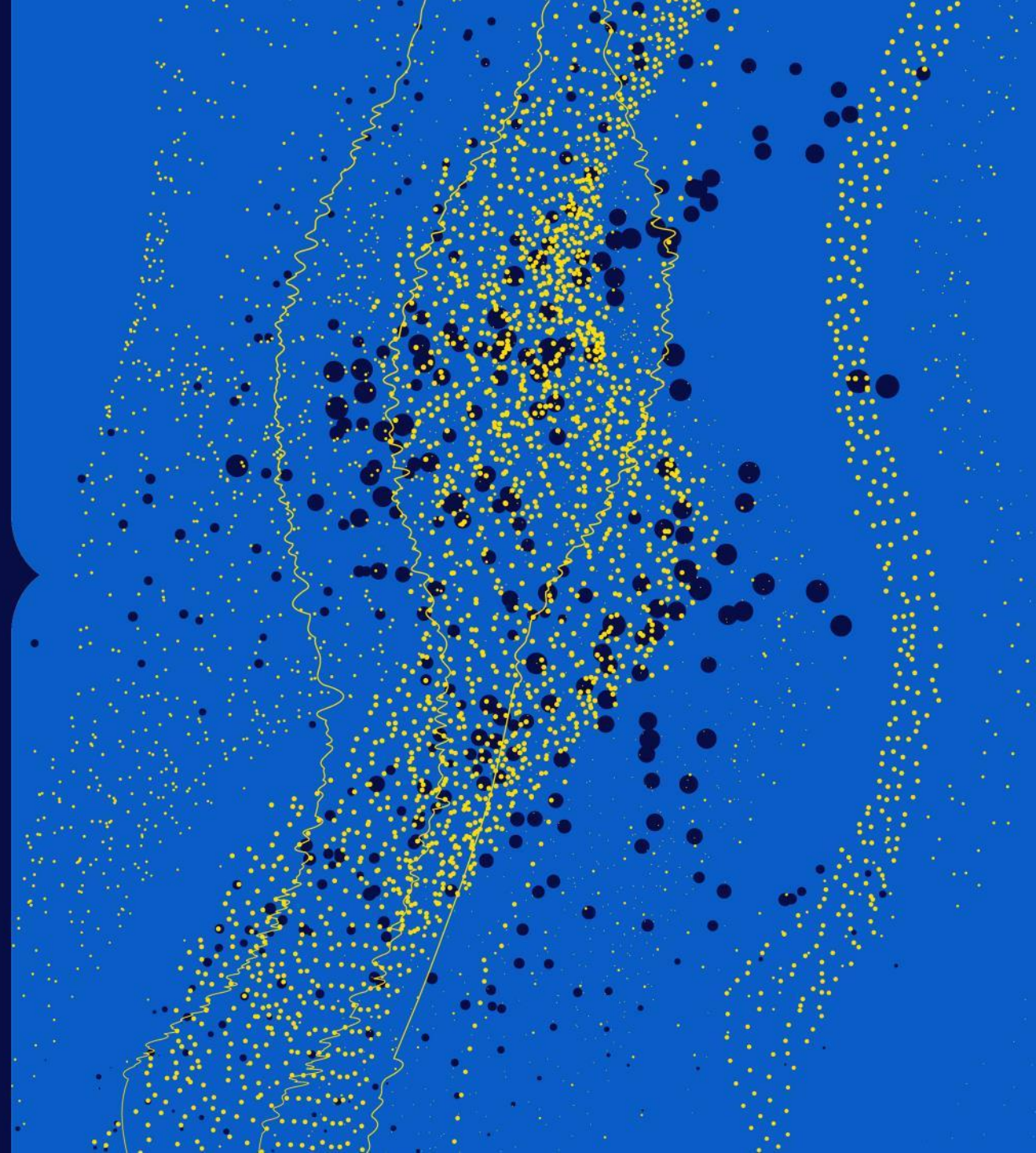
 [International Accounting
Standards Board](https://www.linkedin.com/company/ifrs-foundation)

Intangible assets (including digital assets)

Ram Subramanian

Senior Manager, Reporting & Audit Policy

Monday, 5 June 2023



The challenge(s)

- Intangible “items” vs intangible “assets”
- Preparers vs auditors
- Financial vs non-financial reporting
- “Old” intangibles vs “New” intangibles

The Horizons Project – preparers perspectives

“There’s only one reason..... The world’s not ready for it”

No surprises in the findings:

Internally generated **vs** acquired **vs** business combinations

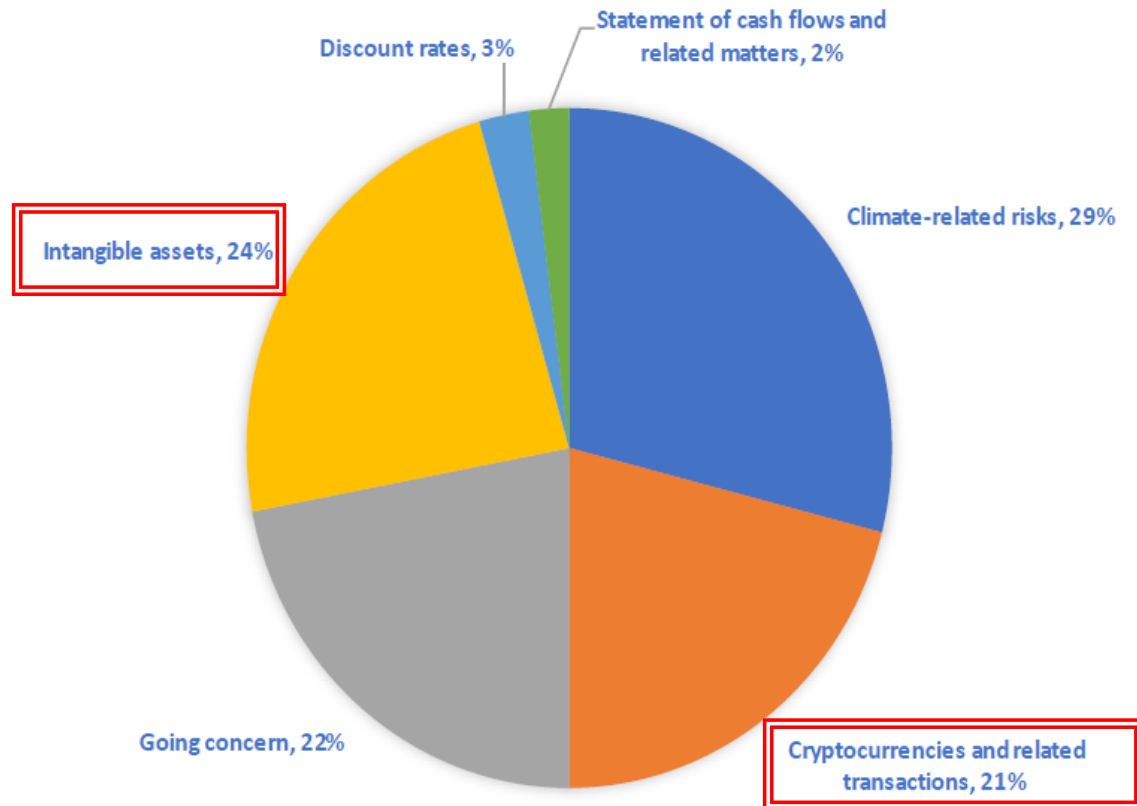
Measurement uncertainty valid reason for not recognising

Expensed rather than capitalised results in misstatement of both balance sheet and income statement

The disclosure challenge

CPA Australia submission- IASB agenda consultation

Q2(A): WHICH OF THE PROPOSED POTENTIAL PROJECTS WOULD YOU CONSIDER TO BE THE HIGHEST PRIORITY FOR ADDITION TO THE IASB'S WORK PLAN



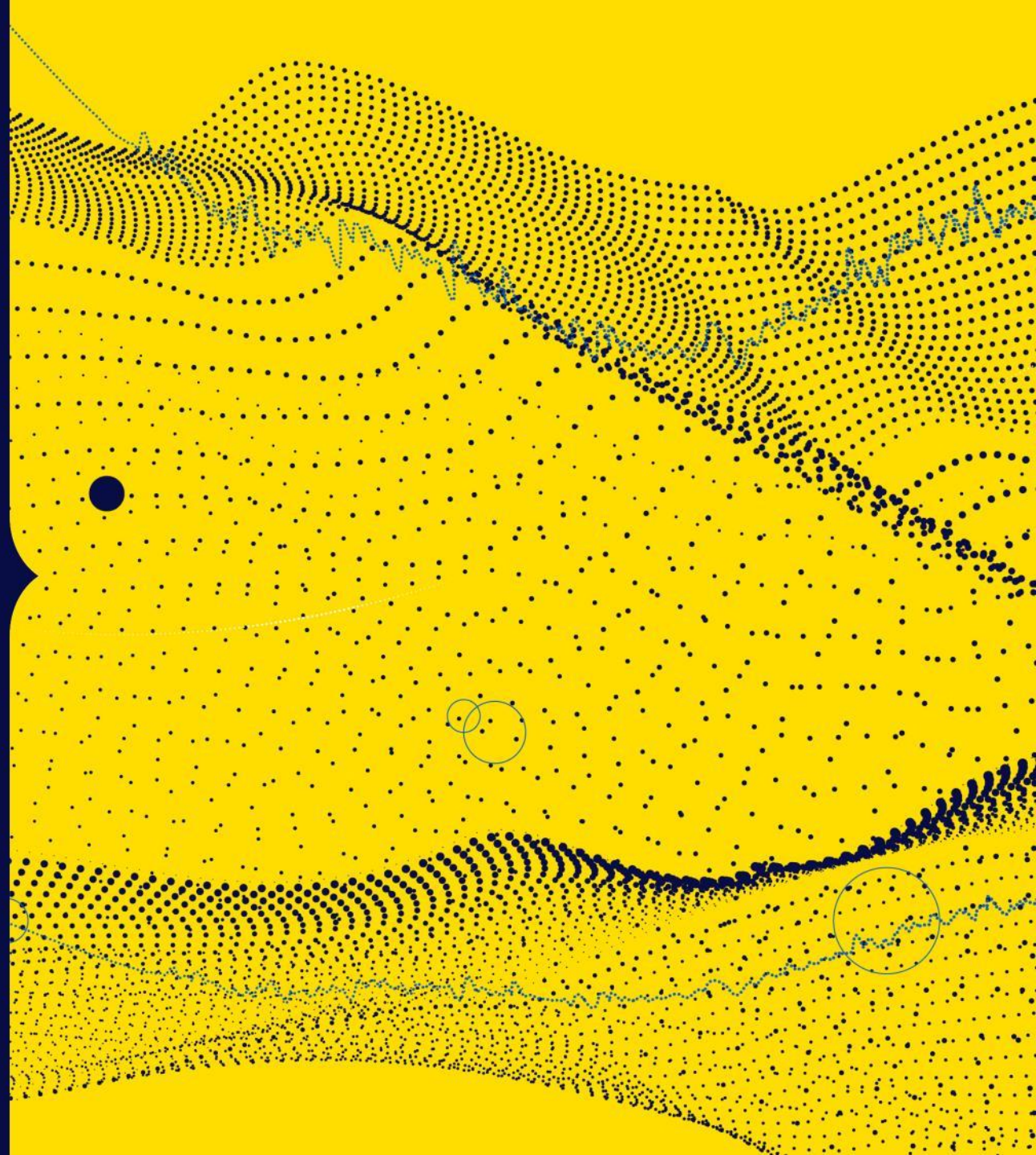
**Intangible assets
(high priority, large
project)**

**Cryptocurrencies and
related transactions
(medium priority,
medium project)**

Accounting for digital assets – the considerations



Thank you



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The AASB logo is a white hexagon with the letters 'AASB' in bold black font. It is centered within a larger hexagonal graphic that features a background of financial charts, including a bar chart and a line graph, overlaid on a grid of binary code (0s and 1s).

AASB

Intangible Assets, including Digital Assets

Dr Keith Kendall
AASB Chair

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2022-2026 AASB Agenda Consultation



Feedback Statement
AASB Agenda Consultation
2022–2026

Decisions

- Added intangible assets to the research work plan
- Include digital assets
- Feedback will be shared with other national standard-setters and the IASB

Next steps

- Conduct further outreach
- Piecemeal research projects
- Collaborate with academics and standard-setters

Staff paper (March 2022)



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INTANGIBLE ASSETS: REDUCING THE
FINANCIAL STATEMENTS
INFORMATION GAP THROUGH
IMPROVED DISCLOSURES

STAFF PAPER

March 2022

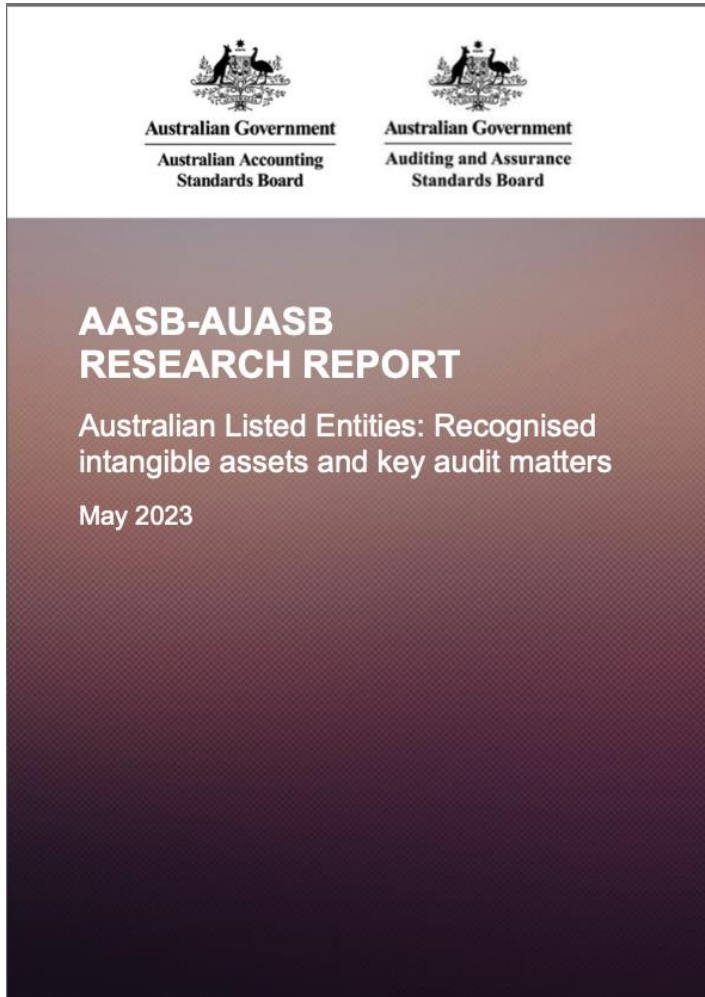
Staff Paper (March 2022)

- Focus on unrecognised internally generated intangible assets disclosures
- Suggests interim solutions
- Feedback will help the AASB determine its next steps



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Research Report (May 2023)



Overview

- The significance of recognised intangible assets on the balance sheets of Australian-listed entities
- Wide range of descriptions and categorisations of intangible assets used in financial reporting
- The frequency of key audit matters related to intangible assets in auditor's reports

Digital assets

Outreach conducted (Q1 2023)

**Nine
preparers**

- Banks, crypto-exchanges, gaming platforms, blockchain technology innovators, regulators.
- Listed and unlisted entities

**Six
professional
services**

**CPA Australia /
CA ANZ**

**AASB User Advisory
Committee**



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Thank You.

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Perspectives of

Liz Smith

Business Valuation Specialist

Non Executive Director



Business Valuation Methodologies

- ▶ Discounted Cash Flows
- ▶ Earnings Based Methodologies
- ▶ Asset Based Methodologies

Earnings Based Methodology	\$'000	\$'000
Reported EBIT	1,500	1,500
Earnings adjustments	500	500
Maintainable EBIT	2,000	2,000
Multiple	7	8
Enterprise Value	14,000	16,000
Net debt	(5,000)	(5,000)
Investments	2,000	2,000
Other	(500)	(500)
Equity Value	10,500	12,500

My Perspectives

- ▶ Art not a science
- ▶ Time based
- ▶ Balance sheet cannot normally equate to company value
- ▶ Purchased vs internally generated
 - ▶ Using funds
 - ▶ Acquisitions riskier, accountability
 - ▶ Highlights nature of growth
- ▶ Purchase price accounting - is it worth the cost and effort?

My Perspectives (Cont.)

- ▶ Good reasons for capitalising additional investments
- ▶ Commentary around other internally generated assets
- ▶ Judgement around impairments

Pretty please.....

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