



Project:	AASB Work Plan 2017-2019	Meeting	AASB May 2017 (M157)
Topic:	Public sector intangible assets – project plan	Agenda Item:	3.2
Contact(s):	Garima Ahuja gahuja@asab.gov.au 03 9617 7620 Evelyn Ling eling@asab.gov.au 03 9617 7631	Project Priority:	High
		Decision-Making:	High
		Project Status:	Project planning

Introduction

- 1 The Board previously decided not to explore the accounting for licences granted by public sector entities as part of its Service Concession Arrangements: Grantors project or its Income of Not-for-Profit Entities project, but to consider it as part of a future AASB project. As part of its outreach on ITC 34 *AASB Agenda Consultation 2017-2019*, the Board also received feedback from a constituent that the Board consider clarifying, for public sector entities, whether rights to future services would be within the scope of AASB 138 *Intangible Assets* and if not, whether they should be.
- 2 At its August 2016 meeting, the Board directed staff to prepare a project plan in relation to the accounting for intangible assets of public sector entities, including addressing the accounting for licences granted by public sector entities. This agenda paper sets out the proposed project plan to assist the Board to form its views whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).¹

Project rationale, objective(s) and link to AASB strategy

Project rationale

(responds to RIS² questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- 3 **To address a gap in the accounting.** AASB 15 *Revenue from Contracts with Customers* addresses the income recognition for grant of licences relating to an entity's intellectual property. However, the Board has not yet considered:

¹ The staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

² Australian Government Regulation Impact Statement

- (a) whether additional not-for-profit specific guidance in AASB 15 is necessary for public sector licences within the scope of AASB 15; and
 - (b) the accounting for the grant of licences that are not within the scope of AASB 15 (for example, whether an intangible asset representing the right to a future royalty income stream crystallised through the grant of a non-intellectual property licence can, or should, be recognised by the grantor; its measurement, and the treatment of the corresponding credit).
- 4 **To provide clarity on the accounting of intangible assets in the public sector.** The Board received feedback that there may be divergent views in practice as to whether an intangible asset could be recognised, for example, in instances where a public sector entity has a ‘right to receive future maintenance services’ or a ‘right to future marketing services’. The Board could consider providing clarification or guidance in this area
- 5 **To take a leadership role in reviewing the existing accounting for intangible assets.** The need to further develop accounting thought pertaining to intangible assets was raised by the Board in December 2015 in the context of the IASB’s 2015 Agenda Consultation, as a ‘forward thinking’ project.³ The IASB is not at this time intending to undertake a project on intangible assets.⁴ Accordingly, the outcomes of this project could inform the IASB’s future work program with respect to emerging accounting issues pertaining to intangible assets.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 6 The objective of this project is to:
- (a) to establish the accounting for grant of licences in the public sector, including considering if additional not-for-profit specific guidance is necessary for licences within the scope of AASB 15;
 - (b) clarify the accounting for public sector-specific rights such as rights to future services, to facilitate the consistent application of Australian Accounting Standards to similar economic phenomena; and
 - (c) improve accounting for public sector intangible assets to reflect the economic substance of transactions more consistently.

3 The AASB’s submission in response to the IASB’s 2015 Agenda Consultation is available on the AASB’s website, at: http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_IASB_2015_Agenda_Consultation_22-12-15.pdf

4 The IASB’s Feedback Statement in response to its 2015 Agenda Consultation is available on the IASB’s website, at: <http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Documents/2016-Feedback-Statement.pdf>

- 7 As part of the Board's efforts in this regard, concerns and suggested improvements, if any, pertaining to AASB 15 (in relation to accounting for licences) and IAS 38 *Intangible Assets* may be identified for raising with the IASB.

Link to AASB strategy

- 8 The Board's strategy for the period 2015-2019 identifies five strategic directions.⁵ This project is consistent with the following strategic directions:
- (a) strategic direction 1 'use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs'. Undertaking this project shows that the Board is proactive in considering clarifications and amendments to Accounting Standards in respect of accounting matters specific to the public sector.
 - (b) strategic direction 3 'enhance international influence with respect to IASB and IPSASB outcomes'. Undertaking this project shows that the Board is proactive in raising emerging and topical issues with the IASB regarding future projects.
 - (c) strategic direction 4 'facilitate and encourage active stakeholder participation in developing standards'. Undertaking the project shows that the Board responds to stakeholder feedback; thereby providing support to the Board's strategy of encouraging active stakeholder participation.

Project scope

- 9 Staff propose the scope of this project is to develop accounting requirements or guidance to Australian Accounting Standards, as necessary, for (1) the accounting of grant of licences by public sector entities; and (2) the accounting of public sector specific 'rights' such as 'rights to future services'. Staff envisage this project may be multi-phased, as the extent of future effort involved will be largely dependent on the outcomes of its research and initial analysis. Staff think there are 3 largely concurrent key work streams:
- (a) identifying public sector-specific licences within the scope of AASB 15, and developing (if required) further guidance on the accounting for these licences;⁶
 - (b) identifying public sector-specific licences outside the scope of AASB 15, and establishing the accounting by the public sector grantor of these licences;⁷ and
 - (c) identifying public sector specific rights such as rights to future services, and providing clarity on their accounting, including whether they would be within the scope of AASB 138.

5 The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

6 This issue was identified and presented to the Board at the August 2016 Board meeting, as outlined in [Agenda Paper 3.9](#)

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- 10 Staff consider that the issues identified and proposed improvements to the accounting requirements and /or guidance should be presented to the IASB with a view to improving the accounting requirements in IAS 38 *Intangible Assets*..

Staff assessment

- 11 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:
- | | |
|-------------------------|--|
| (a) Priority | Medium-High |
| (b) Timing | Preferably before the end of the first annual period beginning 1 January 2019 (when AASB 1058 becomes effective) |
| (c) Resource commitment | Moderate |
| (d) Project length | 12 months (approximation) |
| (e) Project scale | Implementation project |

Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

- 12 Staff have identified the following as key stakeholders of the project:

(a) Commonwealth government	(d) Australian Taxation Office
(b) Local governments	(e) Heads of Treasuries Accounting and Advisory Committee (HoTARAC)
(c) State governments	(f) Australasian Council of Auditors-General (ACAG)
(g) Government departments and other public sector entities issuing licences and/ or holding rights such as rights to future services	(h) Accounting advisors

Project milestones

- 13 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Completed (this agenda paper)
Identifying the specific issues to be addressed by the project, including the types of licences and intangibles to be addressed (refining	Staff think that identifying the key issues to be addressed and refining the project scope is likely to require

Major project milestones	Staff comment
project scope), and developing a proposal as to how remaining known concerns could be addressed	a moderate level of staff effort
<p>Develop communications strategy, including:</p> <ul style="list-style-type: none"> • consideration of potential education (if any) after the public issue of any application /implementation guidance; and • presentation of research findings, issues identified and proposals regarding accounting for grant of licences and rights identified as intangible assets to the IASB. 	Staff think this project may a moderate level of effort with respect to communication with stakeholders
<p>Research – accounting practices adopted in other jurisdictions with respect to public sector licences and other intangible assets (e.g. UK, US, Japan, New Zealand, Canada, South Africa), and a literature review. (The research should also assist with the identification of licences as well as other intangible assets)</p>	Staff think this research activity is likely to require a moderate level of staff effort
<p>Research – impact of other existing AASB projects (e.g. Service Concession Arrangements: Grantors), IASB and IPSASB projects and/or decisions</p>	Staff think this research activity is likely to require a moderate level of staff effort
<p>Outreach – engagement with stakeholders and identification of existing approaches to accounting for licences and rights in respect of public sector entities, including consideration of issues (if any) in accounting for intangible assets specific to not-for-profit private sector entities</p>	Staff think this outreach activity is likely to require a moderate level of staff effort
<p>Based on research, analysis and outreach, conducted, development of proposals to address the accounting issues identified in respect of public sector licences within the scope of AASB 15</p>	Involve stakeholders as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
<p>Based on research, analysis and outreach, conducted, development of proposals to address the accounting issues identified in respect of public sector licences outside the scope of AASB 15</p>	Involve stakeholders as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
<p>Based on research, analysis and outreach, conducted, development of proposals to address the accounting issues identified in respect of other public sector specific rights.</p>	Involve stakeholders as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project

Major project milestones	Staff comment
Board decisions in relation to the proposals presented for the alternative approaches to address the accounting issues for: <ul style="list-style-type: none"> • Public sector licences within the scope of AASB 15; • Public sector licences outside the scope of AASB 15; and • Other public sector specific rights. 	Board to determine project direction based on the alternatives presented.
<i>Indicative milestones</i>	
Develop draft Exposure Draft (ED)/guidance	Involve stakeholders to develop guidance that is useful to preparers of financial statements
Board approves draft ED/guidance	Board to determine an appropriate comment period; this may be 60 days
Review of stakeholder feedback on draft ED/guidance	Extent of staff effort will depend in part on the communications strategy
Redeliberations on the draft ED/guidance completed	Staff envisage this should only take 1 – 2 Board meeting unless changes for stakeholder feedback are extensive
Pre-ballot draft circulated for Board comment ⁸	Staff effort will be dependent on Board decisions from redeliberations
Ballot draft issued for voting	Staff effort will be dependent on Board feedback
ED/guidance approved and issued	Minimal additional staff effort involved

Resources required

14 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director/Assistant – Moderate Senior project manager – Moderate Project manager/Assistant/Intern – High
(b) Staffing – research	Research director – Low Project manager/Assistant/Intern – Moderate
(c) Project advisory panel	Staff do not envisage a project advisory panel will be required in respect of this project

⁸ Staff do not consider a fatal-flaw draft of the Amending Standard would be required.

Factors that might add to complexity and length of the project

- 15 The following factors may add to the complexity and length of the project:
- (a) a broadened project scope to that contemplated (e.g. identification of issues specific to the accounting for licenses through outreach for not-for-profit private sector entities to be encompassed in project scope);
 - (b) overlooking some types of public sector specific rights giving rise to divergent accounting practices through initial research and analysis;
 - (c) capacity of stakeholders to respond to outreach in a timely manner;
 - (d) if the issue (in part) has to be raised to the IASB or IFRS Interpretations Committee – this may pause or limit the project; and
 - (e) a wider suite of deliverables than anticipated by this project plan (e.g. preparation of extensive guidance materials).

Related AASB, IASB and IPSASB projects

16 Staff identified the following as current projects where the outcomes of which may affect, or could be affected by, this project:

Source	Project
AASB	<ul style="list-style-type: none"> • Service Concession Arrangements: Grantors • Australian Reporting Framework
IASB	<ul style="list-style-type: none"> • Conceptual Framework
IPSASB	<ul style="list-style-type: none"> • Revenue

Questions for Board members

Q1 Do Board members agree with the proposed project objective and project scope set out in paragraph 6 and paragraph 9?

Q2 Do Board members have any other comments about the proposed project plan?