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| To: | AASB Members | Date: | 22 July 2009 |
| From: | Dean Ardern | Agenda Item: | 8.2 |
| Subject: | IPSASB Exposure Draft ED 40 <i>Intangible Assets</i> | File: | |

Action

Consider the draft submission to the IPSASB on ED 40 *Intangible Assets*, particularly the matters for Board consideration outlined below, and provide staff with directions for finalising the submission to be sent to the IPSASB by 15 August 2009.

Background

At its June 2009 meeting, the Board discussed a number of issues that it considers would be relevant to the IPSASB's redeliberation of the proposals in ED 40. The Board's views on those issues have been incorporated into the draft submission in Agenda Paper 8.2A for this meeting.

Matters for Board Consideration

In preparing the Board's draft submission to ED 40, staff identified the following matters that it considers to be relevant to the Board's deliberations on Agenda Paper 8.2A.

Treatment of revaluation increments and decrements

At its June 2009 meeting, the Board decided that its response to ED 40 should "not specifically comment on the proposal that revaluation increments and decrements in relation to intangible assets should be offset on an asset-by-asset basis because the Board did not disagree with that proposal" [see draft minute item 6, ED 40 *Intangible Assets* (b)(iv)].

While the draft AASB response to ED 40 makes no explicit mention of the proposed treatment of revaluation increments and decrements, the third paragraph of the response could be interpreted as the Board implicitly agreeing with the proposed treatment.

Question for the Board:

Do you agree with the way staff have treated this issue in the draft submission?

Transitional provisions and first-time adoption

At its June 2009 meeting, the Board decided that the submission to the IPSASB should “express disagreement with the proposal that a public sector entity must recognise an intangible item that had previously been expensed and meets the recognition criteria in paragraph 30 of the ED at its cost on initial adoption of the IPSAS developed from ED 40” [see draft minute item 6, ED 40 *Intangible Assets* (b)(v)]. Having reconsidered all of the transitional provisions in ED 40 (paragraphs 140-150), staff note that paragraph 143 of ED 40 contemplates an entity initially recognising an intangible item that had previously been expensed and meets the recognition criteria in paragraph 30 at cost or fair value as at the date of initial recognition in accordance with the IPSAS to be developed from ED 40. While paragraph 143 is under the sub-heading ‘Early Application’, staff assume that it would also apply to public sector entities applying the IPSAS from the effective date. Therefore, staff suggest that the Board’s comment to the IPSASB on the transitional and first-time adoption provisions in ED 40 is along the lines that those provisions should be clarified, rather than expressing outright disagreement with the proposals.

Questions for the Board:

Do you agree with the way staff have expressed the Board’s view on this issue in the draft submission? In the light of paragraph 143 (particularly the second sentence) of ED 40, do you still think this issue warrants a comment in the Board’s submission?

Editorial issues

The penultimate paragraph in the draft Board submission notes that some editorial issues arise with ED 40 and that AASB staff will provide feedback to IPSASB staff on these issues. The AASB does not generally identify editorial issues in its responses to other standard setters’ documents, but on this occasion, given the number of editorial issues, staff think it is worthwhile making the general comment.

Question for the Board:

Do you agree that the submission should include a general comment about editorials?

Paragraph 78(c) of ED 40 – Expenditure on advertising and promotional activities

Paragraph 78(c) of the version of ED 40 highlighting through mark-ups proposed differences from IAS 38 *Intangible Assets* includes text which is incorrectly shown as newly inserted. In the marked-up version of ED 40, paragraph 78(c) appears as follows:

“Expenditure on advertising and promotional activities- (including mail order catalogues and information pamphlets);”

As a part of its 2008 Annual Improvements project, the IASB amended paragraph 69(c) of IAS 38 (which corresponds to paragraph 78(c) in ED 40) to read:

“expenditure on advertising and promotional activities (including mail order catalogues);” (*new text underlined*)

Accordingly, the phrase ‘including mail order catalogues’ should not have been shown as a change from IAS 38 in paragraph 78(c) of ED 40. Consistent with this, the draft AASB submission on ED 40 recommends that paragraph 78(c) be amended by deleting the words ‘and information pamphlets’, thereby making paragraph 78(c) consistent with the wording in paragraph 69(c) of IAS 38.

Note to the Board:

This matter is brought to the Board’s attention for information only.

The term ‘commercial’

At its June 2009 meeting, the Board decided that the submission to the IPSASB on ED 40 should “recommend that, where appropriate, the word ‘commercial’ be replaced by a more apt term or terms, such as ‘normal’, ‘full-scale’ or ‘on-going’ ” [see draft minute item 6, ED 40 *Intangible Assets* (b)(vi)]. However, the Board subsequently decided in that meeting that its submission on the IPSASB’s Exposure Drafts on Financial Instruments should comment that “in IPSAS equivalents to IFRSs, such as the three proposed IPSASs on financial instruments, the IPSASB should retain the expression and style used in IFRSs, rather than tailoring them for the public sector (e.g., to use ‘surplus/deficit’ rather than ‘profit/loss’), because they are understandable in a public sector context” [see draft minute item 6, EDs 37, 38 & 39 *Financial Instruments* ... (b)(vi)]. The staff notes that an implication of the Board’s latter decision is that the Board might want to reassess its decision to propose replacing ‘commercial’ in the IPSAS developed from ED 40.

Question for the Board:

Do you want to omit from the Board’s submission on ED 40 the suggestion to replace ‘commercial’ with a more public-sector-specific term or terms?

Attachment

Agenda Paper 8.2A Draft AASB submission to the IPSASB on Exposure Draft ED 40
Intangible Assets

A copy of ED 40 was included in the agenda papers for the AASB's June 2009 meeting (Agenda Paper 6A.2). Copies are available upon request to dardern@aab.gov.au