



Australian Government

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Ms Stephenie Fox
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CANADA

Dear Ms Fox

Exposure Draft ED 40 *Intangible Assets*

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on Exposure Draft ED 40 *Intangible Assets*.

The AASB supports the IPSASB's programme to update convergence of accrual basis International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards to the extent appropriate for public sector entities. Accordingly, the AASB agrees with the IPSASB's decision to use IAS 38 *Intangible Assets* as the basis for ED 40. The AASB particularly welcomes the release of a version of the ED that highlights proposed differences from IAS 38.

The AASB supports the proposals in ED 40, except for its concerns noted below.

Intangible heritage assets

The AASB disagrees with the proposal in paragraph 10 of ED 40 that a public sector entity be permitted but not required to recognise intangible heritage assets that meet the definition and recognition criteria of an intangible asset in the ED.

The AASB acknowledges that the approach in paragraph 10 is consistent with the optional recognition, under IPSAS 17 *Property, Plant and Equipment*, of items of property, plant and equipment that are heritage assets and meet the criteria for recognition as assets under that Standard. However, the AASB considers that consistency with IPSAS 17 is not a sufficient reason for permitting non-recognition of intangible heritage assets that meet the definition and recognition criteria in ED 40.

The AASB recommends that the IPSAS developed from ED 40 requires purchased intangible heritage assets that meet the definition and recognition criteria of an intangible asset to initially be recognised at cost and, if those assets are acquired for no or nominal consideration, their cost should be measured at fair value as at the date of acquisition.

Expenditure on advertising and promotional activities

The proposed requirement in paragraph 78(c) of ED 40 that expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets) be recognised as an expense when incurred is potentially inconsistent with the requirement in IPSAS 12 *Inventories* to recognise as an asset inventory held for distribution in the ordinary course of operations.

Under paragraph 78(c) of ED 40, the cost of, for instance, anti-smoking information pamphlets held for free distribution by an Education Department would be recognised as an expense by the Department when it has a right to access the pamphlets. However, under IPSAS 12, the cost of the same information pamphlets would be capitalised and recognised as an asset by the Department when it has a right to access the pamphlets, and recognised as an expense when the pamphlets are distributed.

To avoid confusion and the potential misapplication of the proposals in ED 40, the AASB considers that either or both ED 40 and IPSAS 12 should be amended to remove this potential inconsistency. One way in which this potential inconsistency could be removed is by:

- (a) deleting the words ‘and information pamphlets’ from paragraph 78(c) of ED 40, thereby making paragraph 78(c) consistent with paragraph 69(c) of IAS 38; and
- (b) amending paragraph 5(a) of ED 40 (which scopes out of the Standard intangible assets held by an entity for sale in the ordinary course of operations) to read “Intangible assets held by an entity for sale or distribution in the ordinary course of operations”.

Transitional provisions on early application and first-time adoption

Paragraph 143 of ED 40, which seems to provide guidance on paragraph 140(c), appears to indicate that an entity applying the Standard early would:

- (a) initially recognise as an asset an intangible item that had previously been unrecorded or expensed and meets the recognition criteria in paragraph 30 of the ED; and
- (b) initially measure that asset at fair value when the item had been acquired at no cost, at a nominal cost or when its cost of acquisition is not known.

However, because paragraph 143 is located under the sub-heading ‘Early Application’, it is not clear from the ED whether equivalent requirements would apply in respect of the same types of intangible items when an entity adopts the Standard from the effective date. It would seem logical for this rule to apply regardless of whether the IPSAS is adopted early.

Accordingly, the AASB considers that the transitional provisions in ED 40 should be amended to clarify the circumstances in which, on first-time adoption of the Standard, an entity might measure at fair value as at the date of initial recognition an intangible item that previously had been unrecorded or expensed but currently meets the Standard’s criteria for recognition as an intangible asset. The AASB recommends that the IPSAS developed from ED 40 requires that:

- (a) when an intangible item had previously been unrecorded or expensed but meets the recognition criteria for an intangible asset; and

- (b) the intangible asset's cost was nil, nominal, cannot be reliably measured or would be impracticable to determine,

the asset's fair value be used as its deemed cost as at the date of first adopting the IPSAS.

The power to grant rights and the power to tax

Although the AASB supports the proposal in paragraph 4(f) that the power to grant rights and the power to tax should be scoped out of the IPSAS developed from ED 40, it disagrees with the inclusion of the assertion in paragraph BC3 of the Basis for Conclusions that both powers are excluded from the scope of the ED because neither satisfies the criteria for recognition as an asset.

As the IPSASB has not yet deliberated this issue in its Conceptual Framework project, the AASB considers it premature for the IPSASB to make an assertion about this issue. Accordingly, the AASB recommends that the IPSASB clarifies in the Basis for Conclusions to the IPSAS developed from ED 40 that these powers are outside the scope of the Standard, pending consideration in the IPSASB's Conceptual Framework project of whether they meet the definition of an asset and meet the criteria for recognition as an asset.

The term 'commercial'

The term 'commercial' appears a number of times in ED 40 in relation to development activities [for instance, on page 17 and in paragraph 68(c)]. However, some public sector not-for-profit entities might be involved in development activities that lack a commercial focus. Accordingly, given that ED 40 is intended to be applied in a public sector not-for-profit context, the AASB queries whether the word 'commercial' should be replaced with a more generic term or terms, such as 'commissioned' or 'planned'.

Drafting and editorial issues

The AASB notes that the interrelationship between ED 40 and IPSASB ED 41 *Entity Combinations from Exchange Transactions* gives rise to a potential drafting issue. The AASB recommends in its submission on ED 41 that the scope of the IPSAS developed from ED 41 should include entity combinations from non-exchange transactions that are not excluded from the scope of IFRS 3 *Business Combinations*. Accordingly, the AASB recommends removing 'from an exchange transaction' from each reference made to an entity combination in the IPSAS developed from ED 40.

The AASB notes that some editorial issues arise with ED 40. AASB staff will provide editorial suggestions on ED 40 directly to IPSASB staff.

If you have any queries regarding any matters in this submission, please contact Dean Ardern (dardern@asb.gov.au) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin M. Stevenson', with a long horizontal flourish extending to the right.

Kevin M. Stevenson
Chairman