15 May 2009

Mr Ian Mackintosh
Chairman
National Standard Setters
By email: asbcommentletters@frc-asb.org.uk

Dear Ian

NSS Discussion Paper *Initial Accounting for Internally Generated Intangible Assets*

Thank you for the opportunity to comment on the NSS Discussion Paper *Initial Accounting for Internally Generated Intangible Assets* (DP). CPA Australia, The Institute of Chartered Accountants in Australia (Institute) and the National Institute of Accountants (NIA) (the Joint Accounting Bodies) welcome the publication of this DP and support the NSS in striving to improve the relevance of the financial statements through this review of accounting for internally generated intangible assets.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Conceptually we agree that all assets that meet the definition and recognition criteria in the Framework for the Preparation and Presentation of Financial Statements (Framework) should be recognised in the balance sheet and measured consistently. This is essential to the relevance and understandability of financial reporting. Accordingly we endorse the desire of the NSS that ultimately the IASB improve the standards on intangible assets such that these assets are recognised consistently whether internally or externally generated and regard this DP as a valuable step in achieving this aim. We also support the view that recognising intangible assets at fair value, both at initial recognition and at each reporting date, provides users of the financial statements with the most relevant information.

In the short term we question whether the issues in the DP can or should be developed into an accounting standard. Our primary concerns centre on whether the benefits of recognising internally generated intangible assets outweigh the costs of obtaining or calculating reliable valuations, and consequently whether entities would commit sufficient resources to value the assets reliably.

The DP argues that internally generated intangible assets can be identified and measured at fair value for financial reporting purposes on the same basis as when allocating the cost of a business combination based on estimated fair value. We believe more work needs to be conducted on whether allocating the costs of a business combination results in reliable valuations. We also note that accounting under IFRS 3 *Business Combinations* has the purchase consideration as the starting point. In the absence of this amount for internally generated intangible assets we question the cost/benefit of calculating the values and therefore the resulting reliability of the valuations. We also question whether entities would commit the same level of resources to determining a value for internally generated intangible assets for reporting purposes as they do for an acquisition.

We commend the DP for its valuable insights into recognition and measurement of assets and recommend that any amendments for the initial accounting for internally generated intangible assets should be adopted in conjunction with a wider review of the ongoing accounting issues for intangible assets. This particularly applies to determining a consistent measurement basis for intangible assets.

As stated above, we agree the recognition criteria in the Framework should be the basis for recognising all intangible assets, rather than recognition depending on how the asset arose as is currently required by IAS 38 *Intangible Assets*. However, many issues discussed in the DP are not unique to internally generated intangible assets. Accordingly we believe a review of the Framework and further development of its concepts should precede the further development of accounting for intangible assets. For example, the DP suggests the Framework recognition criteria of probable future benefits could be based on gross benefits rather than the more usual interpretation of net benefits. This interpretation is fundamental to the recognition of assets in general and we recommend this discussion should be part of a wider discussion of the Framework.

We note the DP recognises the cost/benefit problems of applying the IFRS 3 criteria to all internally generated intangible assets and discusses and rejects more pragmatic recognition techniques, such as recognising an internally generated intangible asset only when there is an indicator this exists. We agree that the more pragmatic approaches suggested are not appropriate, as we do not regard these as a significant improvement on existing practice.

On the issue of presentation and disclosure, we agree conceptually that disclosure-only reporting is not an appropriate response to overcoming the current recognition and measurement issues with internally generated intangible assets. However, given our comments above the standard setters could consider requiring disclosure of the fair values of intangible assets, whether recognised or not, while the issues outlined in the DP and above are being considered and developed. This is subject to any additional disclosure being concise and meaningful. Given the debate over internally generated intangible assets is in its early stages, especially relating to reliability, auditing any disclosures would be problematic and therefore costly and without an established benefit for the users of the financial statements. Accordingly we suggest any disclosures be included in the Management Commentary rather than the audited notes to the financial statements.

If you have any questions regarding this submission please contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (Institute), at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

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