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Department of Treasury and Finance

The Treasury Building
21 Murray Street, HOBART, Tas 7000
GPO Box 147, HOBART, Tas 7001 Australia
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755
Email: secretary@treasury.tas.gov.au Web: www.treasury.tas.gov.au

Tasmania

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
MELBOURNE Vic 8007

Dear ~~Mr Porter~~ Bruce

INITIAL ACCOUNTING FOR INTERNALLY GENERATED INTANGIBLE ASSETS

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on the Discussion Paper *Initial Accounting for Internally Generated Intangible Assets.*

Overall, HoTARAC is in agreement with the International Accounting Standards Board and the US Financial Accounting Standards Board that there are higher priority issues that require the attention of the accounting standard-setters, rather than addressing the perceived short-comings in the current intangible assets Standard.

HoTARAC considers that the current accounting requirements for intangible assets are sufficient and would be hesitant to support any softening of these accounting requirements. If further work is conducted in this area, HoTARAC believes consideration should be given to extending the AASB 138 *Intangible Assets* asset definition to include service potential in line with the *Framework for the Preparation and Presentation of Financial Statements.*

The not-for-profit sector has been excluded from the scope of the Discussion Paper as it was considered that the inclusion of this sector could result in the Paper becoming unmanageable. HoTARAC is of the opinion that this is not an adequate reason to exclude this sector. Whilst HoTARAC agrees that the sector has its own unique issues, such as accounting for emission rights and water rights, HoTARAC does not agree that including the not-for-profit sector would have made the paper unmanageable.

HoTARAC notes the Discussion Paper's concerns regarding unplanned internally generated intangible assets, but considers current subsequent accounting requirements, which allow entities to eventually recognise unplanned intangible assets and intangible assets acquired at no cost, to be sufficient. HoTARAC is concerned that finding an "active market" may be subjective, and as a consequence, could result in misleading information for users of financial reports.

HoTARAC is concerned that the capitalisation of research expenditure may create opportunities for entities to over capitalise, such as in situations where it is unknown if a project will be successful or will enter the development phase. HoTARAC considers that caution needs to be taken if there is a move away from current Standards.

HoTARAC does not agree that the knowledge of "unsuccessful projects" should give rise to recognition of intangible assets. The danger in softening the current Standard is that entities can capitalise freely and thus overstate assets in financial statements, consequently misleading users. It would be very difficult to determine what benefits knowledge of an unsuccessful project would yield, or the potential costs which could be averted with the knowledge acquired from the failed project. Further, knowledge of unsuccessful projects might be based on statistical analysis, which might not be adequate, in many cases, for assessing the likely success of an individual project.

HoTARAC advises caution and conservatism when considering additional disclosure on top of AASB 101 *Presentation of Financial Statements*. HoTARAC considers that providing too much information in the Notes may be ambiguous and cause confusion to users of financial statements.

HoTARAC agrees that any conclusions in regards to fair value measurement should be subject to the outcomes of the IASB-FASB Fair Value Measurement Project.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Government's Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

Don Challen

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

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Contact: David Tadd
Phone: 03 6233 2515
Our Ref: D/ 14423 SW/DT