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Mr Ian Mackintosh
Chairman
National Standard Setters Group
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Dear Ian

Discussion Paper *Initial Accounting for Internally Generated Intangible Assets*

The Australian Accounting Standards Board (AASB) commends the National Standard Setters Group for supporting the publication of the Discussion Paper, and is pleased to provide comments. In doing so, the AASB has focused on what it believes is the further research that needs to be undertaken in relation to the broad conclusions in the Discussion Paper rather than specifically commenting on each conclusion.

Accounting for intangible assets has been a controversial topic for many years and it is timely to fundamentally review the main current standard, IAS 38 *Intangible Assets*. Given the growing significance of intangible assets to businesses and their increasing relevance to users of general purpose financial statements, the AASB encourages a global approach to improving accounting guidance on this topic. Despite the narrow scope and conceptual focus of the Discussion Paper, the AASB considers that it may provide a useful starting point for a comprehensive review of the accounting for intangible assets.

The AASB acknowledges that a standard based on the Discussion Paper would substantially and radically change current accounting requirements. Therefore, prior to considering whether to adopt the views expressed in the Discussion Paper, the AASB thinks that the accounting for intangible assets should remain in the research phase until the ideas are further tested for both conceptual and practical issues in a broader context. Accordingly, the AASB suggests undertaking further research in the following order of priority.

- (a) Given that (1) the Discussion Paper relies heavily on the principles in IFRS 3 *Business Combinations* for the initial identification, recognition and measurement of intangible assets acquired in a business combination; and (2) IFRS 3 has been the subject of some criticism, there should be a comprehensive post-implementation review of the pertinent requirements in IFRS 3. The review should include consideration of the appropriateness of the definition of intangible assets, the definition of goodwill compared with the definition of intangible assets and the extent to which the distinction between the two can be made clearly in practice. It should also include an assessment of whether users find financial

information in regard to intangible assets under IFRS 3 useful for decision making. In order to make the review process more relevant and up-to-date, it should be undertaken in the light of the emerging Conceptual Framework that is being jointly developed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).

- (b) Because the Discussion Paper primarily focuses on the conceptual aspects of the issues, a more detailed cost-benefit analysis should be undertaken from a practical perspective. Its purpose should be to determine whether the benefits of improved financial reporting to users put forward in the Discussion Paper outweigh the implementation and ongoing costs of preparation and audit. The analysis could include field testing a model based on the views in the Discussion Paper, after having regard to the findings from the post-implementation review of IFRS 3 as described in (a) immediately above. It should also include extensive consultation with users.
- (c) Given the Discussion Paper's narrow focus on initial accounting for internally generated intangible assets, research should be undertaken into the full range of issues that are not addressed in the Discussion Paper. Specifically, the AASB notes six additional broad areas of interest: (1) the initial accounting for intangible assets that are separately acquired; (2) the initial accounting for intangible assets that are acquired by way of a government grant; (3) the initial accounting for intangible assets that are acquired in a group of assets or net assets that is not a business; (4) the subsequent accounting for intangible assets, irrespective of the manner by which they arise; (5) specific issues that might arise in accounting for intangible assets by not-for-profit private sector entities; and (6) specific issues that might arise in accounting for intangible assets by public sector entities. Among these six areas, the AASB considers area (4) to be the most important and relevant; therefore, it should be given a higher priority. This is because resolution of initial accounting issues should not be determined without regard to the implications for subsequent accounting, including performance reporting issues.

The AASB acknowledges that the above research would take some time to complete. Although in the interim improvements in current recognition and measurement requirements could be initiated, the AASB is concerned that this would not be sufficient to overcome the fundamental shortcomings of the current requirements. Devoting resources to make such incremental changes would inevitably delay finding a longer-term more appropriate solution. However, while the research described in (a) – (c) above is being undertaken, the AASB thinks that the inadequacy of the current disclosure requirements needs to be urgently addressed. Accordingly, the AASB considers there is merit in investigating ways of improving disclosure requirements for intangible assets. The nature of that investigation should not be constrained by the existing disclosure requirements, but should be considered from first principles.

Finally, the AASB encourages all the national accounting standard-setters and related organisations to participate in the international debate and ongoing research on various issues identified by the Discussion Paper and beyond. The AASB is willing to participate in the ongoing research.

If you have any queries regarding any matters in this submission, please contact me or Robert Keys (rkeys@asb.gov.au).

Yours sincerely

A handwritten signature in cursive script, appearing to read "Bruce Porter".

Bruce Porter
Acting Chairman