27 March 2009

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

Dear Mr Mackintosh

Initial accounting for internally generated intangible assets

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with a purpose of advancing Australia's financial competitiveness.

The G100 has advocated reform of accounting for intangible assets for several years and first developed a Statement of Principles on Intangible Assets in 1994. While disappointed with the lack of progress in dealing with the issues by the IASB, the G100 is pleased that the National Standard Setters are addressing the issues. However, although the Discussion Paper deals with a small but significant aspect of accounting for intangible assets it is an important step towards the development of an Accounting Standard.

The Group of 100 believes that:

- there should be a consistent accounting treatment for intangible assets. As a general principle all non-monetary assets (both tangible and intangible) should be treated in the same way. As with other assets, intangible assets should be treated uniformly irrespective of whether recognition and measurement derives from event-driven activities such as initial public offerings, privatisations or business combinations or whether the asset is internally generated/self-constructed;

- the lack of a consistent approach to accounting for intangible assets on a global basis erodes the credibility and comparability of financial reports and the credibility of the accounting profession. This is particularly the case where entities possessing the same or similar characteristics and assets are treated differently; and

- the use of additional note disclosure as a method of reporting intangible assets is not an adequate substitute for recognition given that disclosure and recognition have differing impacts on users' perceptions and the measurement of ratios and other variables including key performance indicators.

The G100 is of the view that in respect of initial recognition and measurement:

- An asset must be recognised where the expenditures made satisfy the definition of an asset and meet the criteria for recognition of an asset.

  Under the 'Framework for the Preparation and Presentation of Financial Statements', paragraph 49(a), an asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. The Framework indicates that the future economic benefits embodied in an asset may flow to the entity in a number of ways including its use singly or in combination with other assets in the production of goods or services to be sold by the entity, its exchange for other assets, its use to settle a liability or distribution to the owners of the entity.

  The Framework specifies that an asset is recognised when it is probable that any future economic benefits associated with the asset will flow to the entity and the asset has a cost or value that can be measured with reliability.

  The G100 believes that internally generated intangible assets should be accounted for consistently with the Framework.

- Intangible assets should only be recognised when they can be measured reliably and it is probable that future economic benefits associated with the asset will flow to the enterprise. To satisfy this criteria it is necessary that :

  ~ the role performed by the intangible asset will enhance the economic benefits which will flow to the entity in the future; and

  ~ the entity will be in a position to enjoy those benefits.

- Intangible assets should be initially recognised at cost as defined in AASB 138/IAS 38 when acquired either individually or by way of business combination, by way of contribution or internally generated. It is noted that for intangible assets recognised in a business combination and those received by way of contribution the initial recognition at cost is determined by reference to fair values. AASB 138/IAS 38 define cost as the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other Standards.

  The G100 considers that if fair values are required to be used to determine the cost of an intangible asset acquired in a business combination it is also acceptable to use fair values to determine the initial carrying amount of intangible assets.

In a principles-based standards regime the application of principles relating to the recognition and measurement of assets should be the same for all types of assets whether they are tangible or intangible, acquired or internally developed/constructed by the entity.

Yours sincerely

Tony Reeves
National President