



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor  
New York, New York 10017  
Internet: <http://www.ifac.org>

Tel: (212) 286-9344  
Fax: (212) 286-9570

**Agenda Item**  
**7**

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**DATE:** August 31, 2009  
**MEMO TO:** Members of the IPSASB  
**FROM:** Joy Keenan  
**SUBJECT:** Intangible Assets

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**OBJECTIVES OF THIS SESSION**

- To **consider** responses to the May 2009 Exposure Draft, ED 40, *Intangible Assets*;
- To **discuss** views and options as to how to address respondents' concerns on major issues; and
- To **agree** the next steps to complete the project.

**AGENDA MATERIAL**

- 7.0 Objectives, Overview and Analysis of Key Issues
- 7.1 Response Booklet (previously distributed material)
- 7.2 Respondents' Comments Regarding Key Issues (Cut and Paste)
- 7.3 Breakdown of Respondents (by Geographic Location, Function and Language)

**BACKGROUND**

Project History

This project was commenced to develop an IPSAS on intangible assets for the public sector. The project was assessed under the "Rules of the Road" and the determination made that an IPSAS could be developed that would be converged with IAS 38, "Intangible Assets."

1. The IPSASB considered draft ED wording at the Zurich meeting in October 2008 and at the Paris meeting in February 2009. In February, it was considered together with ED 41, *Business Combinations from Non-Exchange Transactions* (see Agenda Item 8). The IPSASB approved IPSAS XX, ED 40, *Intangible Assets*, out of session, and issued the ED on May 7, 2009. The comment period expired on August 15, 2009.
2. The ED reflected the IPSASB's decision that the proposed IPSAS would not consider powers to grant rights and to tax. It included guidance on heritage assets and transitional provisions consistent with IPSAS 17, *Property, Plant and Equipment*, public sector examples, guidance from SIC Interpretation 32 (SIC-32), *Intangible Assets – Web Site Costs*.

3. As at August 28, 2009 a total of 18 responses to the ED were received. An analysis of key issues raised by respondents is included in this Agenda Paper (AP). A cut-and-paste analysis of the respondents' comments on the main issues is included as **AP 7.2**. Analyses of respondents by geographic location, function and primary language is provided at **AP 7.3**. Copies of the full responses were provided to Members previously as **AP 7.1**.

#### Overall Summary

4. ED 40 contained the following Specific Matters for Comment.

Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:

  - Necessary in the circumstances?
  - Appropriately reflected in the revised wording?
5. Respondents' comments indicate that there is support for finalizing the intangible assets standard. Specific support for the ED was expressed by respondents #2, 5, 6, 9, 13, 14, 15 and 18. Respondent #17 expressed conditional support. Respondents #7, 11, 12, expressed agreement with the matters for comment noted above. Respondents # 3, 4, 8, 10, did not explicitly express support. Respondents # 1 and 16 were not supportive of the ED.
6. Based on the responses received, staff believes the key issues that need to be discussed by the IPSASB are as follows:
  - The objectives and scope of the proposed standard;
  - Transitional provisions;
  - Certain measurement issues; and
  - The need for specific guidance on heritage assets.
7. As with all summaries, judgment was required to classify responses and to draw out major points made by respondents. While staff have attempted to identify key extracts from each submission, in many cases an extract does not do justice to the full response. The analyses in the agenda papers provided should therefore be read in conjunction with the submissions themselves.
8. Because the comment date for ED 40 ended on August 15, 2009, analysis of the other issues that respondents have raised has not been presented. These issues include suggestions for additional guidance and matters of an editorial nature. This analysis will be completed and sent to Members subsequent to the September 2009 meeting.

## KEY ISSUES

### Objectives and Scope

- 9.01 Respondents raised comments on various aspects of the objectives and scope of the project.
- 9.02 Respondents #5, 6, 7, 11, 12, 14, 15 expressed agreement with the matters for comment noted above (see item 4), which addressed the scope inclusions and exclusions. Clearly defining the scope of the project is important to ensuring its consistent application in practice.
- 9.03 *Powers to grant rights and to tax*

Respondents #1, 2, 4, 10, 13, 16 and 18 made various comments on the explicit exclusion of powers to grant rights and to tax.

- (a) Respondent #4 noted that this exclusion reduces the proposed standard's usefulness to the public sector—"the current exposure draft leaves unanswered subjects of prime importance for States' financial statements. Its scope and its usefulness remain therefore very modest for now, given also the fact that several national accounting standards have already integrated most of IAS 38 provisions for evaluating and recording intangible assets."

**Analysis:** Staff notes this comment; however, the IPSASB had previously agreed to reconsider this issue in light of the public sector Conceptual Framework once that framework is complete. No change is recommended.

- (b) Respondent # 9 supports the stated exclusion; but suggested that the ED should specifically address the question of rights created, sold and repurchased by a government and give guidance on whether they would qualify as intangible assets and, if so, how they should be recognized and measured from the issuing government's perspective. That respondent noted that consideration should be given to the guidance in SNA 2008 with respect to the distinction between taxes and fees and the guidance provided in relation to when a licence becomes an asset of/to the issuer.

**Analysis:** Staff notes that rights created would need to be assessed as "internally generated intangible assets" in accordance with paragraphs 60-76 of ED 40. If created rights do not satisfy the definition of an intangible asset (paragraph 21) and recognition criteria (paragraph 30), costs to develop them would be expensed as incurred. If they do satisfy the definition and recognition criteria, they would be accounted for in accordance with ED 40. Repurchased items would be assessed as any other purchased intangible item and expensed if they do not satisfy the definition and recognition criteria, and accounted for in accordance with ED 40 if they do satisfy the definition and recognition criteria. No change is recommended.

- (c) Respondent #12 suggested additional explanations should be provided in the Basis for Conclusions to explain why the IPSASB has concluded that the power to grant rights and the power to tax does not meet the definition of an asset.

ED40.BC3 reads as follows:

The IPSASB has concluded that the power to grant rights and the power to tax do not satisfy the specified criteria for recognition as an intangible asset. Therefore, such powers are outside the scope of IPSAS XX (ED 40). The IPSASB is currently undertaking to develop a conceptual framework, which may change the definition of an asset. Accordingly, the IPSASB will reconsider, if necessary, the applicability of this Standard to the power to grant rights and the power to tax, when the IPSASB conceptual framework standard that defines the financial statement elements is issued.

**Analysis and staff recommendation:** The IPSASB needs to consider this comment to clarify the position in the Basis for Conclusions in light of the comments of Respondent #4's above and #16 below. Staff notes that the BC3 wording is a compromise between some on the IPSASB who hold the view that such items do not meet the extant definition of an asset in IPSAS 1, and some who believe they may, but would not satisfy the recognition criteria. On the basis of IPSASB's earlier decisions, and the reasons for them, no change is recommended.

- (d) Respondent #18 agreed with the exclusion, but not the explanation in BC3, which indicates that both powers are excluded from the scope of the ED because neither satisfies the criteria for recognition as an asset. The respondent 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.

**Analysis and staff recommendation:** This comment should be considered with the comment in BC3 above, as it is the opposing view to clearly indicating why they don't meet the definition of an asset.

- (e) Respondent #16 contends that these powers should remain excluded from the proposed standard because many rights of governments, other than the power to grant rights, are infinite and immeasurable and should be specifically prohibited from recognition in a government's financial statements.

**Analysis and staff recommendation:** Staff recommends this comment be considered in the Conceptual Framework Phase 2 paper.

- (f) Respondents #2 and 12 indicated that the exclusion stated in paragraph 2 of ED 40 should not be in the objectives. Respondent #12 suggested it follow the other scope exclusions as additional guidance.

**Analysis and staff recommendation:** The IPSASB debated where this exclusion should appear at length, and this wording was a compromise. Placing this scope exclusion apart from those in paragraph 4 was intended to convey that this issue is different from other scope exclusions—the IPSASB wanted it to be clear from the outset that such items were not addressed in the proposed standard. The IPSASB needs to reassess its position on this issue.

**Questions for IPSASB – Powers to Grant Rights and to Tax:**

1. Do you agree that no change is necessary to the scope of ED 40 to address respondents' concerns on the basis that the IPSASB has agreed to consider powers to grant rights and to tax as it develops the public sector Conceptual Framework, on the basis that there are diametrically opposed views on the matter?
2. Do you agree with the explanation stated in BC3 that such powers do not meet the definition of an asset in IPSAS 1? If so, do you believe it is necessary to better explain that the rationale for position in the Basis for Conclusions?
3. Do you agree that the scope exclusion should be moved from the objective section of ED 40?

9.04 *Emissions Trading Schemes*

Respondents #1, 2, 4, 9, 10 commented on the exclusion of emissions trading schemes, which were included in the scope of the project brief. Respondent #4 indicated that excluding these intangible assets also reduces the proposed standard's usefulness. Respondent #9 pointed out that it would be useful to users if IPSASB was to provide some guidance and discussion on what future considerations and direction, if any, the Board has in relation to this issue and that the IPSASB may also want to consider modifying the scope of ED 40 to exclude such arrangements.

**Analysis and staff recommendation:** An earlier draft of the ED had included an example on emissions trading schemes; however it was deleted in the draft reviewed in Paris based on a comment that the issue of whether emissions trading credits are financial assets or intangible assets. Likewise, the IPSASB had not determined it necessary to comment on this matter in the Basis for Conclusions. No change is recommended.

**Question for IPSASB – Emissions Trading Schemes:**

Do you agree that no change is necessary to address these comments?

9.05 *Intangible assets acquired in an entity combination from a non-exchange transaction*

Respondent # 5 and 13 agreed with the scope exclusion for intangible assets acquired in an entity combination from a non-exchange transaction. Respondents #1, 4 and 10 indicated such transactions should be addressed in this standard for it to be useful.

**Analysis and staff recommendation:** This issue is cannot be determined in isolation. It is intended that the proposed standard would be subject to consequential amendments when the IPSASB completes its current project dealing with entity combinations from non-exchange transactions. No change is recommended.

**Question for IPSASB – Intangible Assets Acquired in an Entity Combination from a Non-Exchange Transaction:**

Do you agree that no change is necessary to address these comments?

Transitional Provisions

10.01 Paragraphs 140-150 of ED 40 contained guidance for adoption of the proposed standard in two cases:

- First-time adoption of the standard by an entity that applies the accrual basis of accounting; and
- Adoption of the standard by an entity that is adopting accrual accounting for the first time.

See Appendix 2 for the wording of ED 40.140-150.

10.02 Respondents #2, 5, 9, 13, 14 and 18 commented on these transitional provisions.

10.03 *First-time adoption by an entity that applies the accrual basis of accounting*

Guidance on this issue is in paragraphs 140-144 of ED 40, and is based on IAS 38. Respondents #2, 5, 13 and 14 expressed concerns about the inconsistency between paragraphs 140 (b) and (c). It was noted that while paragraph 140(b) requires prospective application, paragraph 140(c) contradicts this requirement and require retrospective application.

**Analysis:** Paragraphs 140(a) and (b) are consistent with IAS 38. The IAS 38 provisions assume that the predecessor IAS dealing with intangible assets had been applied to intangible items in existence when such assets were acquired and the transitional provisions reflect that assumption.

Paragraph 140(c) was added by the IPSASB to address the concern that there was no previous IPSAS for intangible assets. Paragraph 140(c) requires entities to reassess intangible items acquired prior to the issuance of the proposed IPSAS to determine whether they should be recognized under the proposed IPSAS. As Respondent #13 rightly points out, this is retrospective application. In addition, paragraph 144 refers to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires retrospective application unless it is impracticable. However Respondents #2 and 15 point out that IFRS 1.BC70 permits retrospective application only for intangible assets for which reliable cost data are available, and that the requirements in paragraph 140(c) are therefore inappropriate in a converged standard.

The rationale for prospective application in IAS 38 is set out in the Basis for Conclusions. IAS 38 BC97 presents the following argument against retrospective application:

Such an assessment requires an entity to make estimates that would have been made at a prior date, and therefore raises problems in relation to the role of hindsight, in particular, whether the benefit of hindsight should be included or excluded from those estimates and, if excluded, how the effect of hindsight can be separated from the other factors existing at the date for which the estimates are required.

IAS 38 BC99 also notes with respect to this “hindsight” issue, that:

In addition, such assessments could, in many cases, be impossible: the information needed may not exist or no longer be available.

These circumstances may also exist in trying to satisfy the requirements of paragraph 140(c).

#### IPSAS 3.24(a)

Prospective application would be inconsistent with IPSAS 3 requirements. Requiring retrospective application in all cases would be consistent with IPSAS 3 requirements, but inconsistent with IAS 38 and IFRS 1 requirements. Regardless of whether the IPSASB determines that prospective or retrospective application is appropriate, this section needs to be internally consistent.

**Staff recommendations:** Staff recommends that the IPSASB determine whether either prospective or retrospective application should be required for first-time adoption of the standard by entities that use the accrual basis of accounting. In doing so, it will need to reconsider whether paragraph 140(c) is appropriate, particularly given that it has been noted previously in IPSASB discussions (see also Respondent # 4) that many governments have been applying IAS 38 in the absence of an IPSAS on intangible assets, in which case it would be sensible to follow a consistent approach to IAS 38. In addition, guidance consistent with IFRS 1.BC70 could be provided to allow retrospective application only if reliable cost information is available. The rationale for the basis chosen would need to be explained in the Basis for Conclusions.

10.04 *First-time adoption of the accrual basis of accounting*

The IPSASB agreed that it was necessary to provide guidance for first-time adoption of the accrual basis of accounting as a means to facilitate adoption of the accrual basis IPSASs. That guidance is provided in paragraphs 145-150, and is based on IPSAS 17.

Respondent #15 suggests clarification and additional guidance because the provisions of paragraph 146 may cause the unintended result that organizations moving from a cash basis (or modified cash or modified accruals) will not be able to recognize purchased and internally generated intangibles assets involving past costs that have been expensed because of the prohibition in paragraph 81 (see Respondent #15, comment 14). Respondent #9 suggests using the phrase, “fair value as deemed cost” from IFRS 1 as a means of transitioning from the cash basis to the accrual basis of accounting.

**Analysis:** Paragraph 81 of ED 40 (IAS 38.71) is intended to apply when an intangible item is not recognized because it does not satisfy the criteria for recognition noted in paragraph 77 of ED 40 (IAS 38.68), and not because the entity had not adopted the accrual basis of accounting.

Respondent #15 suggests adding wording following paragraph 82 which would mirror the transitional provisions. Staff supports the need for guidance; however, not as an amendment the principle in paragraph 81.

Paragraph 81 is part of the section entitled “Recognition of an Expense” (ED 40.77-81). Paragraph 77 requires expenditure on an intangible item to be expensed unless it forms part of the cost of an intangible asset that meets the recognition criteria. The examples of items expensed provided in paragraph 78 relate to start-up activities, training, advertising and promotional activities and reorganization. Staff believes the context of paragraph 81 is clear based on the guidance in paragraphs 77-80 of ED 40. Nevertheless, additional guidance could clarify how it relates to the transitional provisions (see suggested wording in staff’s recommendation, below).

In considering Respondent #15’s comments (see comments 12 and 13 in AP 7.2), staff notes that some of the suggested text (see comment 13, P1 and P2 in AP 7.2) is in paragraphs 143 and 144. In IPSAS 17, the paragraphs on which paragraphs 143-144 are based would follow paragraph 147 of the ED. Reorganizing this section of the ED to make them consistent with the relevant paragraphs in IPSAS 17 would also address Respondent #18’s concern that these paragraphs do not apply to “Early Adoption.”

Respondent #15’s suggestion to refer to the recognition requirements (see comment 13, P3 at AP 7.2) would require reinstating a paragraph consistent with IPSAS 17.100, which the IPSASB had previously deleted on the basis that it is redundant. The IPSASB needs to confirm its earlier decision regarding this



paragraph. If reinserted, it would be immediately preceding existing paragraph 148 of ED 40.

With respect to Respondent #15's comment (see comment 13, P3(c) at AP 7.2), staff notes that combining that guidance with the recognition criteria might create confusion regarding the recognition criteria on an ongoing basis—the transitional provisions only apply at initial adoption. Further, this addition would create an inconsistency with IPSAS 17.100. The IPSASB needs to consider whether this addition is appropriate in this standard.

**Staff recommendations:** Guidance on the relationship of paragraph 81 and the transitional provisions should be provided in a separate paragraph (modified from Respondent #15's comments) as follows:

Paragraph 81 applies in cases when an entity has previously assessed whether intangible items should be recognized as intangible assets under IPSAS XX (ED 40), "Intangible Assets," or a relevant international or national accounting standard that deals with intangible assets that applies recognition criteria consistent with those in paragraph 30. It is not intended to apply when the entity first adopts this Standard.

The text above does not specifically refer to cases covered in the transitional provisions because this might create confusion regarding the recognition criteria for transactions that occur subsequent to initial adoption, of the types noted in paragraph 78.

Staff recommends that paragraphs 143-144 be moved to follow paragraph 147 to realign them with the structure of IPSAS 17.

Staff does not recommend further changes to these paragraphs, as they are consistent with IPSAS 17.

10.05 If the staff recommendations in 10.03 and 10.04 are accepted, the revised structure of the transitional provisions would be as follows:

- Paragraph 140(a) and 140(b), consistent with IAS 38
- New guidance on exemption from prospective application in limited circumstances per IFRS 1 BC70
- ED 40, paragraphs 141-142
- ED 40, paragraphs 145-147
- ED 40, paragraphs 143-144
- Wording suggested by respondent #15, P3(a) and (b), consistent with IPSAS 17.100
- ED 40, paragraphs 148-150

**Questions for IPSASB:**

1. Should the transitional provisions for first time adoption of this standard by an entity that follows accrual accounting be on a prospective or a retrospective basis?
2. Do you agree with the proposed changes to the provisions for first-time adoption of the accrual basis of accounting, to re-align them with the provisions in ISPAS 17?

Measurement Issues

- 11.01 ED 40 requires initial measurement of intangible assets at cost if acquired in an exchange transaction, and at fair value if acquired through a non-exchange transaction. Subsequently intangible assets are carried at cost less accumulated amortization (cost model), or at a revalued amount if their fair value can be measured reliably (revaluation model).
- 11.02 Respondents #1, 4, 10, 12, 15 and 16 commented on various aspects of the measurement requirements.
- 11.03 Respondent #12 commented on aspects of the relationship between ED 40 with IPSAS 21 and IPSAS 26. Respondent #4 notes that reference to an active market when measuring fair value seems to restrain practical application to a very limited number of situations and suggests that this provision of the exposure draft should be revised to better reflect the constraints of the public sector. Respondent #15 commented on various aspects of the treatment of intangible assets acquired through a non-exchange transaction. Respondent #16 indicates that revaluation should not be permitted—all intangible assets should be measured at amortized cost and assessed for impairment.
- 11.04 *Relationship between ED 40 and IPSAS 21 and IPSAS 26*
- (a) Respondent #12 highlights an existing inconsistency between IPSAS 26, Impairment of Cash-Generating Assets, and IAS 36, Impairment of Assets, with which IPSAS 26 is converged, regarding applicability to property, plant and equipment and intangible assets. The proposed consequential changes to IPSAS 21 and 26 preserve this existing approach.

**Summary of existing requirements/proposals:**

- (i) IPSAS 21 contains a scope exclusion for property, plant and equipment that is measured at revalued amounts. The rationale for this scope exclusion is set out in IPSAS 21.BC16-19. The Basis for Conclusions for IPSAS 21 sets out a number of arguments for this difference (see excerpts at Appendix 3), including the fact that it is not necessary to require impairment testing in addition to the existing requirement in IPSAS 17 to revalue assets with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting

date. IPSAS 21 does not currently contain a similar scope exclusion for intangible assets on the basis that there currently is no IPSAS dealing with intangible assets (see relevant excerpts of the IPSAS 21 Basis for Conclusions in Appendix 3, and proposed consequential changes in Appendix 4).

- (ii) IPSAS 26.2(c) currently contains the same scope exclusion for property, plant and equipment as that in IPSAS 21. IAS 36 does not contain a similar scope exclusion. The rationale for this exclusion is set out in IPSAS 26.BC3-6. The IPSASB ultimately concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36.
- (iii) IPSAS 26.2(h) also contains a scope exclusion for intangible assets that are regularly revalued to fair value, which is not contained in IAS 36. The rationale for this scope exclusion is described in paragraph BC6 which indicates this was done for consistency with the treatment of property, plant and equipment (see Appendix 3).
- (iv) Paragraph 85 of ED 40 states:

**85. After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**

- (v) ED 40 proposed consequential amendments to IPSAS 21, as noted by Respondent #15 (see excerpt from ED 40 in Appendix 4). They would align IPSAS 21 with IPSAS 26 by excluding non-cash generating intangible assets that are measured at revalued amounts. It also proposed additional guidance on impairment testing of an intangible asset with an indefinite useful life that is consistent with IPSAS 26.23 (which in turn is consistent with IAS 36.10).

**Analysis:** As the respondent notes, there is an inconsistency—if IPSAS 21 and IPSAS 26 exclude intangible assets that use the revaluation model, then paragraph 85 of the ED is inappropriate.

The arguments in the existing Bases for Conclusions for IPSAS 21 and IPSAS 26 need to be reassessed to determine whether it is a unique public sector concern to require impairment to be considered when assets are measured at revalued amounts. This is currently required for private sector transactions of a similar nature.

**Staff recommendation:** The IPSASB should reconsider the appropriateness of this difference between a converged standard (IPSAS 26) with the relevant IFRS (IAS 36), when similar transactions/events are being addressed. The IPSASB also needs to consider whether IPSAS 21 needs to be consistent with IPSAS 26.

If the IPSASB determines IPSAS 26 should be re-aligned with IAS 36, there will be an inconsistency with IPSAS 21, unless IPSAS 21 is also amended. This would be a reversal of existing requirements as noted under 11.04(a)(iii) above.

If the IPSASB determines that the existing and proposed scope exclusions in IPSAS 21 and IPSAS 26, and related consequential amendments in ED 40 (see Appendix 4) are appropriate, paragraph 85 will need to be amended accordingly. However, this would then create an inconsistency with IAS 38, which the respondent notes will need to be addressed in the Basis for Conclusions.

- (b) Respondent #12 also notes an issue with respect to the treatment of intangible assets with indefinite useful lives, arising from the scope exclusions of assets carried at revalued amounts discussed above.

**Summary of existing requirements/proposals:**

- (i) IPSAS 26 and the proposed amendments to IPSAS 21 require an entity to test intangible assets with indefinite useful lives or intangible assets not yet available for use annually for impairment, irrespective of whether there is any indication of impairment.
- (ii) Existing IPSAS 26 wording and proposed amendments to IPSAS 21 provide guidance on the measurement of the recoverable amount/recoverable service amount of an intangible asset with an indefinite useful life.
- (iii) If intangible assets that are measured at revalued amounts are excluded from the scope of IPSAS 21 and IPSAS 26 (Issue 11.04(a)), that guidance will not apply to them and there will be an inconsistency within the proposed IPSAS on intangible assets for measuring the recoverable amount/recoverable service amount for intangible assets carried at cost (cost model) or at revalued amounts (revaluation model).

**Analysis:** The resolution of this issue will flow from the IPSASB's decisions on Issue 11.04(a). If the scope exclusions remain in IPSAS 21 and IPSAS 26, the IPSASB should consider the need to develop guidance for measuring the recoverable amount of an intangible asset with an indefinite life carried at a revalued amount. If the scope exclusions are removed, this issue will not exist,

because IPSAS 21 and IPSAS 26 will apply to intangible assets carried at revalued amounts.

**Staff recommendation:** The IPSASB should consider the impact of its decision in 11.04(a) on this issue.

#### 11.05 *Active market*

The concept of an active market is applied in other IPSASs dealing with assets (IPSAS 12, *Inventories*, IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant and Equipment*. Paragraphs 47-49 of ED 40 provide guidance on cases when an active market does not exist. This guidance in paragraph 49 is appropriate to cash-generating intangible assets because it focuses on the cash flow of the intangible asset (as noted by Respondent #1). Specific public sector guidance is required for non-cash generating intangible assets.

Staff recommends the IPSASB consider the need to add an example in paragraph 49 of ED 40 that deals with techniques for estimating the fair values of unique public sector intangible assets indirectly by reference to service potential rather than profitability and cash flows.

#### 11.06 *Intangible assets acquired through a non-exchange transaction*

Respondent #15 suggests clarifying that cost of an intangible asset acquired through a non-exchange transaction also includes subsequent expenditures regarding the intangible asset. For assets acquired in an exchange transaction, guidance on such costs is set out in paragraphs 34 to 41 within the context of determining “cost.”

The analogous situation in IAS 38 to a non-exchange transaction deals with intangible assets acquired by way of a government grant. IAS 38 does not provide additional guidance.

The respondent notes that IPSAS 12 and IPSAS 17 include similar guidance to ED 40 on assets acquired through non-exchange transactions (at no or at a nominal cost) and do not include the suggested additional guidance.

No change is recommended because this is not a unique public sector situation.

#### 11.07 *Revaluation*

Under ED 40, the revaluation model is used when the intangible asset’s fair value can be measured reliably. This treatment is consistent with IPSAS 16 and IPSAS 17. The respondent notes that upward revaluation of assets could be used to manipulate the operating results and financial position of an entity and that any active market that may exist for unique public sector intangible assets may not

reflect the service potential or the appropriate value to the government, unless the asset in question is specifically for sale.

No change is recommended because this is not a unique public sector issue. Further, in the absence of an IPSAS on this topic, governments have applied IAS 38 in practice.

**Questions for IPSASB:**

1. With respect to issue 11.04, do you support including in or excluding from IPSAS 21 and IPSAS 26 intangible assets carried at revalued amounts?
2. For issue 11.05, do you believe an example is needed in paragraph 49 that deals with techniques for estimating the fair values of unique public sector intangible assets indirectly by reference to service potential on the basis that this is a unique public sector issue?
3. For issues 11.06 and 11.07, do you agree no change is necessary to ED 40 on the basis that they are not unique public sector issues?

Heritage Assets

- 12.01 ED 40 contained guidance on heritage assets that was based on and similar to that in IPSAS 17, *Property, Plant and Equipment*. IPSAS 17 neither defines heritage assets nor requires recognition of heritage assets. It does include some characteristics of such assets. If heritage assets are recognized by a public sector entity, the IPSAS requires applying its disclosure requirements and allows but does not require applying its measurement requirements.
- 12.02 Respondents #1, 4, 10, 17 and 18 commented on the need for additional guidance on heritage assets.
- 12.03 **Background:** In November 2005, the IPSASB approved publication of a Consultation Paper incorporating at its core a UK discussion paper, *Heritage Assets: Can Accounting do Better?* The Consultation Paper was published in February 2006 with a response date of June 30, 2006. In November 2006, the IPSASB reviewed submissions of the CP. Submissions indicated considerable support for the United Kingdom Accounting Standards Board's (ASB's) proposals on definition and the need for additional disclosures; however there were two significant and contrasting views on recognition and measurement. One view favored no deviation from IPSAS 17 requirements. The other favored non-recognition, primarily on cost-benefit grounds. The IPSASB decided in May 2007 to not progress the project due to other priorities.
- 12.04 Staff does not recommend that the issue of heritage assets be further developed in ED 40. It is an issue that needs additional research in its own right. At present, the only existing guidance on heritage assets is in IPSAS 17, which has been adapted to intangible assets.

- 12.05 Based on respondents' comments, however, staff recommends that the IPSASB consider this topic when setting its project priorities for 2010, as heritage assets are a unique public sector issue.

**Question for IPSASB:**

Should the IPSASB consider the need for a project to develop standards for heritage assets?

## **APPENDIX 1 – EXCERPT FROM FEBRUARY 2009 MINUTES**

### **3. INTANGIBLE ASSETS**

#### **Approve ED 40 (Agenda Item 3)**

The IPSASB considered draft ED 40, “Intangible Assets.” The proposed changes from the October 2008 draft reflect the IPSASB’s directions at that meeting along with feedback garnered from consulting with members on a revised draft out of session.

The IPSASB discussed the addition, in paragraph 1, of the exclusion of the power to grant rights and the power to tax from the proposed standard. It was noted that the placement of the exclusion was not appropriate within the objective of the standard. The IPSASB agreed that Staff should develop introductory material that explains the rationale for the exclusion. The exact placement of the material may be in a combination of the Introduction section of the standard, within the Standard and in the Basis for Conclusions. The material would need to identify that the issue will be reconsidered for inclusion when the IPSASB’s Conceptual Framework is issued.

The IPSASB discussed the adoption in the proposed ED of certain material contained in IPSAS 17. In particular, IPSASB Members noted that this is a convergence project that should primarily follow IAS 38. Accordingly, the IPSASB directed Staff to reinstate the disclosure requirements from IAS 38 and to use the transitional provisions in IAS 38, supplemented by the relevant exemptions pertaining to intangible assets in IFRS 1, “First-time Adoption of IFRS.”

A Member questioned the inclusion of the “exchange of assets” guidance from IAS 38, noting that, although the same guidance is also in IPSAS 16, “Investment Property” and in IPSAS 17, “Property, Plant and Equipment,” there may be situations when a transaction without commercial substance could be a non-exchange transaction. The IPSASB agreed that such a case could occur, and accordingly directed Staff to amend the heading preceding this guidance to “Exchanges of Assets from Non-Exchange Transactions.”

The IPSASB agreed with the reinstatement of the material on business combinations from IAS 38, amended as appropriate to reflect proposed ED 41 (see item 4 below). Members noted the importance of Staff working together to finalize ED 40 and ED 41, given the common issues between the two.

One Member pointed out the inconsistent treatment of the appendices, and other material following the standard itself. IPSASB Members directed Staff ensure that all EDs follow the same structure in the overall quality control review of the EDs.

One Member questioned whether example 1 in the Implementation Guidance was realistic. A live example of such a case was provided by a Member. It was decided to retain the example, but move it later in the series of examples.

One Member pointed out that the proposed ED did not appropriately address the differences between the IPSAS 21 guidance and the IPSAS 26 guidance. Staff highlighted the proposed consequential changes that would be required for consistent treatment of impairment of non-cash-generating assets with impairment of cash-generating assets. The IPSASB asked that



Staff provide the proposed wording of the consequential amendments to IPSAS 21 to Members following the meeting, for comment before posting the proposed draft of ED 40.

Members also agreed to the following terminology changes:

- Delete the addition of “transfer” throughout the ED, except in paragraphs xx.
- Contracts wording

The IPSASB directed Staff to redraft ED 40 in light of these comments and to circulate it for comment and ultimate approval out of session, jointly with ED 41 (see item 4 below).

## **APPENDIX 2 – EXCERPT FROM ED 40 (TRANSITIONAL PROVISIONS)**

### **Transitional Provisions and Effective Date**

#### **First-time Adoption of this Standard by an Entity that Applies the Accrual Basis of Accounting**

140. An entity that follows the accrual basis of accounting as set out in the IPSASs shall apply this Standard:

- (a) To the accounting for intangible assets acquired in entity combinations from exchange transactions for which the agreement date is on or after MM DD, YYYY; and
- (b) To the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after MM DD, YYYY.

Thus, the entity shall not adjust the carrying amount of intangible assets recognized at that date. However, the entity shall, at that date, apply this Standard to reassess the useful lives of such intangible assets. If, as a result of that reassessment, the entity changes its assessment of the useful life of an asset, that change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

- (c) The entity shall apply this Standard to reassess previously recorded and unrecorded intangible items as follows:
  - (i) The entity shall assess whether previously recognized intangible assets meet the recognition criteria set out in paragraph 30.
  - (ii) The entity shall assess whether intangible items previously expensed meet the recognition criteria set out in paragraph 30.

If, as a result of such reassessment, the entity changes its assessment of the existence of an asset, that change shall be accounted for as a change in an accounting policy in accordance with IPSAS 3.

#### **Exchanges of Assets in an Exchange Transaction**

141. The requirement in paragraph 140(b) to apply this Standard prospectively means that if an exchange of assets in an exchange transaction was measured before the effective date of this Standard on the basis of the carrying amount of the asset given up, the entity does not restate the carrying amount of the asset acquired to reflect its fair value at the acquisition date.

#### **Early Application**

142. Entities to which paragraph 140 applies are encouraged to apply the requirements of this Standard before the effective dates specified in paragraph 140. However, if an entity applies this Standard before those effective dates, it also shall apply IPSAS XX (ED 41), IPSAS 21 and IPSAS 26 at the same time.

143. Prior to first application of this Standard, an entity may recognize its intangible assets on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize intangible assets at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by

- reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.
144. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

**First-time Adoption of the Accrual Basis of Accounting**

145. **Entities are not required to recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**
146. **An entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize intangible assets at either cost or fair value, as required under this Standard. For intangible assets that were acquired through non-exchange transactions, cost is the item's fair value as at the date of acquisition (see paragraphs 52-53).**
147. **The entity shall recognize the effect of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized.**
148. The transitional provisions in paragraphs 145 and 146 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt the accrual basis of accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of intangible assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph 30.
149. Notwithstanding the transitional provisions in paragraphs 145 and 146, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.
150. **When an entity takes advantage of the transitional provisions in paragraphs 145 and 146 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 145 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.**

## **APPENDIX 3 – EXCERPTS FROM BASIS FOR CONCLUSIONS FOR IPSAS 21 AND IPSAS 26**

### **IPSAS 21**

#### **Other Assets**

BC13. IAS 36 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of IAS 38, “Intangible Assets.” The IPSASB has not issued an IPSAS on intangible assets, so has not considered the applicability of the IAS 36 impairment requirements to non-cash-generating intangible assets in the public sector. Non-cash-generating intangible assets are not excluded from the scope of this Standard. Therefore this Standard applies to those assets. Public sector intangible assets such as those reflecting the entity’s ability to issue licenses may arise in a cash-generating context. Other intangible assets may arise in a non-cash-generating context and should be tested for impairment according to the requirements of this Standard.

#### **Group of Assets and Corporate Assets**

BC14. Under IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset’s cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets that generates cash inflows from continuing use, and that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB considered the concept of a service-generating unit in a non-cash-generating context. It noted that as the requirements in this Standard are applied to individual assets, the adoption of such a concept by analogy to the CGU concept in IAS 36 is unnecessary because it is possible to identify the service potential of individual assets. Moreover, its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.

BC15. Under IAS 36, assets other than goodwill that contribute to the future cash flows of two or more CGUs are regarded as corporate assets. In a cash-generating context, because corporate assets do not generate separate cash inflows, the impairment of corporate assets are dealt with as part of the impairment of the cash-generating unit to which the corporate assets belong. The IPSASB observed that in a non-cash-generating context, the concept of a service-generating unit is not warranted as noted in paragraph C14 above. The IPSASB further noted that such assets are often an integral part of the service delivery function and their impairment is to be dealt with as for any other non-cash-generating assets of the entity.

#### **Property, Plant and Equipment**

BC16. The Standard does not require the application of an impairment test to noncash-generating assets that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17. The IPSASB is of the view that under the allowed alternative treatment in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation. Therefore any difference between the asset’s carrying amount and its fair value less costs to sell will be the disposal costs. The IPSASB is of the view that, in most cases, these will not be

material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.

BC17. In contrast to this Standard, IAS 36 requires entities to test revalued property, plant and equipment for impairment after they had been revalued. The rationale for this difference can be explained by reference to the factors set out in paragraphs C18 and C19 below.

BC18. Firstly, there are different methods of determining recoverable service amount under this Standard and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a noncash- generating asset's fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach, and the service units approach. These approaches may also be adopted to measure fair value under IPSAS 17 – therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

BC19. Secondly, the requirement under IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash-generating unit is not replicated in this Standard. Under IAS 36, where an asset does not produce cash inflows it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

## **IPSAS 26**

### **Exclusion of Property, Plant and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope**

BC3. The scope of IPSAS 21 excludes non cash-generating property, plant and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 states that the IPSASB is of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date and that any impairment will be taken into account in that valuation. The IPSASB therefore considered whether a similar scope exclusion should be included in this IPSAS.

BC4. The IPSASB acknowledged that property, plant and equipment held on the revaluation model are within the scope of IAS 36, and considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its market value, the maximum amount of an impairment loss is the disposal costs. In the Basis for Conclusions for IPSAS 21, it is stated that “the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset’s recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.” The IPSASB considered that disposal costs are also unlikely to be material for cash-generating assets.

BC6. The IPSASB remains of the view that it would be onerous to impose a requirement to test for impairment in addition to the existing requirement in IPSAS 17 that assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36 and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant and equipment, intangible assets that are regularly revalued to fair value are also excluded from the scope.

## APPENDIX 4 – EXCERPTS FROM ED 40 (PROPOSED CONSEQUENTIAL AMENDMENTS TO IPSAS 21)

### IPSAS 21

#### Paragraph 6 is amended:

6. This Standard excludes non-cash-generating intangible assets that are regularly revalued to fair value from its scope. This Standard includes all other non-cash-generating intangible assets (e.g., those that are carried at cost less any accumulated amortization) within its scope. Entities apply the requirements of this Standard to recognizing and measuring impairment losses, and reversals of impairment losses, related to such non-cash-generating intangible assets.

#### Additional paragraphs are inserted after paragraph 26:

- 26A. Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.
- 26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

#### An additional heading and a new paragraph are inserted after paragraph 39:

#### Measuring the Recoverable Service Amount of an Intangible Asset with an Indefinite Useful Life

- 39A. Paragraph 26A requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:
- (a) If the intangible asset does not service potential from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;
- (ba) The most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

- (cb) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.



## **RESPONDENTS' COMMENTS ON KEY ISSUES**

### **Purpose:**

The May 2009 Exposure Draft 40, “Intangible Assets,” did not contain any specific issues on which comment was sought. This paper presents staff’s analysis of the issues respondents raised to ED 40. Key issues are analyzed in detail in AP 7.1.

### **List of Respondents:**

<b>Response</b>	<b>Respondent Name</b>	<b>Function</b>
1	Comité des Normes des Comptabilité Publique (France)	Standard Setter/Standards Advisory Body
2	Fédération des Experts Comptables Européens (FEE)/Federation of European Accountants (FEE)	Member or Regional Body
3	Public Sector Accounting Board (Canada) – Staff Views	Standard Setter/Standards Advisory Body
4	Cour des Comptes (France)	Auditor (Supreme Audit Office)
5	Accounting Standards Board (UK)	Standard Setter/Standards Advisory Body
6	European Commission (EC)	Member or Regional Body
7	Japanese Institute of Certified Public Accountants (JICPA)	Member or Regional Body
8	Dr. Joseph Maresca	Academic
9	HoTARAC (Australia Heads of Treasuries Accounting and Reporting Advisory Committee)	Preparer
10	Agency for Public Intangibles, Ministère de L’Économie, de L’Industrie et de L’Emploi, Ministère du Budget, des Comptes Publics, de la Fonction Publique et de la Réforme de L’État (France)	Preparer
11	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
12	Accounting Standards Board (South Africa)	Standard Setter/Standards Advisory Body
13	Audit Commission (UK)	Standard Setter/Standards Advisory Body
14	Chartered Institute of Public Finance &Accountancy (UK)	Member or Regional Body
15	United Nations Task Force	Preparer
16	Controller General, Province of British Columbia (Canada)	Preparer
17	Joint Accounting Bodies (Australia)	Member or Regional Body
18	Australian Accounting Standards Board	Standard Setter/Standards Advisory Body

#	RESPONDENT NAME	1(a) OVERALL COMMENT – SUPPORTIVE
2	FEE	<p>(2) We strongly support IPSASB's project to develop a suite of IFRS converged IPSASs on relevant issues, closely reflecting IFRS where this is possible, and providing interpretation or additional guidance where this is necessary.</p> <p>(3) The EDs are based on IAS 38, and IFRS 3 modified using the IPSASB's 'public sectorisation' approach. They also include similarly modified SIC material in to bring together a coherent body of guidance. In addition to the 'public sectorisation' of terminology and examples, the Exposure Drafts extend the scope of the proposed standards to encompass public sector cases for which the treatment is similar to the standard private sector practice, and limit the scope to exclude cases where it is not clear that the IFRS approach is appropriate.</p> <p>4) We agree with this approach. In general we agree that the public sectorisation is helpful, and the additional material is appropriate and should be reflected in the IPSAS as proposed. We have no specific observations on ED 41. However, we have some specific observations to make on the transitional provisions to ED 40, which differ from those in IAS 38 without a specific public sector reason. Details are provided in the attached Annex.</p>
5	ASB (UK)	<p>1. The UK Accounting Standards Board's Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB) proposals in Exposure Draft 40 '<i>Intangible Assets</i>'. CAPE supports the IPSASB's policy to develop a set of accrual based International Public Sector Accounting Standards that are convergent with IFRSs issued by the International Accounting Standards Board, where appropriate for public sector entities.</p> <p>2. We agree with IPSASB that, in the absence of any specific public reasons for departure, ED 40 should be a converged standard, ie it should maintain the requirements, structure and text of IAS 38 '<i>Intangible Assets</i>'. We also agree with the proposal to exclude the power to grant rights and the power to tax from the scope of the ED and for IPSASB to consider this matter further as part of its Conceptual Framework project.</p>
6	EC	We would like to thank you for the opportunity to comment on Exposure Draft 40 concerning accounting for intangible assets in the public sector and very much appreciate that the IPSASB is currently developing this Accounting Standard. Moreover we support the extension of the scope of the proposed standard to cover public sector specific cases for which the treatment is similar to that of the private sector and are convinced that the proposed standard will form a high quality and credible basis for accounting for intangible assets.
9	HoTARAC	Overall, HoTARAC supports the approach taken by IPSASB in the modification of IAS 38 <i>Intangible Assets</i> for public sector use. HoTARAC has some specific comments in relation to ED 40 and these are detailed in the accompanying attachment.
13	Audit Commission (UK)	The Commission welcomes the approach taken by the Board that, in the absence of any specific public sector reasons for departure, ED 40 should be converged with the requirements, structure and text of IAS 38 ' <i>Intangible Assets</i> '.
14	CIPFA	We strongly support IPSASB's project to develop a suite of IFRS converged IPSAS5 on relevant issues, closely reflecting IFRS where this is possible, and providing interpretation or additional guidance where this is necessary.

#	RESPONDENT NAME	1(a) OVERALL COMMENT – SUPPORTIVE
		<p>The ED5 are based on IAS 38, and IFRS 3 modified using the IPSASB’s ‘public sectorization’ approach. They also include similarly modified SIC material in to bring together a coherent body of guidance. In addition to the ‘public sectorization’ of terminology and examples, the Exposure Drafts extend the scope of the proposed standards to encompass public sector cases for which the treatment is similar to the standard private sector practice, and limit the scope to exclude cases where it is not clear that the IFRS approach is appropriate.</p> <p>We agree with this approach. In general we agree that the public sectorization is helpful, and the additional material is appropriate and should be reflected in the IPSAS as proposed. However, we have some specific observations to make on the transitional provisions to ED 40, which differ from those in IAS 38 without a specific public sector reason. Details are provided in the attached Annex</p>
15	UN Task Force	<p>1 Thank you for the opportunity to comment on <i>ED 40 Intangibles</i>. We appreciate the work that the International Public Sector Accounting Standards Board (IPSASB) is doing in developing international standards for public sector entities and international organizations such as those making up the United Nations System. ED 40 is a very welcome development because it gives clear IPSAS authority for reporting requirements presently only applicable through application of IPSAS 3’s accounting policy choice requirements and because it addresses important and challenging public sector issues such as the treatment of donated intangibles, first time recognition of intangibles when moving to an accrual basis, and not-for-profit relevant approaches to definition, recognition and measurement of intangibles that are held to provide services rather than to generate cash flow. All United Nations System organizations hold intangibles, which include software, copyrights, and licences.</p> <p><b>United Nations System Task Force on Accounting Standards</b></p> <p>2 These comments represent the views of Members of the Task Force on Accounting Standards (Task Force). The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The individual organizations that provided comment on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual recommendation.</p> <p><b>General Comments</b></p> <p>3 We support the IPSASB issuing a standard dealing with intangibles. We support the use of IAS 38 Intangibles as the basis for ED 40 and application in this draft standard of the IPSASB’s aim of only deviating from the related International Financial Report Standard (IFRS) when there are public sector specific reasons for so doing. This approach is to be commended for several reasons, the most important of which is the support it gives for convergence. In addition, there is the practical reason that by keeping the differences between the two sets of financial reporting standards to a necessary minimum, organizations can access the extensive guidance and expertise developed for IFRS when applying IPSAS.</p>

#	RESPONDENT NAME	1(a) OVERALL COMMENT – SUPPORTIVE
17	Joint Accounting Bodies (Australia)	The Joint Accounting Bodies note that IAS 38 <i>Intangible Assets</i> is the IFRS equivalent. The Joint Accounting Bodies' examination of the ED has identified one substantive departure. We are not convinced that there is a sufficient public sector reason for departure. Other comments are provided. Our support for the [proposed] Standard is dependent on rectification of the departure.
18	AASB (Australia)	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 <i>Intangible Assets</i> 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.

#	RESPONDENT NAME	1(b) OVERALL COMMENT – NOT SUPPORTIVE
1	Comité des Normes des Comptabilité Publique (France)	<p><b>We believe that the topic of accounting for public sector specific intangible assets is a top priority and we regret that these specificities mentioned § 4 f have been excluded from the Exposure Draft scope without any development in the basis for conclusions.</b></p> <p>We have perfectly understood the strategy adopted by IPSAS Board to converge public sector accounting standards with IFRS by the end of 2009. We note that the IFRS were primarily designed for the financial reporting of private and listed entities.</p> <p>In this context, we find regrettable that all of IPSAS Board's energy has been devoted to convergence, sometimes over trivial matters, whereas at the same time the special features of the public sector have not been dealt with, for example, concerning the power to grant rights and to tax, fair value measurement for non-exchange transactions, entities combinations from non-exchange transactions and combinations.</p> <p>In this convergence context, deliberately excluding the public sector specificities, ED 40 seems appropriate for those of public entities which, although in the non-market sphere, have an activity comparable to private entities. Vocabulary adaptations seem sufficient to take into account public entities specificities. However, we regret that the examples are too restrictive because only dealing with amortization and impairment.</p> <p>We agree that most of the changes made to IAS 38 are necessary to provide coherent guidance for the public sector context, and appropriately reflected in the revised wording.</p>
16	Comptroller General BC (Canada)	<p>The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards.</p> <p>Because PSAB may be influenced by IPSASB, any changes to IPSASs will affect PSAB guidance in the future.</p> <p>We strongly disagree with the recognition of intangible assets other than software in public sector financial statements. Recognition of intangible assets and the option to periodically revalue them at fair market value would</p>

#	RESPONDENT NAME	1(b) OVERALL COMMENT – NOT SUPPORTIVE
		<p>artificially inflate government’s reported assets, gains and expenses over time when there has been no economic change to government’s financial position. The application of the exposure draft on a consistent and principled basis would render a government’s financial statements meaningless and completely misleading. Therefore, we question the validity of adopting an accounting standard for the public sector on intangible assets.</p> <p>...</p> <p>The information requirements of the users of public and private sector financial statements are fundamentally different. The implementation of the proposed standards provides no demonstrable benefits to the users of public sector financial statements who look to financial statements for transparency and accountability rather than to make economic decisions. Governments are large complex organizations and changing accounting standards can be time consuming and costly. The cost and effort of implementing accounting standard changes throughout a government organization and its processes is significant.</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
1	Comité des Normes des Comptabilité Publique (France)	<p><b>3. We are strongly expecting for specific public sector provisions including:</b></p> <ul style="list-style-type: none"> <li>• the power to tax;</li> <li>• the power to grant rights or licenses;</li> <li>• the rights arising from non-exchange funding;</li> <li>• the radio spectrum;</li> <li>• the greenhouse gases emission rights granted by the international community under the Kyoto Protocol;</li> <li>• measurement methods for specific intangible assets at recognition and after recognition.</li> </ul> <p>In spite of any international standards on these subjects, we initiated discussions which led us to define rules in order to recognize the greenhouse gases emission rights and the radio spectrum. In time, we willingly share our experience with these topics.</p>
3	PSAB	<p><b>(a) Objective of the Standard</b></p> <p>1. The stated objective of IPSASB in issuing ED 40 was to “develop financial reporting guidance on intangible assets converged with IAS 38 and SIC-32.” Further, “IPSASB noted that there were specific public sector issues related to intangible items, notably, government power to grant rights and to tax, and the need to address service potential and non-exchange transactions.” Included in the issues identified for the project were the treatment of intangible items not acquired or developed, and the applicability of the section to emissions trading schemes (cap and trade allowances).<sup>1</sup></p> <p>ED 40 addresses two of the public sector issues identified by limiting the scope of the Standard to exclude:</p>

<sup>1</sup> Project page, updated at November 19, 2008, [www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0086](http://www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0086)

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		<ul style="list-style-type: none"> <li>the power to grant rights and to tax (IN 2, IN 3 and paragraph 4(f)); and</li> <li>intangible assets acquired in an entity combination from a non-exchange transaction (IN 5)</li> </ul> <p>due to the IPSASB's not yet having completed its consideration of these matters.</p> <p>However, no mention is made in ED 40 of the outcome of deliberations on the applicability of the section to emissions trading schemes.</p> <p>PSAB staff suggests that the Introductory paragraphs include reference to the outcome of these deliberations.</p>
3	PSAB	<p><b>(b) Scope of the proposed standard</b></p> <p>2. Paragraph 2 sets out a scope limitation, to exclude the power to grant rights and the power to tax from recognition as intangible assets, under the heading "Objective". The limitation is reiterated at paragraph 4(f), under the heading "Scope". No other exceptions to the Scope have detailed explanation in the same manner as do the power to grant rights and the power to tax. Similarly, no other scope exceptions are detailed in the "Objective" section.</p> <p>PSAB suggests conforming the scope limitation regarding the power to grant rights and the power to tax by removing paragraph 2.</p> <p>3. In conformity with IAS 38 at paragraph 3, ED 40 Paragraph 5 prioritizes the order of referencing authoritative standards by stating that the first order of reference is other IPSAS that prescribe the accounting for a specific type of intangible asset. It reinforces the stated objective of the standard in paragraph 1 which states that "[t]he objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard." However, paragraph 5 makes a second priority reference to "relevant international or national accounting standard instead of this IPSAS". It provides eight examples to which the standards in ED 40 do not apply, and in all but three instances, provides reference to the appropriate IPSAS or ED issued by the IPSASB as the prioritized alternative source of GAAP.</p> <p>For each of the three exceptions, prioritized reference is made to "the relevant international or national accounting standard dealing with the specific item". One of these exceptions, item (b) deferred tax assets, is not relevant to public sector entities that are not government business enterprises.</p> <p>If each of the other two exceptions (i.e. paragraph 4 (g) and (h)) exists because the IPSASB has not yet dealt with issue, then the scope limitation should be simply a deferral until such time as the IPSASB deals with the issue, in the same manner as with the power to grant rights and the power to tax. However, if the IPSASB does not plan to deal with the excepted matters, then it should deal with them in ED 40. Either way, reference to "other relevant international or national accounting standard" dealing with the specific item is not appropriate in the context of the objective stated in paragraph 1.</p> <p>PSAB staff suggests that paragraph 5(f) be deleted. PSAB staff suggests that, depending on the intentions of IPSASB to deal with deferred acquisition costs and non-current intangible assets held for sale, direction in paragraph</p>

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		<p>5 (g) and (h) be revised.</p> <p>4. In conformity with IAS 38 at paragraph 7, ED 40 Paragraph 9 addresses exclusions to the scope of application of ED 40: specifically those specialized activities or transactions like accounting for activities related to extractive industries and for insurance contracts. However, the connection between an insurance contract and a financial instrument is not obvious in ED 40. Only by direct reference to ED 37, “Financial Instruments: Presentation” at paragraph 3, does a reader become aware that an insurance contract may be or may contain aspects that qualify as financial instruments.</p> <p>PSAB staff suggests that paragraph 9 include reference to ED 37 in respect of insurance contracts.</p>
4	Cour des Comptes	<p>1. Issues relating to the exercise of sovereignty are excluded from the scope of the exposure draft, which significantly reduces the scope for the Governments’ accounts.</p> <p>Are partly excluded from the scope of the exposure draft the power to tax ( 41) and the power to grant rights (4.f.): if this choice is consistent with the overall orientation of convergence with IAS-IFRS, the Cour des comptes observes, however, that it leaves unanswered questions of prime importance for the Governments’ accounts.</p> <p>Its scope and usefulness remain very modest for now, as several national accounting standards already took into account IAS 38 guidelines regarding valuation and accounting of intangible assets.</p> <p>2. In contrast, some provisions of IAS 38 have been preserved, even though little or no application can be found for public sector entities</p> <p>Two provisions drawn from IAS 38 do not appear to be applicable in the case of public sector entities:</p> <ul style="list-style-type: none"> <li>- the possibility of a combination of public entities with counterpart (42. to 51.): relatively speculative, it would at least deserve to be illustrated by examples relevant for the public sector;</li> <li>- the fact that fair value should necessarily determined by reference to an active market (85.): the existence of such a market appears unlikely in public sector, it seems necessary to revise this provision. [Staff note: See detailed comments on this issue under Measurement]</li> </ul> <p>... [Staff note: Item 3 pertains to heritage assets, and is included under that heading]</p> <p>4. Two examples drawn from French Central Government accounts could help clarifying this concept</p> <p>In 2008, the scope of intangible assets recorded in French Central Government accounts was extended by including greenhouse gases emission credits under the Kyoto Protocol, and also specific rights to use the radio frequency spectrum, in accordance with applicable national accounting standards.</p> <p>The Cour des comptes considers that these two resources meet the definition of an intangible asset according to the exposure draft and are therefore relevant illustrative examples of significant intangible assets that may be recorded in Governments’ accounts.</p> <p>5. In its other provisions, the exposure draft appears suited to public sector entities, but more illustrative examples</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		<p>could be added.</p> <p>Changes made to IAS 38 wording and terminology adjustments — in particular the notion of binding arrangements - seem appropriate for the public sector. The notion of service potential could usefully be defined.</p> <p>The examples given (“Implementation Guidance - Illustrative examples”) could deal with the different items of the exposure draft, and not only amortization and impairment issues.</p>
4	Cour des Comptes	<p><b>II. A. THE EXPOSURE DRAFT RETAINS THE CONCEPT OF ENTITY COMBINATION FROM AN EXCHANGE TRANSACTION, WHICH IS OF LITTLE RELEVANCE FOR THE PUBLIC SECTOR</b></p> <p>The Cour des comptes did not identify examples of entity combination from an exchange transaction that could occur in the public sector (42. 51.). This provision does not seem relevant or needs, at least, to be illustrated.</p>
4	Cour des Comptes	<p><b>III. A. ARE THE CHANGES MADE TO IAS 38 AND THE ADDITIONAL PUBLIC SECTOR GUIDANCE NECESSARY IN THE CIRCUMSTANCES?</b></p> <p>Adaptation of IAS 38 as proposed by the exposure draft for public sector entities is overall satisfactory. Three issues need however to be emphasized.</p> <p>1. Issues related to States’ sovereignty are excluded from the scope of the exposure draft, which significantly reduces its usefulness for States financial statements</p> <p>Paragraphs 2 and 41 explicitly exclude from the scope of the exposure draft the power to tax and the power to grant rights. Paragraph 1N2 indicates that these two questions will be considered when the conceptual framework is issued. This choice is consistent with the general orientation of the IPSAS Board to first converge on a global scale with IAS-IFRS, and then later take into account public sector specificities.</p> <p>The Cour des comptes notes, however, that the current exposure draft leaves unanswered subjects of prime importance for States’ financial statements. Its scope and its usefulness remain therefore very modest for now, given also the fact that several national accounting standards have already integrated most of IAS 38 provisions for evaluating and recording intangible assets.</p> <p>2. Intangible assets acquired in an entity combination from a non-exchange transaction are also excluded from the scope of the exposure draft, reducing its usefulness</p> <p>Paragraph 4.e. explicitly mentions this exclusion, as this kind of operations is subject to further considerations by IPSAS Board (according to paragraph 1N5).</p> <p>Again, this choice is consistent with the perspective of convergence with IAS IFRS but reduces the usefulness of the exposure draft for public sector entities, mainly subject to this type of combination.</p>
5	ASB (UK)	<p>3. We recognise that IAS 38 does not cover the accounting requirements for intangible assets acquired in an entity combination from a non-exchange transaction and that IPSASB will consider this matter as part of its entity</p>



#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		combinations project. As a result, we accept the need for these transactions to be excluded from the scope of the proposed standard.
6	EC	We consider that the scope exclusions in paragraph 2 and 4 are necessary given the underlying circumstances and that they are appropriately reflected. Furthermore we would also like to point out that in particular the additional public sector specific implementation guidance is very useful and gives a good understanding of the proposed accounting treatments under this standard.
7	JICPA	<p><b>On “Specific Matters for Comment”</b></p> <p>Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:</p> <ul style="list-style-type: none"> <li>• Necessary in the circumstances?</li> <li>• Appropriately reflected in the revised wording?</li> </ul> <p>We agree with this proposal.</p>
9	HoTARAC	<p><b><i>Rights sold (not granted) and repurchased by a government</i></b></p> <p>ED 40 notes at Paragraph 2, that the power to grant rights and the power to tax are outside the scope of the proposed Standard as they do not satisfy the asset recognition criteria. HoTARAC supports this position. However, where a government sells, rather than grants, rights there is usually a readily determinable selling price and often a separate market value arising from a secondary market for these rights. For example, in some Australian jurisdictions, water rights are both sold by government and subsequently traded in secondary markets. It is also not unusual for a government to buy back such rights at market prices. In such circumstances, the case can be made that these rights satisfy the recognition criteria. With no particular guidance available, HoTARAC notes that within Australia this has resulted in varying accounting practices between jurisdictions and entities. HoTARAC therefore considers that the ED should specifically address the question of rights created, sold and repurchased by a government and give guidance on whether they would qualify as intangible assets and, if so, how they should be recognised and measured from the issuing government’s perspective.</p>
9	HoTARAC	<p><b><i>Harmonisation with international statistical requirements</i></b></p> <p>IPSAS 22 <i>Disclosure of Financial Information about the General Government Sector</i> recognises the statistical basis of reporting and its differences from accounting Standards. You may also be aware of the Generally Accepted Accounting Principles/Government Finance Statistics Harmonisation Project that has been undertaken in Australia. This Project is well advanced and is proving beneficial to users in developing their understanding of the relationship between reported results and published budgets. It has been the experience in Australia that GFS and the System of National Accounts have proven particularly relevant as a source of information in defining a government perspective when considering how to account for particular transactions and relationships that exist outside of the for-profit</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		sector. HoTARAC is of the opinion that ED 40 would benefit from consideration of the discussion contained in the draft SNA 2008 with respect to the distinction between taxes and fees and the guidance provided in relation to when a licence becomes an asset of/to the issuer.
9	HoTARAC	<p><i>Emissions trading schemes</i></p> <p>An issue of particular concern to HoTARAC is that of accounting for emissions trading schemes by governments. HoTARAC is concerned that, while emissions trading permits potentially meet the definition of an intangible asset, this may not necessarily be the best way to account for such schemes. The Australian Government does not intend to account for its role in the proposed Australian scheme using a model incorporating intangible assets. While HoTARAC would not expect IPSASB to make any changes to the Standard now, as the primary concern at this stage is convergence, it would be useful to users if IPSASB was to provide some guidance and discussion on what future considerations and direction, if any, the Board has in relation to this issue. IPSASB may also want to consider modifying the scope of ED 40 to exclude such arrangements.</p>
10	APIE	<p>2.1 Specific public sector assets –Power to levy taxes and grant licences</p> <p>The scope of the Exposure Draft excludes the power to levy taxes and the power to grant licences and authorisations (4f), which are precisely the essential specific features of the public sector with regard to intangible assets. We feel that a public standard dealing with intangible assets must address this subject, regardless of the accounting treatment applied.</p> <p>Other specific assets, such as the wireless spectrum and greenhouse gas emission right granted by the international community under the Kyoto Protocol<sup>3</sup>, are not dealt with in the Exposure Draft. It should be noted that the French State decided to recognise these assets in its balance sheet at the end of 2008.</p> <p>2.2 Intangible assets acquired through a Non-exchange Entity Combination</p> <p>The Exposure Draft does not deal with intangible assets acquired through non-exchange entity combinations, whereas entity combinations from an exchange transaction are dealt with extensively. Yet, public sector practices show that entity combinations take place with no exchange transaction. Such transactions should also be covered by the standard for the sake of comprehensiveness.</p> <p><sup>3</sup> Admittedly, some companies have emission rights as assets, but since the State controls the emission quota registry, we treat this asset as specific to the public sector.</p>
10	APIE	<p>2.3 Databases</p> <p>The Exposure Draft on intangible assets dated October 2008 dealt with the accounting treatment of databases. These provisions have not been included in the final Exposure Draft. Yet, public sector databases are of strategic importance and distinct from market sector databases by virtue of:</p> <ul style="list-style-type: none"> <li>• The volume of public information produced;</li> </ul>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		<ul style="list-style-type: none"> <li>• Their usefulness in the provision of the State's public services;</li> <li>• Their uniqueness or, at least, their often very high production cost;</li> <li>• The private sector interest in reusing public information for commercial purposes.</li> </ul> <p>Several studies are being carried out on the reuse of public sector information and the European Commission issued a Directive on the subject (2003/98/EC of 17 November 2003), which has been transposed into the laws of the Member States.</p> <p>Therefore, we feel that it is particularly important for a standard on public sector intangible assets to deal with this point. Even though the treatment of databases proposed in the October 2008 Exposure Draft was not totally satisfactory, we regret that the subject has been omitted altogether in the May 2009 version.</p> <p>For example, the French government started to make a survey of the main types of government information that could interest private sector operators. Subsequently, accounting instructions will allow for the recognition of databases in the State's balance sheet starting with FY 2009, as long as the development costs of the databases are distinct from the costs of providing a basic public service.</p>
11	SRS-CSPCP	<p>Specific Matter of Comment:</p> <p><b>SMC1:</b> The SRS-CSPCP agrees with the scope differences compared with IAS 38, in particular that grant rights and the power to tax are excluded as being not applicable (Scope paragraph 4(f). We welcome that the standard does not enter into the discussion about the nature of the power to tax, as this would lead to ambiguities in the adoption of the standard.</p> <p><b>SMC2:</b> Sufficient account is taken of sector specific circumstances.</p>
12	ASB (South Africa)	<p><i>Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:</i></p> <ul style="list-style-type: none"> <li>• <i>Necessary in the circumstances?</i></li> <li>• <i>Appropriately reflected in the revised wording?</i></li> </ul> <p>We support the scope exclusions in paragraphs 2 and 4, but recommend that the Basis for Conclusions should be further expanded to explain why the IPSASB has concluded that the power to grant rights and the power to tax does not meet the definition of an asset.</p> <p>We also agree with the additional public sector guidance provided, and feel that it is necessary to clarify the differences between the private sector and public sector.</p> <p>For further comment on the scope exclusions and on the additional guidance included in the proposed IPSAS, please refer to our comment below.</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
12	ASB (South Africa)	<p><b>Objective</b></p> <p>1. Paragraph .02 explains that the “power to grant rights and the power to tax” do not satisfy the criteria for recognition as an <i>intangible asset</i>. The introduction (IN2) and the Basis for Conclusions (BC3), however, explain that the criteria for recognition of an <i>asset</i> are not met. Paragraph .02 should be clarified to explain that the power to grant rights and the power to tax do not meet the definition of an asset, as opposed to an intangible asset.</p> <p>2. Paragraph .02 explains that the “power to grant rights and the power to tax” are excluded from the scope of the proposed IPSAS. It is unclear whether this exclusion applies to rights and powers granted to entities in terms of legislation, for example the legislative right granted to a local authority to provide water to its citizens, or to issue fines. We recommend that the Basis for Conclusions should further explain whether the abovementioned powers and rights are by implication also excluded or included from the scope of the proposed IPSAS.</p> <p>3. Furthermore, as paragraph .02 deals with a scope exclusion, we recommend that the paragraph should rather be included as an explanatory paragraph in the scope section, i.e. after paragraph .04(f), that specifically mentions the exclusion of the power to grant rights and the power to tax. Both the introduction section of the proposed IPSAS and the Basis for Conclusions explain this scope exclusion under the heading “scope”.</p>
12	ASB (South Africa)	<p><b>Scope</b></p> <p>4. Paragraph .05(g) as amended could be interpreted differently compared to the equivalent paragraph in IAS 38 (see IAS 38.03(g)), as “deferred acquisition costs” were deleted. The amendment to the IAS 38 paragraph should be reconsidered</p>
13	Audit Commission (UK)	<p>We agree with the proposal to exclude the power to grant rights and the power to tax from the scope of this ED and for IPSASB to consider this matter further as part of its Conceptual Framework project.</p> <p>It is acknowledged that this exposure draft does not cover the accounting requirements for intangible assets acquired in an entity combination from a non-exchange transaction as this circumstance is not covered in IAS 38 and it is understood that this area will be covered in future developments of IPSASs.</p>
14	CIPFA (UK)	<p><i>Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:</i></p> <ul style="list-style-type: none"> <li>- <i>Necessary in the circumstances?</i></li> <li>- <i>Appropriately reflected in the revised wording?</i></li> </ul> <p>We agree that most of the changes made to IAS 38 are necessary to provide coherent guidance for the public sector context, and appropriately reflected in the revised wording.</p>
15	UN Task Force	<p>Our detailed comments on the specific matter for comment identified in ED 40 and further issues are attached as Appendix 2. There are no areas of disagreement with the proposed reporting requirements. Our further comments</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		<p>focus on:</p> <ul style="list-style-type: none"> <li>• Improvements to clarify the present intentions of this draft Standard; and</li> <li>• Additional implementation guidance on treatment of software development costs.</li> </ul> <p>We appreciate that this Standard is being developed within a tight timeframe and that this has only been possible through modelling it closely on IAS 38. The issue on which we are recommending additional guidance is an important issue that IPSAS and this draft Standard do not presently address. Guidance on this issue would enhance the contribution that this Standard makes to public sector financial reporting. It is hoped that there will be scope to include guidance without significantly delaying the finalization and issuance of this Standard.</p>
15	UN Task Force	<p>Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:</p> <ul style="list-style-type: none"> <li>• Necessary in the circumstances?</li> <li>• Appropriately reflected in the revised wording?</li> </ul> <p><b>Agree</b></p>
16	Comptroller General BC (Canada)	<p><b>Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:</b></p> <ul style="list-style-type: none"> <li>• <b>Necessary in the circumstances?</b></li> <li>• <b>Appropriately reflected in the revised wording?</b></li> </ul> <p>We disagree with the recognition of intangible assets other than software in public sector financial statements. Governments have significant unique rights and titles which could constitute infinite value that have not been addressed in the exposure draft. Rights to natural resources such as timber, petroleum, water and minerals, as well as other constitutional powers, are so extensive that financial recognition would make financial statement recognition meaningless. It is unclear whether these rights are within the scope of the exposure draft on intangible assets. In British Columbia, applying the capitalization of inherited intangible assets at fair value would result in immediate recognition of infinite gains and large intangible assets that bear no relationship to liabilities and obligations. The application of the exposure draft on a consistent and principled basis would render a government's financial statements meaningless.</p> <p>While we agree that the power to grant rights and the power to tax do not meet the definition of an asset, we note that IPSASB's exclusion of these rights from the proposed standard is temporary and will be reconsidered once the conceptual framework is issued. We contend that these powers should remain excluded from the proposed standard.</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		Many rights of governments, other than the power to grant rights, are infinite and immeasurable and should be specifically prohibited from recognition in a government's financial statements. (additional comments under 1(b))
16	Comptroller General BC (Canada)	As indicated in the exposure draft, the power to grant rights and the power to tax are currently excluded from the scope of this exposure draft but will be re-considered when the conceptual framework is issued. All IPSASB guidance should be deferred until the work that is currently underway on its conceptual framework is complete. It is imperative that IPSAS standards are first consistent with its final conceptual framework; this will help assure governments that accounting standards are conceptually sound and that they will not be faced with significant revisions to a new standard shortly after adoption.
16	Comptroller General BC (Canada)	This exposure draft does not clearly define the body of intangible assets included in its scope. There is a broad spectrum of unique rights that different governments around the world control. Canadian governments have significant rights and titles which could constitute infinite value that have not been addressed in the exposure draft. It is unclear whether rights to natural resources such as timber, petroleum, water and minerals, as well as other constitutional powers, are within the scope of the exposure draft on intangible assets. In British Columbia, these rights of government, apart from the power to grant rights, are so extensive that applying the capitalization of inherited intangible assets at fair value would result in immediate recognition of infinite gains and large intangible assets that bear no relationship to liabilities and obligations.
17	Joint Accounting Bodies (Australia)	<p>• <i>Expenditure on advertising and promotional activities</i></p> <p>The requirements of the [proposed] Standard paragraph 78(c) and IPSAS 12 <i>Inventories</i> appear to result in different outcomes for the same transaction. The [proposed] Standard would require information pamphlets held for free distribution to be recognised by the Department holder as an expense when incurred. In contrast, IPSAS 12 would require recognition as an asset inventory held for distribution in the ordinary course of operations. Expense recognition would be at the time of distribution. The Joint Accounting Bodies strongly suggest that the IPSASB resolve this outcome, so that intangible assets held for distribution are outside the scope of the [proposed] Standard and are instead within the scope of IPSAS 12.</p> <p><i>Scope and the Basis for Conclusions</i></p> <p>The Basis for Conclusions to the [proposed] Standard paragraph BC3 states “The IPSASB has concluded that the powers to grant rights and the powers to tax do not satisfy the criteria for recognition as an asset.”. Although we support the departure, we do not agree with the reason articulated in the absence of the IPSASB's final decisions on its conceptual framework. The Joint Accounting Bodies strongly suggest that the IPSASB remove these words.</p>
18	AASB (Australia)	<p><i>Expenditure on advertising and promotional activities</i></p> <p>The proposed requirement in paragraph 78(c) of ED 40 that expenditure on advertising and promotional activities</p>

#	RESPONDENT NAME	2. OBJECTIVE & SCOPE OF STANDARD
		<p>(including mail order catalogues and information pamphlets) be recognised as an expense when incurred is potentially inconsistent with the requirement in IPSAS 12 <i>Inventories</i> to recognise as an asset inventory held for distribution in the ordinary course of operations,</p> <p>Under paragraph 78(c) of ED 40, the cost of, for instance, antismoking 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.</p> <p>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:</p> <p>(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</p> <p>(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 <u>or distribution</u> in the ordinary course of operations”.</p>
18	AASB (Australia)	<p><i>The power to grant rights and the power to tax</i></p> <p>Although the AASB supports the proposal in paragraph 4(1) 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.</p> <p>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.</p>

#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
2	FEE	<p><u>Transitional Provisions</u></p> <p>It is not clear to us that the transitional provisions are appropriate for an IFRS converged standard.</p> <p>Paragraph 144 allows the use of fair value as a proxy for cost where reliable cost information is not available, explaining that the transitional provisions are consistent with IPSAS 17 ‘Property, Plant and Equipment’. This differs from the transitional provisions in IAS 38 which are more restrictive than those in the IASB standard IAS 16</p>

#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
		<p>‘Property, Plant and Equipment’, and only allow retrospective recognition of assets for which reliable cost data is available. Paragraph 144 also seems to override the text in paragraph 140, which echoes the IAS 38 drafting by requiring that assets satisfy the identifiability and reliable measurement criteria in paragraph 30. The reliable measurement criterion in subparagraph 30 (b) has been widened to include ‘the cost or fair value of the asset, as appropriate’ but in this context, the fair value option is only available for assets acquired in non-exchange transactions.</p> <p>We agree that there is a public sector specific issue in relation to assets obtained in non- exchange transactions, and that these assets should be valued on a fair value basis. However, for other assets the ED does not provide any public sector reason for different treatment. We therefore suggest that it would be appropriate to maintain an IFRS converged approach and use the same reliability criterion as IAS 38 in the transitional provisions.</p>
5	ASB (UK)	<p>5. We note that paragraph 140 (b) of the ED is consistent with IAS 38 in requiring prospective application. Whilst we agree with this proposal, we do have concerns about the transitional provisions in paragraph 140 (c) that require the entity to reassess previously recorded and unrecorded intangible items. Although this reassessment relates only to the recognition criteria in paragraph 30 of the ED, it seems to introduce a tougher requirement than exists for IAS 38, particularly where the entity changes its assessment of the existence of an intangible asset and is required to account for this reassessment as a change in accounting policy. The requirement also appears to contradict the prospective application offered by paragraph 140 (b).</p>
9	HoTARAC	<p><b><i>Transitional provisions</i></b></p> <p>IPSASB should consider whether similar provisions to the IASB’s IFRS 1 <i>First-Time Adoption of International Financial Reporting Standards</i> Paragraph 30 “Use of fair value as deemed cost” would assist in transition from cash to accrual where neither cost nor fair value can be determined.</p>
13	Audit Commission (UK)	<p>We would like to draw the Board’s attention to the Transitional Provisions and particularly an apparent inconsistency between paragraphs 140 (b) and 140 (c). It is unclear how 140(b), which requires prospective accounting for all intangible assets other than those from entity combination from exchange transactions aligns with the requirements of 140(c). Paragraph 140(c) requires the entity to reassess previously recognised and unrecognised intangible assets under the recognition criteria of paragraph 30. This is surely retrospective adoption and therefore inconsistent with the requirement of 140(b).</p>
14	CIPFA	<p><b><u>Transitional Provisions</u></b></p> <p>It is not clear to us that the transitional provisions are appropriate for an IFRS converged standard.</p> <p>ED 40, paragraph 144 allows the use of fair value as a proxy for cost where reliable cost information is not available, explaining that the transitional provisions are consistent with IPSAS 17 ‘Property, Plant and Equipment’. This differs from the transitional provisions in IAS 38 which are more restrictive than those in the IASB standard IAS 16</p>



#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
		<p>‘Property, Plant and Equipment’, and only allow retrospective recognition of assets for which reliable cost data is available. Paragraph 144 also seems to override the text in ED 40, paragraph 140, which echoes the IAS 38 drafting by requiring that assets satisfy the identifiability and reliable measurement criteria in ED 40, paragraph 30. The reliable measurement criterion in sub-paragraph 30 (b) has been widened to include ‘the cost or fair value of the asset, as appropriate’ but in this context, the fair value option is only available for assets acquired in non-exchange transactions.</p> <p>We agree that there is a public sector specific issue in relation to assets obtained in non-exchange transactions, and that these assets should be valued on a fair value basis. However for other assets the ED does not provide any public sector reason for different treatment: we therefore suggest that for such assets it would be appropriate to maintain an IFRS converged approach and use the same reliability criterion as IAS 38 in the transitional provisions.</p>
15	UN Task Force	<p><b>First-time Adoption of the Accrual Basis of Accounting</b></p> <p><i>Transitional provisions for first time recognition of intangibles</i></p> <p>11 We agree with the inclusion of transitional provisions for first time recognition of intangibles in this Standard. In particular, we <b>support</b> the requirement that intangible assets that exist prior to the first-time adoption of the accrual basis of accounting and which would otherwise have been recognized should be recognized at either cost or fair value. We <b>support</b> provision of a five year transition period for this. We <b>support</b> the provision of a choice to use either cost or fair value when first recognizing these assets.</p> <p><b>Recommended amendment</b></p> <p>12 We consider that similar explanation to that provided in IPSAS 17 is needed to support paragraph 145 to 147. Including this narrative is necessary in order to clarify the intent of paragraphs 145 to 147 and, in particular, to clarify the meaning of ‘cost’ and ‘fair value’ for the purposes of these paragraphs, where ‘cost’ relates to the <i>date of acquisition</i> and includes fair value at date of acquisition if an asset was donated or the cost cannot be determined; and, ‘fair value’ is at <i>date of initial recognition</i> for which the earliest date will be the first year applying the accrual basis of accounting. The third paragraph in the recommended amendment below includes additional words to those in IPSAS 17 with the aim of further restricting the scope to recognize costs as assets, consistent with ED Intangibles’ restrictions.</p> <p>13 <b>We recommend</b> that the following paragraphs be included after the present paragraph 147 and before the present paragraph 148:</p> <p>P1. Prior to first application of this Standard, an entity may recognize its intangible assets on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize intangible items at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset’s fair value as at the date of acquisition. Where the cost of acquisition of an asset</p>

#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
		<p>is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.</p> <p>P2 IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an intangible item at cost in accordance with this Standard, it shall also recognize any accumulated amortization and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.</p> <p>P3. The cost of an intangible item expensed prior to first time adoption of the accrual basis of accounting shall be recognized as an asset if, and only if:</p> <ul style="list-style-type: none"> <li>(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and</li> <li>(b) The cost or fair value of the item can be measured reliably; and</li> <li>(c) The costs would have met the applicable requirements of this Standard for recognition of costs as an asset, if the entity had been reporting on an accrual basis when the costs were incurred.</li> </ul> <p><i>Treatment of previously expensed costs on first time recognition of intangibles</i></p> <p>14 The requirement in paragraph 146 to recognize intangible assets on ‘First-time Adoption of the Accrual Basis of Accounting’ is probably intended to require organizations to bring onto the statement of financial position as assets those items for which costs have previously been expensed, applying the same approach as that which exists in IPSAS 17 Property Plant and Equipment. But the wording used does not adequately address the prohibition that exists in paragraph 81 of the draft Standard against recognizing previously expensed costs. Paragraph 81 states that:</p> <p><b>81. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.</b></p> <p>15 Paragraph 146 states that:</p> <p><b>146 An entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize intangible assets at either cost or fair value, <u>as required under this Standard</u>. For intangible assets that were acquired through non-exchange transactions, cost is the item’s fair value as at the date of acquisition (see paragraphs 52-53).</b> [Underlining added.]</p> <p>16 Paragraph 146’s requirement to recognize intangible assets does not appear to over-ride the prohibition in paragraph 81 with respect to recognizing as the cost of an intangible asset at later date expenditure that had previous been expensed. Indeed, the words ‘as required under this Standard’ appear instead to require application of the paragraph 81 requirement, with the unintended result that organizations moving from a cash (or modified cash or modified accruals) basis will not be able to recognize purchased and internally generated intangibles assets involving past costs that have been expensed.</p> <p><b>Recommended amendment</b></p> <p>17 To address this problem, <b><u>we recommend</u></b> that the following amendment be made to paragraph 81 and further</p>

#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
		<p>that the new paragraph below be included immediately after paragraph 81.</p> <p><b>81. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date, except where expenditure meets the criteria in paragraph 82 below.</b></p> <p>[New paragraph 82] <b>Where an entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards initially recognizes intangible assets at either cost or fair value applying paragraph 146 expenditure that had previously been expensed may be recognized as part of the costs of an intangible asset if:</b></p> <ul style="list-style-type: none"> <li>• <b>the expenditure had previously been expensed only because the entity was applying a different basis of accounting at the time that the expenditure was incurred; and</b></li> <li>• <b>The expenditure would not have been expensed if the requirements of this Standard had been in force when they were incurred and instead the expenditure on the intangible item would have been recognized as part of the cost of an intangible asset.</b></li> </ul> <p><i>Amendments to related paragraphs</i></p> <p>18 If the amendment proposed above is accepted, then there are two other references to paragraph 81 in the draft Standard, which could warrant amendment to include reference to the additional paragraph 82, as follows.</p> <p><u>Paragraph 74</u></p> <p>The cost of an internally generated intangible asset for the purpose of paragraph 33 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 30, 31 and 66. Paragraph 81 prohibits reinstatement of expenditure previously recognized as an expense, <u>except to the extent provided for in paragraph 82 when an entity adopts the accrual basis of accounting.</u></p> <p><u>Paragraph AG9 (b)</u></p> <p>However, in accordance with paragraph 81 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a web site) <u>except to the extent provided for in paragraph 82 when an entity adopts the accrual basis of accounting;</u></p>
18	AASB (Australia)	<p><i>Transitional provisions on early application and First4ime adoption</i></p> <p>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:</p> <p>(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</p> <p>(b) initially measure that asset at fair value when the item had been acquired at no cost, at a nominal cost or when its</p>

#	RESPONDENT NAME	3. TRANSITIONAL PROVISIONS
		<p>cost of acquisition is not known.</p> <p>However, because paragraph 143 is located under the subheading ‘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.</p> <p>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:</p> <p>(a) when an intangible item had previously been unrecorded or expensed but meets the recognition criteria for an intangible asset; and</p> <p>(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.</p>

#	RESPONDENT NAME	4. HERITAGE ASSETS
1	Comité des Normes des Comptabilité Publique (France)	<p><b>2. We don’t agree with the provisions related to intangible heritage assets (10-14).</b></p> <p>We don’t understand the relationship of these provisions with ED 40 that excludes the public sector specificities. However, we believe it would be better that IPSAS Board draws up an appropriate standard to heritage assets whenever they are tangible or intangible.</p>
4	Cour des Comptes	<p><b>3. The concept of intangible heritage asset is not defined clearly enough, nor illustrated by relevant examples</b></p> <p>This is the only public sector specificity addressed by the exposure draft, despite the fact it has explicitly chosen to exclude those issues. The current developments of the exposure draft (10. to 14.) seem insufficient to gauge the exact nature of these assets and their value.</p> <p>It seems necessary to revise this provision and supplement it by a more explicit definition of these assets, illustrative examples of significant intangible heritage assets and detailed guidance to measure their value.</p>
4	Cour des Comptes	<p><b>3. Intangible heritage assets</b> are not defined clearly enough, nor illustrated by significant examples</p> <p>As the only public sector specificity addressed by the exposure draft (10. to 14.), in contradiction with the initial choice of the IPSAS Board, the Cour des comptes issues the following commentaries:</p> <ul style="list-style-type: none"> <li>• while providing a number of clues to recognise intangible heritage assets, and the accounting treatment accordingly, the exposure draft does not give however any explicit definition;</li> </ul>

#	RESPONDENT NAME	4. HERITAGE ASSETS
		<ul style="list-style-type: none"> <li>only two examples are given to illustrate this notion (11.) recordings of significant historical events and rights to use the likeness of a significant public person in, for example, postage stamps or collectible coins — assets that are not material if one considers the potentially significant intangible assets that can be found in States' financial statements;</li> </ul> <p>the exposure draft remains silent on how their fair value should be measured.</p> <p>Current developments in the exposure are insufficient to understand the exact nature of these assets and their value.</p>
10	APIE	The unique nature of the public sector dealt with in the Exposure Draft relates to heritage assets. This subject warrants further development and should be incorporated into the main body of the standard.
10	APIE	<p>The inclusion of intangible heritage assets is undoubtedly the most significant change that ED 40 “Intangible Assets” proposes with regard to IAS 38. These assets illustrate the specific nature of the public sector compared to the business world. However, we regret that this innovation has not been developed more fully with more discussion of the use of such assets and more examples.</p> <p>States have a very rich and diversified historical heritage. We can mention such intangible heritage assets as photographic and audiovisual archives. In France, most of the ministries and other government agencies have very valuable historical records in their archives. Some of the ministries have undertaken a process of using such assets to create value in response to the very real interest in such public information. A public establishment, the French National Audiovisual Institute (INA), made great strides in marketing the archives of French radio and television online. These examples could be cited as illustrations of intangible heritage assets.</p> <p>Valuing these assets at their acquisition or production cost would not be very meaningful because of their specific nature. We feel that a valuation method based on discounting future cash flows would be the most appropriate. If a valuation policy has not yet been defined, a valuation based on an expert audit of the assets could be used, as long as no revenue has yet been generated.</p> <p>We suggest that the accounting treatment of heritage assets should not be described in the “Scope” section, but in the main body of the Exposure Draft, along with acquired and internally generated intangible assets. This acquisition method is specific to the public sector, but the standard should deal with it in the same way as other acquisition methods.</p> <p>We also should highlight the Governments' efforts to preserve both tangible and intangible heritage assets by digitising them. This operation may be carried out in house or outsourced to service providers. In some cases, the digitisation is financed by a private sector operator who receives the right to use the digitised assets for a specified period. We feel that a standard dealing with intangible public sector assets should describe the accounting treatment of such transactions.</p> <p>1.2 Adaptation of the vocabulary and examples</p>

#	RESPONDENT NAME	4. HERITAGE ASSETS
		In ED 40, the IPSAS Board includes the notion of “service potential” in the criteria for recognition of intangible assets, in addition to economic benefits. We feel that this adaptation reflects the specific nature of the public sector, where investments are not always made to obtain a future economic benefit.
17	Joint Accounting Bodies (Australia)	<p><b><i>Substantive Departures</i></b></p> <p>• <i>Intangible Heritage Assets</i></p> <p>The [proposed] Standard does not require or prohibit the recognition of intangible assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. An entity that recognises intangible heritage assets is required to comply with the disclosure requirements of the [proposed] Standard with respect to those intangible heritage assets that have been recognised and may, but is not required to, comply the measurement requirements of the [proposed] Standard in respect of those intangible heritage assets. The Joint Accounting Bodies note this approach replicates that which applies to heritage property, plant and equipment assets (see IPSAS 17 <i>Property, Plant and Equipment</i> paragraph 8). We do not support the decision that the [proposed] Standard replicate IPSAS 17.18. We are not aware of any public sector reason to justify the decision.</p>
18	AASB (Australia)	<p><i>Intangible heritage assets</i></p> <p>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.</p> <p>The AASB acknowledges that the approach in paragraph 10 is consistent with the optional recognition, under IPSAS 17 <i>Property, Plant and Equipment</i>, 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 nonrecognition of intangible heritage assets that meet the definition and recognition criteria in ED 40.</p> <p>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.</p>

#	RESPONDENT NAME	5. MEASUREMENT ISSUES
1	Comité des Normes des Comptabilité Publique (France)	<p><b>4. We believe it is urgent to address the public sector intangible assets measurement at recognition and after recognition.</b></p> <p>The accounting model for some of these intangible assets based on future cash-flow would be discussed.</p>
4	Cour des Comptes	<p>II. B. REFERENCE TO AN ACTIVE MARKET WHEN MEASURING FAIR VALUE SEEMS TO RESTRAIN PRACTICAL APPLICATION TO A VERY LIMITED NUMBER OF SITUATIONS</p>

#	RESPONDENT NAME	5. MEASUREMENT ISSUES
		<p>Similarly to IAS 38, the exposure draft lets sector public entities chose between two models when measuring value of an intangible asset after recognition (82. to 97.): cost or revaluation at fair value.</p> <p>When revaluation model is chosen, the exposure draft explicitly indicates that fair value is determined by reference to an active market (85.), otherwise the cost method shall be used. Considering the nature of specific intangible assets in the public sector, the existence of an active market seems very unlikely in practice, which would prevent using this option in most cases.</p> <p>The Cour des comptes considers that this provision of the exposure draft should be revised to better reflect the constraints of the public sector.</p>
12	ASB (South Africa)	<p>22. The revaluation model in paragraph .85 requires that intangible assets should be carried at a revalued amount less any subsequent accumulated amortisation and any subsequent accumulated <i>impairment losses</i>.</p> <p>IPSAS 26 however excludes from its scope, intangible assets carried at revalued amounts that are regularly revalued to fair value. A similar scope exclusion is included in the consequential amendments to IPSAS 21 as proposed in this IPSAS (see Appendix B).</p> <p>If cash-generating and non-cash-generating intangible assets are to be excluded from the scope of IPSAS 21 and IPSAS 26, the revaluation model incorrectly requires the deduction of subsequent accumulated impairment losses in paragraph .85. Similarly, paragraph .92 should exclude the reference to subsequent accumulated impairment losses.</p> <p>If the revaluation model in paragraph .85 is amended, it should be explained in the Basis for Conclusions, including the reason for the departure from IAS 38. Currently the exclusion of impairment testing for cash-generating and non-cash-generating intangible assets carried at revalued amounts are only explained in the Basis for Conclusions to IPSAS 21 and IPSAS 26.</p>
12	ASB (South Africa)	<p>23. IPSAS 26 and the proposed amendments to IPSAS 21 require an entity to test intangible assets with indefinite useful lives or intangible assets not yet available for use annually for impairment, irrespective of whether there is any indication of impairment.</p> <p>Even though impairment testing for intangible assets carried at revalued amounts is excluded from the scope of IPSAS 21 and IPSAS 26, it is not clear whether such an exclusion also applies to intangible assets with indefinite useful lives or intangible assets not yet available for use that are carried at revalued amounts. In the absence of such an exclusion, it is assumed that intangible assets with indefinite useful lives or intangible assets not yet available for use carried at revalued amounts, are subject to an annual impairment testing.</p> <p>There is thus inconsistency between the treatment of intangible assets with indefinite useful lives or intangible assets not yet available for use carried at revalued amounts, and other intangible assets carried at revalued amounts. Consideration should be given to this inconsistency and sufficient guidance should be provided to clarify the inconsistency.</p>

#	RESPONDENT NAME	5. MEASUREMENT ISSUES
15	UN Task Force	<p>4 We support the Standard's requirement that intangible assets acquired through a non-exchange transaction initially be measured at fair value. However, we are concerned that this issue has not been fully integrated into the Standard's requirements with the result that donated assets may be under-valued, if the requirements are strictly applied. For example, a donated intangible item is measured at fair value, applying paragraph 33 and paragraphs 52 to 53. The draft Standard does not address the treatment of costs subsequent to the donation (transfer). These costs are discussed in paragraphs 34 to 41 within the context of determining 'cost.' Logically the same treatment of costs subsequent to transfer should be applied when determining measurement on initial recognition as is applied to costs subsequent to purchase. The measurement of a donated intangible asset will then be both its fair value on transfer and any additional costs that would be recognised applying paragraphs 34 to 41.</p> <p>5 A donated asset may involve the incurrence of costs such as those listed in paragraphs 36 and 37:</p> <ul style="list-style-type: none"> <li>• directly attributable costs such as: <ul style="list-style-type: none"> <li>○ employee benefit costs arising from bringing the asset to its working condition</li> <li>○ professional fees arising directly from bringing the asset to its working condition</li> <li>○ Costs of testing whether the asset is functioning properly.</li> </ul> </li> </ul> <p>6 For example, donated papers and patents may require that the recipient entity spends staff time reviewing and ordering the material so that it can be made accessible for research, public access, and other uses, consistent with the entity's aims and objectives. The costs involved form part of the overall cost of the asset and should, consistent with paragraph 34 to 41, be able to be included in the initial measurement of the asset.</p> <p>7 <b><u>We recommend</u></b> that paragraph 33 be amended to read as follows:  <b>An intangible asset shall be measured initially at cost in accordance with paragraphs 34-51, except when it is acquired through a non-exchange transaction when it is measured initially at fair value, in accordance with paragraphs 52 to 54, with costs subsequent to acquisition treated in accordance with paragraphs 34-51.</b></p> <p>8 <b><u>We recommend</u></b> that a new paragraph 54 be added after the present paragraph 53 as follows:  [New] 54. Where an intangible asset is acquired through a non-exchange transaction the initial measurement of the asset includes two components; the fair value of the item transferred and costs incurred subsequent to transfer. Subsequent costs form part of the initial measurement of the transferred asset only to the extent that they meet the requirements in paragraphs 34 to 51.</p> <p>9 IPSAS 17 Property Plant and Equipment and IPSAS 12 Inventories use in essence the same wording as in ED40 when addressing this issue. It seems likely that the wording in IPSAS 17 and IPSAS 12 has been interpreted in a 'common sense' way i.e. that the valuation on transfer of a donated asset is fair value, but that costs subsequent to transfer should be capitalized and included in the asset's initial measurement to the extent that they would be capitalized if an item were purchased or otherwise acquired through an exchange transaction. The amendments</p>



#	RESPONDENT NAME	5. MEASUREMENT ISSUES
		<p>recommended above aims to ensure that the Standard provides clearer support for that treatment.</p> <p><i>Cost of internally generated intangibles assets – donated materials and services</i></p> <p>10 The discussion in paragraphs 74 to 75 on the cost of an internally generated intangible asset does not address the possibility that some of the materials and services involved in internally generating an intangible asset may be donated. Any donated materials and services that otherwise meet the recognition criteria for internally generated assets should logically be valued at fair value and included in the ‘cost’ of the internally generated asset. This issue is raised for the Board’s consideration. It is not clear to us that this situation would occur frequently in practice.</p>
16	Comptroller General BC (Canada)	<p>We disagree with the revaluation model described in sections 85-86 of the exposure draft. Intangible assets should be carried at their amortized cost. Upward revaluation of assets could be used to manipulate the operating results and financial position of an entity. Any active market that may exist for unique public sector intangible assets may not reflect the service potential or the appropriate value to the government, unless the asset in question is specifically for sale. We do, however, agree that a recorded intangible asset should be evaluated at each financial statement date and if the intangible asset has become impaired, that the impairment must be recognized in the statement of operations.</p>

## **BREAKDOWN OF RESPONDENTS**

### **Purpose of this Paper:**

The following is staff's analysis of the 18 responses received to ED 40, *Intangible Assets*. It is not intended as a replacement for an analysis of the substance of the responses.

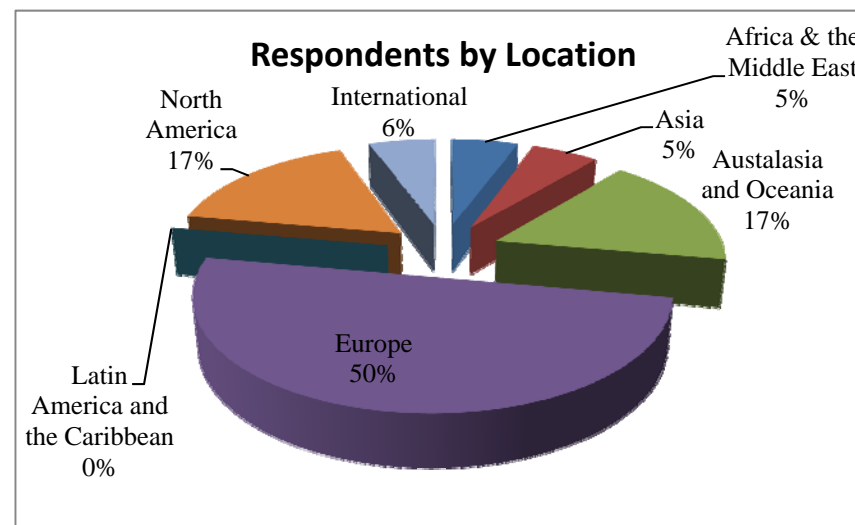
Copies of the responses are provided as Agenda Paper 7.1.

### **List of Respondents:**

<b>Response</b>	<b>Respondent Name</b>	<b>Function</b>
1	Comité des Normes des Comptabilité Publique (France)	Standard Setter/Standards Advisory Body
2	Fédération des Experts Comptables Européens (FEE)/Federation of European Accountants (FEE)	Member or Regional Body
3	Public Sector Accounting Board (Canada) – Staff Views	Standard Setter/Standards Advisory Body
4	Cour des Comptes (France)	Audit Office
5	Accounting Standards Board (UK)	Standard Setter/Standards Advisory Body
6	European Commission (EC)	Preparer
7	Japanese Institute of Certified Public Accountants (JICPA)	Member or Regional Body
8	Dr. Joseph Maresca	Academic
9	HoTARAC (Australia Heads of Treasuries Accounting and Reporting Advisory Committee)	Preparer
10	Agency for Public Intangibles, Ministère de L'Économie, de L'Industrie et de L'Emploi, Ministère du Budget, des Comptes Publics, de la Fonction Publique et de la Réforme de L'État (France)	Preparer
11	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
12	Accounting Standards Board (South Africa)	Standard Setter/Standards Advisory Body
13	Audit Commission (UK)	Audit Office
14	Chartered Institute of Public Finance & Accountancy (UK)	Member or Regional Body
15	United Nations Task Force	Preparer
16	Controller General, Province of British Columbia (Canada)	Preparer
17	Joint Accounting Bodies (Australia)	Member or Regional Body
18	Australian Accounting Standards Board	Standard Setter/Standards Advisory Body

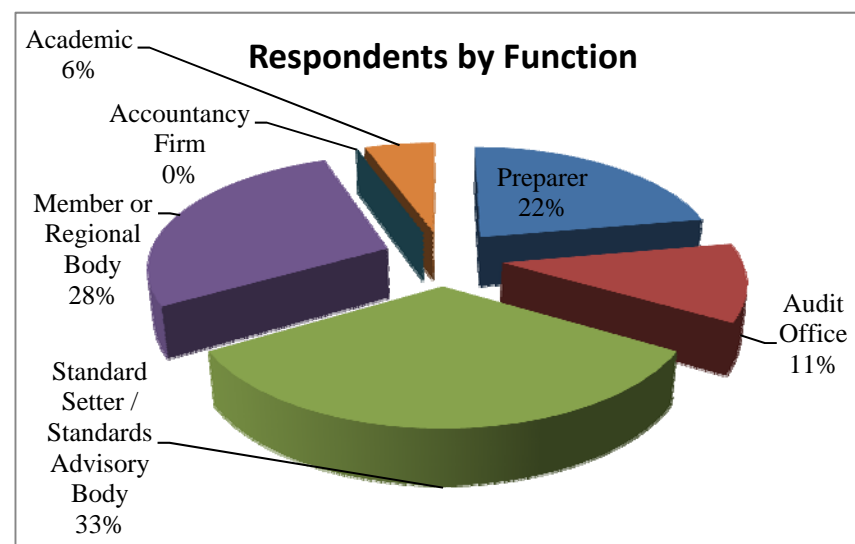
### Geographic Breakdown:<sup>1</sup>

Location	Response #s	Total
Africa and the Middle East	#12	1
Asia	#7	1
Australasia and Oceania	#9, 12, 18	3
Europe	#1, 2, 4, 5, 6, 10, 11, 13, 14	9
Latin America and the Caribbean		0
North America	#3, 8, 16	3
International	#15	1
<b>Total</b>		<b>18</b>



### Functional Breakdown:

Function	Response #s	Total
Preparer	#9, 10, 15, 16	4
Audit Office	#4, 13	2
Standard Setter/Standards Advisory Body	#1, 3, 5, 11, 12, 18	6
Member or Regional Body	#2, 6, 7, 14, 17	5
Accountancy Firm		0
Academic	#8	1
<b>Total</b>		<b>18</b>



<sup>1</sup> The geographic breakdown used is the same as that used in IPSASB's Agenda Paper 1.4, "Report on IPSASB Communications and Liaison Activities" and in the IFAC document, "Call for Nominations for IFAC Boards and Committees in 2010," at [http://web.ifac.org/download/2\\_Call\\_for\\_Nominations\\_2010.pdf](http://web.ifac.org/download/2_Call_for_Nominations_2010.pdf)

**Linguistic Breakdown:**

Language	Response #s	Total
English-Speaking	#3, 5, 8, 9, 12, 13, 14, 16, 17, 18	10
Non-English Speaking	#1, 4, 7, 10, 11	5
Combination	#2, 6, 15	3
<b>Total</b>		<b>18</b>

