

July 20, 2009

Technical Director,
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 4th floor
Toronto, ON, M5V 3H2

Re: Comments on Exposure Draft 40, Intangible Assets

Thank you for providing us with the opportunity to comment on these proposals. In general, Public Sector Accounting Board (PSAB or Board) staff is supportive of the IPSASB's issuing a standard on Intangible Assets.

We have some issues with the proposed standard in ED 40 that are presented for consideration by the IPSASB in Appendix 1. They can be grouped into the following areas:

- (a) Objectives of the Project;
- (b) Scope of the proposed standard; and
- (c) General Comments.

Please note that these comments are the views of PSAB staff and not of the Board.

We appreciate the opportunity to comment on this Exposure Draft.

Yours truly,



Tim Beauchamp
Director
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Issues with ED 40

(a) Objective of the Standard

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).¹

ED 40 addresses two of the public sector issues identified by limiting the scope of the Standard to exclude:

- a) the power to grant rights and to tax (IN 2, IN 3 and paragraph 4(f)); and
- b) intangible assets acquired in an entity combination from a non-exchange transaction (IN 5)

due to the IPSASB’s not yet having completed its consideration of these matters.

However, no mention is made in ED 40 of the outcome of deliberations on the applicability of the section to emissions trading schemes.

PSAB staff suggests that the Introductory paragraphs include reference to the outcome of these deliberations.

2. One additional issue identified in the project deliverables was the consideration of the “future economic benefit and service potential of intangible assets.” The Exposure Draft on Phase I of the Conceptual Framework addressed the idea of “service delivery objectives” and future service delivery activities and objectives” at Preliminary View 5, but the notion of “service potential” remains undefined.

PSAB staff suggests addressing the issue of “service delivery objectives” in the Introduction to ED 40, by making reference to the ongoing work on finalizing the Phase I ED, including Preliminary View 5. Further, PSAB suggests replacing the phrase “service potential” with “future service delivery activities and objectives” throughout ED 40.

¹ Project page, updated at November 19, 2008,
www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0086

(b) Scope of the proposed standard

3. 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.

PSAB suggests conforming the scope limitation regarding the power to grant rights and the power to tax by removing paragraph 2.

4. 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.

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.

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.

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 5 (g) and (h) be revised.

5. 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.

PSAB staff suggests that paragraph 9 include reference to ED 37 in respect of insurance contracts.

(c) General Comments

6. Paragraph 13 references the term “heritage value” but does not define it. Neither is the term defined in IPSAS 17 “Property, Plant and Equipment”.

PSAB staff suggests that the term be emboldened in paragraph 13 and defined in paragraph 17.

7. Other IPSAS include a scope limitation from government business enterprises as the second paragraph in the “Scope” section (e.g. IPSAS 15, 16 and 17), yet the similar scope limitation is found at paragraph 15 in ED 40.

PSAB staff suggests that paragraph 15 be relocated to between existing paragraphs 3 and 4, and that paragraph 16 be deleted, since its circumstances and findings are not unique to ED 40.

8. Although it conforms with IAS 38 at paragraph 9, given the title of the ED, “Intangible Assets”, the subtitle preceding paragraph 18 is confusing.

PSAB staff suggests the subtitle preceding paragraph 18 be changed to “Characteristics of Intangible Assets”.

9. Paragraph 19 addresses exceptions to intangible assets and presents two, that are mutually exclusive: when an item falls within the scope of the Standard but does not meet the definition of an intangible asset; and when an item is acquired in an entity combination from an exchange transaction. However, the presentation of the two exceptions is confusing: use of the word “however” respecting the entity combination leads one to conclude that it is an exception to the exception, rather than a second example of an exception.

PSAB staff suggests that “However” be deleted from the last sentence in paragraph 19.

10. The examples in paragraph 68 of development activities are not unique to government. In fact, a public sector reader of ED 40 may have difficulty relating the merit of the paragraph to public sector

circumstances, because the examples are geared towards private sector activities.

PSAB staff suggests including some public sector specific examples of development activities in paragraph 68.

11. The direction provided in paragraph 77 is contrary to that provided in paragraph 4(f). Paragraph 77(b) would lead a reader to conclude that an expenditure on an intangible item that was acquired in an entity combination from an exchange transaction that cannot be recognized as an intangible asset because of the scope limitation of paragraph 4(f), would be recognized as goodwill at the acquisition date.

However, recognition of intangible assets, either separately or as part of goodwill resulting from an entity combination from an exchange transaction, is the subject of ED 40, and ED 40 sets out specific exceptions to its application in paragraph 4, one of which is the exclusion of the power to grant rights and the power to tax. Furthermore, paragraph IN2 states that the consideration of the power to grant rights and to tax as intangible assets will be resolved with the development of the Conceptual Framework. Accordingly, the power to grant rights and to tax cannot be recognized as goodwill, at this time.

PSAB staff suggests removal of the examples of the power to grant rights and the power to tax in paragraph 77(b) and replacement with relevant examples.

12. Dealing with the accounting treatment of web site costs in a separate appendix is inconsistent with the logic applied to dealing with the accounting treatment for heritage assets in ED 40. Although it may be argued that the private sector does not deal with heritage assets but does deal with web site costs, a significant difference between the two sectors concerning the recognition of the latter as an asset exists: namely the absence of the condition of order-taking ability in the public sector. Although web site costs as intangible assets are handled separately in the private sector, their unique characteristics are as significant in the public sector as are heritage assets. Accordingly, the accounting treatment should be included in the main body of the Standard, in the same manner as for heritage assets.

PSAB staff suggests including the paragraphs in Appendix A in the main body of the standard.

13. References in the Application Guidance section to paragraphs in ED 40 require updating.

PSAB staff suggests that reference to paragraph 64 be replaced with 66, and 63 to 65, in paragraph AG8.