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Regarding: **INTANGIBLE ASSETS- EXPOSURE DRAFT 40**      **DUE 8-15- 09**

By           : **Dr. Joseph S. Maresca CPA, CISA**

Colleagues,

Thank you for the opportunity to critique this submission.

Details follow:

**Summary:**

The exposure draft proposes an accounting treatment for intangible assets of public sector entities. The Board hasn't considered non-exchange transactions of entity combinations. Public sector rights derive from binding arrangements. Ultimately, the power to grant valuable rights and tax concurrently, does not satisfy the dual criteria for recognition as an intangible asset. Public sector rights accrue from binding arrangements.

**Critique:**

There is a probabilistic recognition criterion . Additionally, the fair value of intangible assets acquired in an entity combination from an exchange transaction cannot be measured with sufficient reliability to be recognized from goodwill. (pp. 9) The more common intangibles are copyrights, franchises, patents, goodwill and certain organization costs . Intangibles either have specificity or they lack a particular identification. These assets may be acquired singly, in groups or in business combinations. The period of benefit may be limited by law, contract, economic factors or an indeterminate period of time.

Impairment is to be assessed for non-cash generating intangible assets at the report date. (pp. 10) The carrying amount is to be recorded plus reasonable support for an indefinite useful life. An example of reasonable support for an indefinite useful life would be a continuation - in- part patent application to enhance the current art and make it more valuable.

The Board references intangible heritage assets due to cultural, environmental or historical significance. (pp. 13) An active market is defined as one with homogeneous trade, willing buyers/sellers and a rational pricing available to the general public. (pp. 14)

Control may be inferred if the entity gets future economic benefits. (pp. 16)  
In process research and development is recognized as an intangible asset. (pp.21)  
An important point for financial recordation purposes is a predictable cost of intangible assets which can be measured reliably and consistently . (pp. 22)  
Expenditures on research are recognized in the current period when occurred. (pp.24)

Classically, activities considered to be research are the following:

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- o how to apply research findings in a commercial or municipal setting like a new hybrid energy bus line
  - o conceptual formulation and design of process alternatives like solar, battery technology or natural gas powered engines
  - o product or process evaluation or modification
  - o design, construction or testing of prototypes, tools, molds etc.
  - o design of a pilot plant or testing facility to emulate real life operation like the "Artificial Sun" or Tokamak
  - o engineering activity aimed at elevating a product or new product from design through testing and manufacturing or placing the idea into the public domain

The cost model consists of intangible assets carried at cost less accumulated amortization. The re-valuation model consists of intangible assets carried at revalued amounts. Impliedly, the revalued amounts can be arrived at by an objective benchmark for consistency purposes in actual accounting practice.

The useful life of intangible assets may be determined rationally by reference to:

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- o expected usage
- o product life cycle
- o technological obsolescence
- o stability in an industry

I would add to this list the MTBF or Mean Time Between Failures. The MTBF anticipates scheduled repairs to avoid predicted breakdowns based upon engineering operational testing and field experience. Obsolescence can be accelerated due to new governmental regulation which requires added features to protect the environment from pollution. Provisions for renewal or extension may alter the useful life. Economic factors may impact useful life like demand, supply, competition, regulatory tariffs or an indeterminate useful life.

Franchise agreements may be entered into by a municipality or governmental body; such as, a utility using public property. Examples are public waterways to manage canal traffic, the use of public land for electric lines or the use of city streets by a bus or trolley company.

The depreciation amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over that useful life. (pp.31) There are engineering enhancements or design customizations that can extend useful life. Residual value can be determined with reference to a market and probability of a willing buyer at the end of the asset useful life. (pp.32) Here, an expert opinion may be obtained in order to provide documentation for valuation purposes and current applicability of the criteria relied upon by the accountant.

The useful life of the intangible asset should be disclosed whether definite or indefinite. (pp.34) Also, the amortization method and gross carrying amount should be disclosed. There should be a reconciliation of the carrying amount at the beginning of the period to the end of period. (pp.35)

Classes of assets should be separated by brand name, copyright, recipes etc.

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