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Ms Stephenie Fox
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Dear Ms Fox

ED 40 INTANGIBLE ASSETS

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on Exposure Draft 40 – *Intangible Assets.*

Overall, HoTARAC supports the approach taken by IPSASB in the modification of IAS 38 *Intangible Assets* for public sector use. HoTARAC has some specific comments in relation to ED 40 and these are detailed in the accompanying attachment.

If you have any questions regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on +61 2 6215 3551.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

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Encl

Contact: Amy Huxley
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IPSASB Exposure Draft 40 – Intangible Assets

Additional disclosure and inconsistency with the requirements of IPSAS 17 Property, Plant and Equipment

As you are no doubt aware, it is the practice of the Australian Accounting Standards Board to adapt International Accounting Standards where appropriate for the Australian context. This is done by way of "Aus" paragraphs. In its own considerations of IAS 38 for use by not-for-profit entities, the AASB included Aus Paragraph 124.1. The effect of this paragraph is to exempt not-for-profit entities from Paragraph 124(a)(iii). This paragraph requires that, where assets are carried at fair value, the reporting entity will need to disclose the carrying amount that would have been recognised had the assets been carried under the cost model.

The Board in making this exemption noted that IPSAS 17 *Property, Plant and Equipment* did not have an equivalent disclosure requirement. The Board also considered that such a requirement would be too onerous for not-for-profit entities. Accordingly, the Board agreed that the disclosure should not be required for not-for-profit entities. For the same reasons, HoTARAC suggests that IPSASB considers a similar modification, as HoTARAC sees no benefit of this disclosure.

Asset definition should incorporate service potential

The definition of an asset in IPSASs 1 to 8 refers explicitly to future economic benefits or service potential. However, although ED 40 usually refers explicitly to service potential when mentioning future economic benefits, it does not do this in the asset definition in Paragraph 17.

Service potential is an important element of the asset definition for public sector entities as their assets often do not give rise to an inflow of economic benefits.

HoTARAC considers that the asset definition in Paragraph 17 should explicitly refer to service potential, for consistency with other IPSASs and the remainder of the ED.

Definition and guidance in relation to "binding arrangements"

While HoTARAC supports the position that the not-for-profit sector should not be limited to contractual arrangements only, HoTARAC is of the opinion that it would be of assistance to users if there was more discussion as to what constitutes a binding arrangement. Issues that HoTARAC would specifically like to see included in such a discussion would be those agreements that are intended to be binding, and situations where an agreement is binding and does not involve an element of exchange. While accepting that the latter will more likely be a liability than an asset, the discussion would still prove useful to users in determining what constitutes a binding arrangement.

Accounting for revaluations by class of asset

The revaluation model proposed in ED 40 for Intangible Assets is similar to that in IAS 38 *Intangible Assets* and IAS 16 *Property, Plant and Equipment* which requires revaluations to be accounted for on an asset by asset basis.

IPSAS 17 *Property, Plant and Equipment* has modified this approach for Property, plant and equipment and requires revaluations to be accounted for by class of asset rather than by individual asset. HoTARAC agrees with this modification.

HoTARAC considers that intangible asset revaluations should also be accounted for by class of asset. This is less onerous for public sector entities and is consistent with the approach used in IPSAS 17 and, in Australia, AASB 138 *Intangible Assets* and AASB 116 *Property, Plant and Equipment*. HoTARAC notes that the ED does not comment on the proposed inconsistency with IPSAS 17.

Rights sold (not granted) and repurchased by a government

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.

Progress on the Frameworks Project

As expressed in its submission on the Conceptual Framework Consultation Paper, HoTARAC has an ongoing concern over the progress and priority given to the Frameworks Project. The implicit use of terms, concepts and principles as a basis for departure from and/or modification of IAS without a Conceptual Framework provide significant risk and potential to promote divergence rather than convergence between Standards and standard-setting bodies.

Harmonisation with international statistical requirements

IPSAS 22 *Disclosure of Financial Information about the General Government Sector* 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 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.

Emissions trading schemes

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.

Transitional provisions

IPSASB should consider whether similar provisions to the IASB's IFRS 1 *First-Time Adoption of International Financial Reporting Standards* 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.