



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
4

DATE: November 12, 2009
MEMO TO: Members of the IPSASB
FROM: Joy Keenan
SUBJECT: Intangible Assets

OBJECTIVE OF THIS SESSION

To **approve** IPSAS 31, “Intangible Assets”

AGENDA MATERIAL

- 4.1 Draft IPSAS 31, “Intangible Assets”
- 4.2 ED 40 Respondents’ comments on other issues (updated to November 12, 2009)

BACKGROUND

- 1. At the Toronto meeting in September 2009, the IPSASB agreed to consider other comments received to ED 40, “Intangible Assets” out-of-session. Staff sent Members this “cut-and-paste” analysis jointly with the analysis for ED 41, “Entity Combinations from Exchange Transactions” (see Agenda Item 5).
- 2. An extract of the draft minutes from the September 2009 meeting is included in the Appendix to this memo.

OVERALL SUMMARY

- 3. At the September meeting, the IPSASB agreed to provide additional examples suggested by respondents to ED 40 on emissions trading schemes and radio frequency spectrums. These issues were noted in the cut-and-paste analysis.
- 4. Staff received one comment on the posted analysis (see paragraphs 12–13 below).

KEY ISSUES

- 5. The draft Standard is based on the clean version of ED 40 and proposed changes are shown in mark-up.
- 6. The changes address the key issues raised by respondents to ED 40, agreed to at the September 2009 IPSASB meeting, as well as changes to address minor issues and editorial changes, set out in the out-of-session document noted above.

Scope exclusion for powers to grant rights and to tax

7. Paragraph 2 of ED 40 (under the “Objective” section) set out a specific scope exclusion for powers to grant rights and to tax in addition to that in paragraph 3(f) (under the “Scope” section). The IPSASB agreed, in September 2009, to delete paragraph 2, retain paragraph 3(f) and explain the rationale for the exclusion in the Basis for Conclusions—i.e., they are excluded pending development of the Conceptual Framework. Paragraph BC3 contains the detailed explanation.

Transitional Provisions

8. ED 40 contained transitional provisions based on those in IPSAS 17. At the September 2009 meeting, the IPSASB agreed that the provisions needed to be simplified. It was agreed that the transitional provisions for cash to accrual accounting should be based on IFRS 1 such that the opening statement of financial position would exclude all intangible items that do not meet the criteria for recognition in accordance with proposed IPSAS 31 at the date of transition to accrual accounting. Additionally, on transition from an accrual basis of accounting to IPSASs, requirements would include derecognition of all intangible assets that do not meet the recognition criteria and recognition of all intangible items that meet the criteria for recognition in accordance with ED 40 at the date of transition.
9. Paragraphs 140–148 contain the revised transitional provisions. In addition, paragraphs BC12–BC13 set out the rationale for the transitional provisions.

Question:

Do you agree with the revised transitional provisions and the explanations provided in the Basis for Conclusions?

Illustrative Examples

10. Two new examples have been added based on the responses to ED 40:
 - (a) It was agreed at the September 2009 meeting (see Minutes extract) to include an example from Respondent #10 and this has been added.
 - (b) As identified in the cut-and-paste analysis, some respondents noted the need for guidance on internally-developed software. An Illustrative Example dealing with internally-developed software is adapted from Response #15. References have been provided to appropriate guidance within this IPSAS (i.e., the guidance on web-site development costs) for assessing these costs. In addition, paragraph AG11 has been added to indicate that “the guidance in paragraphs AG1–AG10 does not specifically apply to software development costs. However, an entity may apply the principles in these paragraphs.”

Question:

Do you agree with the two new examples?

OTHER CHANGES TO IPSAS 31

11. Other changes that have been made to the draft Standard are set out below.

Paragraphs	Description of change	Page reference in other agenda papers
–	Editorial changes have been made to standardize the wording of several paragraphs to be consistent across the Handbook.	–
IN	Various changes have been made to paragraphs in the Introduction section, as noted by respondent #12	AP 4.2 Pages 13–14
4-5	Paragraphs pertaining to GBEs moved forward from paragraphs 15–16.	AP 4.2 Page 2
16	Definitions—terms used previously in other IPSASs have been deleted, even if they are in IAS 38. The standard sentence has been added at the end of the definitions to reference to terms used in other IPSASs.	–
22	This is a new paragraph inserted to explain the term “binding arrangement.” The wording is based IPSAS 11, paragraph 7. In addition, paragraph BC6 explains the rationale for including the new paragraph. Similar changes have been made in IPSAS 32 (see Agenda Item 5 Memo). In addition, references to “binding arrangements” added in various paragraphs.	AP 4.2 Page 22
27 (Title above)	The heading “Recognition and Measurement at Initial Recognition” changed to “Recognition and Initial Measurement.” In addition, references to “measurement at recognition” have been changed to “initial measurement” throughout the document, for consistency.	AP 4.2 Page 31
33	Requirement split into two sentences for clarity.	AP 4.2 Page 15
43	Last two sentences of IAS 38 paragraph 33 reinstated.	AP 4.2 Page 32
66, 110	References added to “distribution at no charge or for a nominal charge.”	AP 4.2 Pages 33–34

Paragraphs	Description of change	Page reference in other agenda papers
68(c)	Public sector terminology added.	AP 4.2 Page 36
68(e)	Added to address web site costs and software development costs for which application guidance/implementation guidance is provided.	AP 4.2 Page 3
77(b)	Reference to “power to grant right or to tax” deleted.	A.P 4.2 Page 4
81	Wording amended to refer to clarify interaction with transitional provisions.	—
88	As a result of the definition of “active market” being deleted, the reference to the definition has been deleted from this paragraph.	—
96, 97	Amendments to clarify treatment of revaluation changes.	AP 4.2 Pages 29–30
App B	When ED 40 was issued, it omitted two consequential amendments regarding the effective date. These additional consequential amendments have been shaded to highlight the fact that they are new.	—
BC7	Explains the decision to retain the guidance on intangible heritage assets adapted from IPSAS 17 as agreed at the September 2009 meeting.	AP 4.0 Appendix
BC8	Explains the interaction between proposed IPSAS 31 and IPSAS 23 as agreed at the September 2009 meeting.	AP 4.0 Appendix
BC9	Explains the rationale for specifically excluding intangible assets acquired in an entity combination from a non-exchange transaction from the scope of proposed IPSAS 31 as agreed at the September 2009 meeting.	AP 4.0 Appendix
Comparison with IAS 38	Additional points were added regarding powers to grant rights and to tax and the acquisition of an intangible asset for no cost or for a nominal cost.	AP 4.2 Page 17

12. Staff had proposed in the cut-and-paste analysis to include an emissions trading scheme example. A comment from an Observer regarding this suggested that it would not be appropriate to include such an example because the IPSASB has not determined the appropriate accounting treatment of these permits and consequently, has added this topic to its potential list of projects.
13. Staff has therefore not included an example on emissions trading schemes. Paragraph BC5 has been added to explain the rationale for excluding emissions trading schemes.

**APPENDIX: EXTRACT FROM DRAFT SEPTEMBER 2009 MEETING
MINUTES**

10. INTANGIBLE ASSETS

Review Responses to ED 40 (Agenda Item 7)

The IPSASB considered the Staff analysis of the key issues raised from the responses to ED 40, “Intangible Assets.”

Key Issue 1: Objective and scope

ED 40 excluded from its scope powers to grant rights and to tax. Some respondents to the ED questioned the appropriateness of the exclusion, the manner in which this scope exclusion is presented and the rationale for the exclusion stated in the Basis for Conclusions.

It was noted that the IPSASB had previously agreed that this issue is expected to be dealt with in the Conceptual Framework project. Members agreed, therefore, that paragraph 2 should be deleted and that the exclusion in paragraph 4(f) was appropriate. However, the Basis for Conclusions should indicate the rationale for this exclusion is related to development of the Conceptual Framework. A Member also noted that based on constituents’ responses to ED 40, this issue should be added to the list of potential projects to be considered when the IPSASB’s 2010-2012 Strategic Plan is developed.

Members also agreed that there are various types of Emissions Trading Schemes, and that some may result in intangible assets if they are rights acquired by an entity. Staff was directed to explain this better in the Basis for Conclusions.

Key Issue 2: Transitional provisions

ED 40 contained detailed transitional provisions based on those in IPSAS 17. Respondents to the ED commented that there was a conflict between paragraph 81 of ED 40, which prohibits recognizing intangible items previously expensed, and proposed retroactive treatment when an entity adopts accrual accounting. It was suggested that the transitional provisions need not be as detailed as those in IPSAS 17, as intangible assets are generally managed, whereas in the case of property, plant and equipment assets, the information about the assets may not have been available. It was suggested that the transitional provisions for cash to accrual accounting should be based on IFRS 1 such that the opening statement of financial position would exclude all intangible items that do not meet the criteria for recognition in accordance with ED 40 at the date of transition to accrual accounting and would include all intangible assets that do meet the recognition criteria.

In addition, it was suggested that there should be a provision for first time adoption of the proposed IPSAS by entities already following accrual accounting to derecognize any intangible items that do not meet the recognition criteria and to recognize any intangible items that do meet the recognition criteria, provided reliable cost information is available.

Key Issue 3a: Link between ED 40 and IPSAS 21 and IPSAS 26

A respondent to ED 40 raised a concern about the links between ED 40 and IPSAS 21, “Impairment of Non-Cash Generating Assets” and IPSAS 26, “Impairment of Cash-Generating Assets.” A Member noted that the IPSASB had not previously considered the issue of indefinite useful lives. Under IAS 38, with which ED 40 is converged, there is a requirement to test such intangible assets annually, regardless of whether there is any indication of impairment. This would apply to cash-generating intangible assets. However, proposed consequential amendments to IPSAS 21 and IPSAS 26 would preserve the existing situation, with the result that non-cash generating intangible assets with indefinite useful lives would be treated differently from cash-generating intangible assets with indefinite useful lives.

There was some support expressed for consistency between the two; however, as explained in the Bases for Conclusions in IPSAS 21 and IPSAS 26, the issue was recognized by the IPSASB. It was noted that, in IPSAS 17, land would be an asset with an indefinite useful life.

One Member highlighted that impairment consideration is part of revaluation. It was also noted 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. The IPSASB agreed that no change was required on this issue, but that this issue should be added to the list of potential projects to be considered as the IPSASB’s 2010-2012 Strategic Plan is developed.

Key Issue 3b: Intangible assets acquired in non-exchange transactions

The IPSASB considered a concern raised by respondents that transaction costs may arise for intangible assets acquired in a non-exchange transaction. Members generally supported following the same approach as was decided for financial instruments This would require an explanation of the interaction between ED 40 and IPSAS 23 in the Basis for Conclusions.

Key Issue 4: Heritage assets

A few respondents to the ED indicated that the guidance in ED 40 dealing with heritage assets was not sufficient to address this unique public sector issue. It was suggested that either the guidance should be expanded or it should be removed from ED 40.

It was pointed out that the guidance provided in ED 40 is based on that in IPSAS 17, “Property, Plant and Equipment” with only minor changes.

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.

The guidance was added to IPSAS 17 to help inform the IPSASB regarding current practices regarding reporting of heritage assets, preliminary to starting a standards-development project.

The IPSASB agreed with the staff recommendation that the guidance provided should remain in ED 40, and that this issue should be added to the list of potential projects to be considered as the IPSASB's 2010-2012 Strategic Plan is developed.

Other Issues

Members agreed that the Basis for Conclusions should clearly explain the IPSASB's rationale for specifically excluding intangible assets acquired in an entity combination from a non-exchange transaction from the scope of ED 40. These intangible assets are excluded from the scope of ED 40 because ED 41 relates only to entity combinations arising from exchange transactions. The explanation should include reference to the IPSASB's project on entity combinations from non-exchange transactions, as this issue will be addressed in that project.

Members also agreed that certain additional public sector examples provided by respondents to the ED would be incorporated in ED 40.

IPSAS 31—INTANGIBLE ASSETS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” published by the International Accounting Standards Board (IASB). It also contains extracts from the Standing Interpretations Committee Interpretation 32 (SIC 32), “Intangible Assets–Web Site Costs.” Extracts from IAS 38 and SIC 32 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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IPSAS 31—INTANGIBLE ASSETS

CONTENTS

	Paragraph
Introduction.....	IN1–IN19
Objective.....	1
Scope	2–15
Intangible Heritage Assets	11–15
Definitions.....	16
Intangible Assets.....	17–26
Identifiability.....	19–20
Control	21–25
Future Economic Benefits or Service Potential.....	26
Recognition and Initial Measurement	27–76
Separate Acquisition	34–41
Acquisition as Part of an Entity Combination from an Exchange Transaction.....	42–43
Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from a Non-Exchange Transaction.....	44–49
Subsequent Expenditure on an Acquired In-process Research and Development Project	50–51
Intangible Assets Acquired through a Non-Exchange Transaction other than a Non-Exchange Entity Combination.....	52–53
Exchanges of Assets in an Exchange Transaction.....	54–56
Internally Generated Goodwill	57–59
Internally Generated Intangible Assets.....	60–76
Research Phase.....	63–65
Development Phase.....	66–73
Cost of an Internally Generated Intangible Asset.....	74–76
Recognition of an Expense	77–81
Past Expenses not to be Recognized as an Asset.....	81
Measurement after Recognition.....	82–97
Cost Model.....	84
Revaluation Model.....	85–97

Useful Life	98–106
Intangible Assets with Finite Useful Lives	107–116
Amortization Period and Amortization Method	107–109
Residual Value	110–113
Review of Amortization Period and Amortization Method	114–116
Intangible Assets with Indefinite Useful Lives.....	117–120
Review of Useful Life Assessment.....	119–120
Recoverability of the Carrying Amount – Impairment Losses.....	121
Retirements and Disposals.....	122–128
Disclosure	129–139
General.....	129–134
Intangible Assets Measured after Recognition using the Revaluation Model.....	135–136
Research and Development Expenditure	137–138
Other Information	139
Transitional Provisions and Effective Date	140–148
First-time Adoption of this Standard by an Entity that Applies the Accrual Basis of Accounting	140–142
Exchanges of Assets in an Exchange Transaction.....	143
Transition	145–147
First-time Adoption of the Accrual Basis of Accounting	148
Appendix A—Application Guidance —Web Site Costs	
Appendix B—Amendments to other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IAS 38	

International Public Sector Accounting Standard (IPSAS) 31, “Intangible Assets” is set out in paragraphs 1–148 and Appendices A and B. All the paragraphs have equal authority. IPSAS 31 should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards.” IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

- IN1. [IPSAS XX \(ED 40\)IPSAS 31](#) prescribes the accounting treatment for intangible assets. It is adapted for public sector entities from IAS 38, “Intangible Assets.”
- IN2. The IPSASB is currently developing a Conceptual Framework that will define an asset in the public sector. The specific public sector issues which arise from the power to grant rights and the power to tax need to be examined in detail in order to determine the appropriate accounting treatment. The IPSASB will reconsider the applicability of [IPSAS XX \(ED 40\)IPSAS 31](#) to the power to grant rights and the power to tax when its Conceptual Framework is issued.

Scope

- IN3. 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. Accordingly, [IPSAS XX \(ED 40\)IPSAS 31](#) does not apply to such powers.
- IN4. [IPSAS XX \(ED 40\)IPSAS 31](#) incorporates, as Application Guidance, the guidance on accounting for web site costs from the IASB’s Standing Interpretation Committee’s Interpretation 32, “Intangible Assets – Web Site Costs,” including illustrations of the relevant accounting principles.
- IN5. [IPSAS XX \(ED 40\)IPSAS 31](#) includes intangible assets acquired in an entity combination arising from an exchange transaction (*i.e.*, under [IPSAS 32, “Entity Combinations from Exchange Transactions”](#)). However, this Standard specifically excludes intangible assets acquired in an entity combination from a non-exchange transaction because the Board has not yet considered entity combinations arising from non-exchange transactions.

Definition of an intangible asset

- IN6. [IPSAS XX \(ED 40\)IPSAS 31](#) states that an asset meets the “identifiable” criterion in the definition of an intangible asset when it:
- (a) Is separable, *i.e.*, capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
 - (b) Arises from rights from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- IN7. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the “identifiable” criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or other legal rights).

Public sector issues

- IN8. [IPSAS XX \(ED 40\)IPSAS 31](#) incorporates guidance on certain public sector issues that are not addressed in IAS 38, including intangible heritage assets.

IN9. IAS 38 addresses intangible assets acquired by way of a government grant. IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” deals with this issue as it applies in the public sector. Accordingly, this Standard states that, where an intangible asset is acquired through a non-exchange transaction, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23.

~~IN10. IPSAS XX (ED 40)IPSAS 31 also replaces certain of the IAS 38 examples with examples relevant to the public sector. Public sector terminology also replaces certain IAS 38 wording, as required.~~

Criteria for initial recognition

IN101. ~~IPSAS XX (ED 40)IPSAS 31~~ requires an intangible asset to be recognized if, and only if, it is probable that the expected future economic benefits or service potential attributable to the asset would flow to the entity, and its cost can be measured reliably. These recognition criteria have been included in the Standard. However, additional guidance has been included to clarify that:

- (a) The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in an entity combination from an exchange transaction.
- (b) The fair value of an intangible asset acquired in an entity combination from an exchange transaction can be measured with sufficient reliability to be recognized separately from goodwill. If an intangible asset acquired in an entity combination from an exchange transaction has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.

Subsequent expenditure

IN112. ~~IPSAS XX (ED 40)IPSAS 31~~ requires subsequent expenditure on an acquired in-process research and development project to be:

- (a) Recognized as an expense when incurred if it is research expenditure;
- (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognizing such expenditure as an intangible asset; and
- (c) Recognized as an intangible asset if it is development expenditure that satisfies the criteria for recognizing such expenditure as an intangible asset.

Useful life

IN123. ~~IPSAS XX (ED 40)IPSAS 31~~ requires an intangible asset to be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the entity.

IN134. ~~IPSAS XX (ED 40)IPSAS 31~~ requires that:

- (a) The useful life of an intangible asset arising from binding arrangements (including rights from contracts or other legal rights) should not exceed the period of those rights, but may be shorter depending on the period over which the asset is expected to be used by the entity; and
- (b) If the rights are conveyed for a limited term that can be renewed, the useful life should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

Intangible assets with indefinite useful lives

IN145. The Standard requires that:

- (a) An intangible asset with an indefinite useful life should not be amortized; and
- (b) The useful life of such an asset should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Impairment testing of intangible assets with finite useful lives

IN156. An entity needs to assess at each reporting date whether there is any indication that a non-cash-generating intangible asset may be impaired in accordance with IPSAS 21. IPSAS 21 also requires an entity to annually test a non-cash-generating intangible asset with an indefinite life. An entity needs to determine the recoverable amount of a cash-generating intangible asset in accordance with IPSAS 26, when there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, an entity is also required, under IPSAS 26, to annually test an intangible asset with an indefinite useful life and an intangible asset not yet available for use for impairment. An entity is also required, under IPSAS 21, to annually test non-cash-generating intangible assets with an indefinite useful life.

Disclosure

IN167. If an intangible asset is assessed as having an indefinite useful life, ~~IPSAS XX (ED 40)~~ IPSAS 31 requires an entity to disclose the carrying amount of that asset and the reasons supporting the indefinite useful life assessment.

IN178. This Standard also contains a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model.

Transitional Provisions and Effective Date

IN189. ~~IPSAS XX (ED 40)~~ IPSAS 31 requires prospective application. Transitional provisions are provided for an entity applying the Standard for the first time -that require the entity's opening statement of financial position on adoption of this

Standard to exclude all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with this Standard at the date of transition and to include all intangible assets that meet the criteria for recognition at that date.~~to reconsider whether intangible assets previously recognized and intangible items previously expensed or not recorded meet the criteria for recognition under the Standard.~~ Adjustments for previously recognized assets that do not meet the criteria and previously expensed intangible items that do meet the criteria are treated as changes in an accounting policy in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”

IN19~~20~~. ~~However, IPSAS 31 also requires that when an entity adopts the accrual basis of accounting for the first time, its opening statement of financial position excludes all intangible assets and other intangible items that do not meet the criteria for recognition under the Standard and include all intangible assets that meet the criteria for recognition in accordance with this Standard. IPSAS XX (ED 40) IPSAS 31 also contains certain exemptions.~~ Implementation Guidance for recognition of intangible assets by entities adopting the accrual basis of accounting for the first time.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.
- ~~2. The power to grant rights and the power to tax do not satisfy the specified criteria for recognition as an intangible asset. Accordingly, they are excluded from the scope of this Standard in paragraph 4(f).~~

Scope

- ~~32. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for intangible assets.~~
- ~~43. This Standard shall be applied in accounting for intangible assets, except:
 - (a) Intangible assets that are within the scope of another Standard;
 - (b) Financial assets, as defined in IPSAS ~~28XX (ED 37)~~, “Financial Instruments: Presentation;”
 - (c) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for and evaluation of mineral resources);
 - (d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
 - (e) Intangible assets acquired in an entity combination from a non-exchange transaction; and
 - (f) The power to grant rights and the power to tax.~~
- ~~54. This Standard applies to all public sector entities other than Government Business Enterprises.~~
- ~~5. The “Preface to International Public Sector Accounting Standards” issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the International IASB. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”~~
- ~~6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this IPSAS. In cases when there is no IPSAS, an entity applies the relevant international or national accounting standard instead of this IPSAS. For example, this IPSAS does not apply to:~~

- (a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, “Construction Contracts,” and IPSAS 12, “Inventories”);
 - (b) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);
 - (c) Leases that are within the scope of IPSAS 13, “Leases;”
 - (d) Assets arising from employee benefits (see IPSAS 25, “Employee Benefits”);
 - (e) Financial assets as defined in IPSAS ~~XX (ED 37)~~28. The recognition and measurement of some financial assets are covered by IPSAS 6, “Consolidated and Separate Financial Statements,—” IPSAS 7, “Investments in Associates” and IPSAS 8, “Interests in Joint Ventures;”
 - (f) Goodwill acquired in an entity combination from an exchange transaction (see ~~IPSAS XX (ED 41)~~IPSAS 32, “Entity Combinations from Exchange Transactions”);
 - (g) Deferred acquisition costs, and intangible assets, arising from an insurer’s contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases when the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets.
 - (h) Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.
67. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 17, “Property, Plant and Equipment” or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment or the navigation software for a fighter jet is integral to the aeroplane and is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.
78. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although

these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

89. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of IPSAS 13 and are within the scope of this Standard.
910. Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

Intangible Heritage Assets

- ~~40~~11. This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.
- ~~41~~12. Some intangible assets are described as intangible heritage assets because of their cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person ~~on~~, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):
- (a) Their value in cultural, environmental and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - (c) Their value may increase over time; and
 - (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
- ~~42~~13. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability

to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

- ~~13~~14. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognized and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.
- ~~14~~15. The disclosure requirements in paragraphs 129–139 require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:
- (a) The measurement basis used;
 - (b) The amortization method used, if any;
 - (c) The gross carrying amount;
 - (d) The accumulated amortization at the end of the period, if any; and
 - (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

- ~~15. This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).~~
- ~~16. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the International Accounting Standards Board (IASB).~~

Definitions

- ~~17~~16. The following terms are used in this Standard with the meanings specified:

~~**An active market is a market in which all the following conditions exist:**~~

- ~~(a) The items traded in the market are homogeneous;~~
- ~~(b) Willing buyers and sellers can normally be found at any time; and~~
- ~~(c) Prices are available to the public.~~

~~**Amortization** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.~~

~~**An asset is a resource:**~~

- ~~(a) Controlled by an entity as a result of past events; and~~

~~(b) — From which future economic benefits or service potential are expected to flow to the entity.~~

~~Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated amortization and accumulated impairment losses thereon.~~

~~Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs, e.g., IFRS 2, “Share-based Payment.”;~~

~~Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.~~

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Entity-specific value of an intangible asset is the present value of the cash flows **or the service potential** an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

~~An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.~~

~~An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount~~

An **intangible asset** is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

~~The residual value of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.~~

Useful life of an intangible asset is:

- (a) The period over which an asset is expected to be available for use by an entity; or

- (b) The number of production or similar units expected to be obtained from the asset by an entity.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Intangible Assets

~~1817~~. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of customers or users of a service, acquired fishing licences, acquired import quotas, franchises and relationships with customers, users of a service or suppliers.

~~1918~~. Not all the items described in ~~paragraph 18~~ ~~paragraph 17~~ meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an entity combination from an exchange transaction, it forms part of the goodwill recognized at the acquisition date (see paragraph 77).

Identifiability

~~2019~~. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an entity combination from an exchange transaction is an asset representing the future economic benefits or service potential arising from other assets acquired in that entity combination which are not individually identified and separately recognized. ~~The future economic benefits or service potential may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.~~

~~2120~~. **An asset is identifiable if it either:**

- (a) **Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or**
- (b) **Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

Control

2221. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.
22. For the purposes of this Standard, a binding arrangement describes arrangements that are binding on the parties to the arrangement and confers similar rights and obligations on the parties to it as if it were in the form of a contract. For example, two government departments may enter into a formal arrangement but the arrangement may not constitute a legal contract because in that jurisdiction individual departments may not be separate legal entities with the power to contract.
23. Market and technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.
24. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.
25. An entity may have a portfolio of customers or users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with customers or users of its services, the customers or users of its services will continue to trade with the entity or use its services. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or users of a service or the loyalty of the customers or users of a service to the entity, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with customers or users of a service and loyalty for such items (e.g., portfolio of customers or users of a service, market share or success rates of a service, relationships with customers or users of a service and loyalty of

customers or users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an entity combination from an exchange transaction) provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

26. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs [or improve service delivery](#) rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licences more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and [Initial Measurement at Recognition](#)

27. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
- (a) The definition of an intangible asset (see paragraphs [4917–26](#)); and
 - (b) The recognition criteria (see paragraphs 30–32).

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

28. Paragraphs 34–41 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 42–51 deal with their application to intangible assets acquired in an entity combination from an exchange transaction. Paragraphs 52–53 deal with the [initial measurement at recognition](#) of intangible assets acquired through non-exchange transactions, paragraphs 54–56 with exchanges of intangible assets, and paragraphs 57–59 with the treatment of internally generated goodwill. Paragraphs 60–76 deal with the recognition and [initial measurement at recognition](#), of internally generated intangible assets.
29. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole.

- Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph 72, subsequent expenditure on brands, mastheads, publishing titles, lists of customers or users of an entity's services and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure on behalf of to develop the entity's operations as a whole.
30. **An intangible asset shall be recognized if, and only if:**
- (a) **It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**
 - (b) **The cost or fair value of the asset, ~~as appropriate~~, can be measured reliably.**
31. **An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.**
32. An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
33. **An intangible asset shall be measured initially at cost, in accordance with paragraphs 34–53. W~~except when~~ Where it an intangible asset is acquired through a non-exchange transaction, when its cost shall be measured –is measured initially at its fair value as at the date of acquisition, in accordance with paragraphs 34–53.**

Separate Acquisition

34. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 30(a) is always considered to be satisfied for separately acquired intangible assets.
35. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
36. The cost of a separately acquired intangible asset comprises:
- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

- (b) Any directly attributable cost of preparing the asset for its intended use.
37. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 25) arising directly from bringing the asset to its working condition;
 - (b) Professional fees arising directly from bringing the asset to its working condition; and
 - (c) Costs of testing whether the asset is functioning properly.
38. Examples of expenditures that are not part of the cost of an intangible asset are:
- (a) Costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (b) Costs of conducting operations in a new location or with a new class of customer or user of a service (including costs of staff training); and
 - (c) Administration and other general overhead costs.
39. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:
- (a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
 - (b) Initial operating losses/deficits, such as those incurred while demand for the asset's output builds up.
40. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.
41. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in IPSAS 5, "Borrowing Costs."

Acquisition as part of an entity combination from an exchange transaction

42. In accordance with ~~IPSAS XX (ED 41)~~IPSAS 32, if an intangible asset is acquired in an entity combination from an exchange transaction, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. Therefore, the probability recognition criterion in paragraph 30(a) is always considered to be satisfied for intangible assets acquired in entity combinations from exchange transactions. If an asset acquired in an entity combination from an exchange transaction is separable or arises from binding arrangements (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 30(b) is always considered to be satisfied for intangible assets acquired in entity combinations from exchange transactions.
43. In accordance with this Standard and ~~IPSAS XX (ED 41)~~IPSAS 32, an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the entity combination from an exchange transaction. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset. An acquiree's in-process research and development project meets the definition of an intangible asset when it:
- (a) Meets the definition of an asset; and
 - (b) Is identifiable, i.e., is separable or arises from binding arrangements (including rights from contracts ~~contractual~~ or other legal rights).

Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from an Exchange Transaction

44. If an intangible asset acquired in an entity combination from an exchange transaction (i.e., under IPSAS 32) is separable or arises from binding arrangements (including rights from contracts ~~contractual~~ or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value.
45. An intangible asset acquired in an entity combination from an exchange transaction (i.e., under IPSAS 32) might be separable, but only together with a related tangible or intangible asset. For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring. In such cases, the acquirer recognizes the

- group of assets as a single asset separately from goodwill if the individual fair values of the assets in the group are not reliably measurable.
46. Similarly, the terms ‘brand’ and ‘brand name’ are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. The acquirer recognizes as a single asset a group of complementary intangible assets comprising a brand if the individual fair values of the complementary assets are not reliably measurable. If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognize them as a single asset provided the individual assets have similar useful lives.
47. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 88). The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset’s fair value is estimated.
48. If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm’s length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.
49. Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in an entity combination from an exchange transaction if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. [These techniques for intangible cash-generating assets](#) include, when appropriate:
- (a) Applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to another party in an arm’s length transaction (as in the “relief from royalty” approach); or
 - (b) Discounting estimated future net cash flows from the asset.

Subsequent Expenditure on an Acquired In-process Research and Development Project

50. **Research or development expenditure that:**
- (a) **Relates to an in-process research or development project acquired separately or in an entity combination from an exchange transaction and recognized as an intangible asset; and**
 - (b) **Is incurred after the acquisition of that project**
- shall be accounted for in accordance with paragraphs 63–71 -**
51. Applying the requirements in paragraphs 63–71 means that subsequent expenditure on an in-process research or development project acquired separately or in an entity combination from an exchange transaction and recognized as an intangible asset is:
- (a) Recognized as an expense when incurred if it is research expenditure;
 - (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 66; and
 - (c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 66.

Intangible Assets Acquired through Non-Exchange Transactions other than a Non-Exchange Entity Combinations

52. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. A private citizen, for example a Nobel ~~prize~~-Prize winner may ~~also~~ bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.
53. In this situation, Under these circumstances the entity decides to recognize the copyright as an intangible heritage asset and measures it at the cost of the item is its acquisition date fair value at the date it is acquired. For the purposes of this Standard, the initial measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraphs 47–49 and paragraph 85, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 85, and the supporting commentary in paragraphs 86–97 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Exchanges of Assets in Exchange Transactions

54. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
55. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or [the](#) service potential are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) The configuration (i.e., risk, timing and amount) of the cash flows or [the](#) service potential of the asset received differs from the configuration of the cash flows or [the](#) service potential of the asset sold; or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, ~~if tax applies~~ [where applicable](#). The result of these analyses may be clear without an entity having to perform detailed calculations.

56. Paragraph 30(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally Generated Goodwill

57. **Internally generated goodwill shall not be recognized as an asset.**
58. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often

described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.

59. Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

60. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:
- (a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and
 - (b) Determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 61–76 to all internally generated intangible assets.

61. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
- (a) A research phase; and
 - (b) A development phase.

Although the terms “research” and “development” are defined, the terms “research phase” and “development phase” have a broader meaning for the purpose of this Standard.

62. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

63. **No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.**
64. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or

- service potential. Therefore, this expenditure is recognized as an expense when it is incurred.
65. Examples of research activities are:
- (a) Activities aimed at obtaining new knowledge;
 - (b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
 - (c) The search for alternatives for materials, devices, products, processes, systems or services; and
 - (d) The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development Phase

66. **An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:**
- (a) **The technical feasibility of completing the intangible asset so that it will be available for use, ~~or sale~~ or distribution at no charge or for a nominal charge;**
 - (b) **Its intention to complete the intangible asset and use or sell it or distribute it at no charge or for a nominal charge;**
 - (c) **Its ability to use or sell the intangible asset or distribute it at no charge or for a nominal charge;**
 - (d) **How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;**
 - (e) **The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset or distribute it at no charge or for a nominal charge; and**
 - (f) **Its ability to measure reliably the expenditure attributable to the intangible asset during its development.**
67. In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.
68. Examples of development activities are:
- (a) The design, construction and testing of pre-production or pre-use prototypes and models;

- (b) The design of tools, jigs, moulds and dies involving new technology;
 - (c) The design, construction and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services; ~~and~~
 - (d) The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services; and
 - (e) Web-site costs and software development costs.
69. To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in either IPSAS 21, “Impairment of Non-Cash-Generating Assets” or IPSAS 26, “Impairment of Cash-Generating Assets,” as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in IPSAS 26.
70. Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial and other resources needed and the entity’s ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender’s or funder’s indication of its willingness to fund the plan.
71. An entity’s costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licences or developing computer software.
72. **Internally generated brands, mastheads, publishing titles, lists of customers or users of ~~an entity’s a~~ services and items similar in substance shall not be recognized as intangible assets.**
73. Expenditure on internally generated brands, mastheads, publishing titles, lists of customers or users of ~~an entity’s a~~ services and items similar in substance cannot be distinguished from the cost of developing the entity’s operations as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an Internally Generated Intangible Asset

74. 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.
75. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

- (a) Costs of materials and services used or consumed in generating the intangible asset;
- (b) Costs of employee benefits (as defined in IPSAS 25) arising from the generation of the intangible asset;
- (c) Fees to register a legal right; and
- (d) Amortization of patents and licences that are used to generate the intangible asset.

IPSAS 5, “Borrowing Costs” specifies criteria for the recognition of interest as an element of the cost of [an](#) asset that is a qualifying asset.

76. The following are not components of the cost of an internally generated intangible asset:
- (a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
 - (b) Identified inefficiencies and initial operating ~~losses~~ deficits incurred before the asset achieves planned performance; and
 - (c) Expenditure on training staff to operate the asset.

Recognition of an Expense

77. **Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:**
- (a) **It forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 27–76); or**
 - (b) **The item is acquired in an entity combination from an exchange transaction and cannot be recognized as an intangible asset ~~(e.g., the power to grant rights or the power to tax)~~. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see IPSAS ~~32XX~~ (ED 41)).**
78. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 63), except when it was acquired as part of the cost of an entity combination from an exchange transaction. Other examples of expenditure that is recognized as an expense when it is incurred include:
- (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with IPSAS 17. Start-up costs may consist of

establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

- (b) Expenditure on training activities;
 - (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and
 - (d) Expenditure on relocating or reorganizing part or all of an entity.
79. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service.
80. Paragraph 77 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 77 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognized as an Asset

81. **Expenditure on an intangible item that was initially recognized as an expense [under this Standard](#) shall not be recognized as part of the cost of an intangible asset at a later date.**

Measurement after Recognition

82. **An entity shall choose either the cost model in paragraph 84 or the revaluation model in paragraph 85 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**
83. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost Model

84. **After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.**

Revaluation Model

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.**
86. The revaluation model does not allow:
- (a) The revaluation of intangible assets that have not previously been recognized as assets; or
 - (b) The initial recognition of intangible assets at amounts other than cost.
87. The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 74), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 52–53).
88. It is uncommon for an active market ~~with the characteristics described in paragraph 17~~ to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous classes of licences or production quotas the entity has acquired from another entity. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.
89. The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.
90. If an intangible asset is revalued, any accumulated amortization at the date of the revaluation is either:
- (a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or

- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
91. **If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.**
92. **If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**
93. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with IPSAS 21 or IPSAS 26.
94. If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.
95. **If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.**
96. **If ~~the carrying amount of~~ an intangible asset's carrying amount -is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be ~~debited-recognized~~ directly ~~to-in~~ revaluation surplus/net assets/equity to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized directly in net assets/equity reduces the amount accumulated in equity under the heading of revaluation surplus.**
97. The ~~decrease-recognized-cumulative~~ revaluation surplus included in net assets/equity may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset.- However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Useful Life

98. **An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which**

- the asset is expected to generate net cash inflows for, or provide service potential to, the entity.**
99. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs 107–116), and an intangible asset with an indefinite useful life is not (see paragraphs 117–120). The Implementation Guidance accompanying this Standard illustrates the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations
100. Many factors are considered in determining the useful life of an intangible asset, including:
- (a) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
 - (b) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
 - (c) Technical, technological, commercial or other types of obsolescence;
 - (d) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
 - (e) Expected actions by competitors or potential competitors;
 - (f) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;
 - (g) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
 - (h) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.
101. The term “indefinite” does not mean “infinite.” The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.
102. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short.
103. The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

104. **The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the binding arrangement (including rights from contracts ~~contractual~~ or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognized as an intangible asset in an entity combination from an exchange transaction is the remaining period of the binding arrangement in which the right was granted and shall not include renewal periods.**
105. There may be economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.
106. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:
- (a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
 - (b) There is evidence that any conditions necessary to obtain renewal will be satisfied; and
 - (c) The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the 'renewal cost' represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible Assets with Finite Useful Lives

Amortization Period and Amortization Method

107. **The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the**

- asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
108. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
109. Amortization is usually recognized in surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortization of intangible assets used in a production process is included in the carrying amount of inventories (see IPSAS 12).

Residual Value

110. **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**
- (a) **There is a commitment by a third party to purchase the asset or for the entity to distribute the asset at no change or for a nominal charge at the end of its useful life; or**
 - (b) **There is an active market for the asset and:**
 - (i) **Residual value can be determined by reference to that market; and**
 - (ii) **It is probable that such a market will exist at the end of the asset's useful life.**
111. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.
112. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar

asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IPSAS 3.

113. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortization charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortization Period and Amortization Method

114. **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.**
115. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.
116. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

117. **An intangible asset with an indefinite useful life shall not be amortized.**
118. In accordance with IPSAS 21 and IPSAS 26, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount
- (a) Annually, and
 - (b) Whenever there is an indication that the intangible asset may be impaired.

Review of Useful Life Assessment

119. **The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from**

indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

120. In accordance with IPSAS 21 and IPSAS 26, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with either IPSAS 21 or IPSAS 26 as appropriate, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount or recoverable amount as appropriate, as an impairment loss.

Recoverability of the Carrying Amount—Impairment Losses

121. To determine whether an intangible asset is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognizes or reverses an impairment loss.

Retirements and Disposals

122. **An intangible asset shall be derecognized:**
- (a) **On disposal (including disposal through a non-exchange transaction); or**
 - (b) **When no future economic benefits or service potential are expected from its use or disposal.**
123. **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
124. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, “Revenue from Exchange Transactions” for recognizing revenue from the sale of goods. IPSAS 13 applies to disposal by a sale and leaseback.
125. If, in accordance with the recognition principle in paragraph 30, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
126. In the case of a reacquired right in an entity combination from an exchange transaction, if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.

127. The consideration receivable on disposal of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.
128. Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

Disclosure

General

129. **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**
- (a) **Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;**
 - (b) **The amortization methods used for intangible assets with finite useful lives;**
 - (c) **The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;**
 - (d) **The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;**
 - (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) **Additions, indicating separately those from internal development, those acquired separately, and those acquired through entity combinations from exchange transactions;**
 - (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations and other disposals;**
 - (iii) **Increases or decreases during the period resulting from revaluations under paragraphs 85, 95 and 96 and from impairment losses recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26 (if any);**

- (iv) **Impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (v) **Impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (vi) **Any amortization recognized during the period;**
 - (vii) **Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**
 - (viii) **Other changes in the carrying amount during the period.**
130. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:
- (a) Brand names;
 - (b) Mastheads and publishing titles;
 - (c) Computer software;
 - (d) Licences and franchises;
 - (e) Copyrights, patents and other industrial property rights, service and operating rights;
 - (f) Recipes, formulae, models, designs and prototypes; and
 - (g) Intangible assets under development.
- The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.
131. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 129(e)(iii)–(v).
132. IPSAS 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- (a) The assessment of an intangible asset's useful life;
 - (b) The amortization method; or
 - (c) Residual values.
133. **An entity shall also disclose:**
- (a) **For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the**

entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

- (b) A description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.
 - (c) For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 52–53):
 - (i) The fair value initially recognized for these assets;
 - (ii) Their carrying amount; and
 - (iii) Whether they are measured after recognition under the cost model or the revaluation model.
 - (d) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
 - (e) The amount of contractual commitments for the acquisition of intangible assets.
134. When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 100.

Intangible Assets Measured after Recognition using the Revaluation Model

135. If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:
- (a) By class of intangible assets:
 - (i) The effective date of the revaluation; and
 - (ii) The carrying amount of revalued intangible assets;
 - (iii) The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model in 84;
 - (b) The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to ~~shareholders or other equity holders~~owners; and
 - (c) The methods and significant assumptions applied in estimating the assets' fair values.
136. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result

in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and Development Expenditure

137. **An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.**
138. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 75 and 76 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 137).

Other Information

139. An entity is encouraged, but not required, to disclose the following information:
- (a) A description of any fully amortized intangible asset that is still in use; and
 - (b) A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard.

Transitional Provisions and Effective Date

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

140. An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011:

~~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~~April 1, 2011; 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~~April 1, 2011. 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.

–Early Application

141. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact and

~~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 the effective dates specified in paragraph 140, it shall apply IPSAS 21, IPSAS 26 and IPSAS 32 at the same time.~~

142. When an entity adopts the accrual basis of accounting, as defined by IPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Exchanges of Assets in an Exchange Transaction

~~141~~143. 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 Transition

~~144. An entity's opening statement of financial position on first-time adoption of the accrual basis of accounting this Standard shall:~~

- ~~(a) Exclude all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with this Standard at the date of first-time adoption of the accrual basis of accounting transition; and~~

- (b) Include all intangible assets that meet the criteria for recognition in accordance with this Standard at that date.
- ~~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).~~
145. If any changes are required to the recognition of how an intangible asset is accounted for items as a result of applying the transitional provisions in paragraph 144, they are accounted for in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."
146. For intangible assets-items that meet:
- (a) The recognition criteria in this Standard (including reliable measurement of original cost); and
 - (b) The criteria in this Standard for revaluation (including existence of an active market);
- an entity may elect to measure an intangible asset on the date of transition, first-time adoption of the accrual basis of accounting at its fair value and use that fair value as its deemed cost at that date.
- ~~147. For intangible assets that satisfy the criteria in paragraph 147, an~~An entity may also elect to use a previous revaluation of an intangible asset at, or before, the date of transition to the accrual basis of accounting as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) Fair value; or
 - (a)(b) Cost or depreciated cost in accordance with IPSASs, adjusted to reflect, for example, changes in a general or specific price index.
- ~~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.~~

First-time Adoption of the Accrual Basis of Accounting

- 148. An entity's opening statement of financial position on first-time adoption of the accrual basis of accounting shall include all intangible assets that meet the recognition criteria in this Standard at that date.**

Appendix A

Application Guidance—Web Site Costs ~~(see separate markup from SIC 32 provided)~~

This Application Guidance is an integral part of ~~IPSAS XX (ED 40)~~IPSAS 31.

- AG1. An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to disseminate information, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, provide electronic services, and sell services and products. A web site designed for internal access may be used to store entity policies and details of customers or users of a service, and search relevant information.
- AG2. The stages of a web site's development can be described as follows:
- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences;
 - (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing;
 - (c) Graphical Design Development – includes designing the appearance of web pages; and
 - (d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
- AG3. Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
- AG4. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
- (a) Whether the web site is an internally generated intangible asset that is subject to the requirements of this Standard; and
 - (b) The appropriate accounting treatment of such expenditure.
- AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production

- servers and Internet connections) of a web site. Such expenditure is accounted for under IPSAS 17. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognized as an expense when the services are received.
- AG6. IPSAS ~~XX~~[31](#) does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11 and IPSAS 12) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Application Guidance. When a web site is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.
- AG7. An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of this Standard.
- AG8. A web site arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 30 of this Standard for recognition and initial measurement, an entity can satisfy the requirements in paragraph [64-66](#) of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits or serviced potential in accordance with paragraph [6366](#)(d) of this Standard when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed, or providing services using the web site, rather than at a physical location using civil servants. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own services and products will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a web site is recognized as an expense when incurred.
- AG9. Any internal expenditure on the development and operation of an entity's own web site is accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the web site) and the web site's stage of development or post-development are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of this Application Guidance). For example:
- (a) The Planning stage is similar in nature to the research phase in paragraphs 63–65 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;
 - (b) The Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is

developed for purposes other than to advertise and promote an entity's own services and products, are similar in nature to the development phase in paragraphs 66–73 of this Standard. Expenditure incurred in these stages is included in the cost of a web site recognized as an intangible asset in accordance with paragraph AG8 of this Application Guidance when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own services and products) specifically for a web site, or expenditure to enable use of the content (e.g., a fee for acquiring a licence to reproduce) on the web site, is included in the cost of development when this condition is met. 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);

- (c) Expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products), is recognized as an expense when incurred in accordance with paragraph 78(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site; and
- (d) The Operating stage begins once development of a web site is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 30 of this Standard.

AG10. A web site that is recognized as an intangible asset under paragraph AG8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 82–97 of this Standard. The best estimate of a web site's useful life should be short, as described in paragraph 102.

AG10-AG11. The guidance in paragraphs AG1–AG10 does not specifically apply to software development costs. However, an entity may apply the principles in these paragraphs.

Appendix B

Amendments to other IPSASs*

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies this Standard for a period beginning before April 1, 2011, these amendments shall also be applied for that earlier period (deleted text is struck through and new text is underlined).

IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”

Paragraph 22 is amended as follows:

22. The initial application of a policy to revalue assets in accordance with IPSAS 17, Property, Plant and Equipment” or ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS 31, “Intangible Assets” is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or ~~that relevant Standard~~ IPSAS 31, rather than in accordance with this Standard.

IPSAS 13, “Leases”

Paragraph 36 is amended as follows:

36. A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with International Public Sector Accounting Standard (IPSAS 17), “Property, Plant and Equipment” or ~~any international and/or national accounting standard on intangible assets which has been adopted by the entity~~ IPSAS 31, “Intangible Assets,” as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.”

Paragraph 41 is amended as follows:

41. In addition, the requirements for disclosure in accordance with IPSAS 16, IPSAS 17, IPSAS 21 and ~~any international and/or national accounting standard on intangible assets~~ IPSAS 31, “Intangible Assets” and on impairment of cash-generating assets which have been adopted by the entity are applied to the amounts of leased assets under finance leases that are accounted for by the lessee as acquisition of assets.”

Paragraph 66 is amended as follows:

66. The depreciation policy for depreciable leased assets shall be consistent with the lessor’s normal depreciation policy for similar assets, and depreciation shall be

* When ED 40 was issued, it omitted certain consequential amendments. The shaded text highlights the additional consequential amendments.

calculated in accordance with IPSAS 17 or IPSAS 31, “Intangible Assets,” as appropriate. ~~and any international and/or national accounting standard on intangible assets that has been adopted by the entity.~~

IPSAS 17, “Property, Plant and Equipment”

Paragraph 65 is amended as follows:

65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS 31, “Intangible Assets.”

IPSAS 21, “Impairment of Non-Cash Generating Assets,”

Paragraph 2 is amended as follows:

Scope

2. An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non cash-generating assets, except:
- (a) Inventories (see IPSAS 12, “Inventories”);
 - (b) Assets arising from construction contracts (see IPSAS 11, “Construction Contracts”);
 - (c) Financial assets that are included in the scope of IPSAS 15, “Financial Instruments: Disclosure and Presentation;”
 - (d) Investment property that is measured using the fair value model (see IPSAS 16, “Investment Property”);
 - (e) Non-cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17, “Property, Plant and Equipment”);
 - (f) Non-cash-generating intangible assets that are measured at revalued amounts (see IPSAS 31, “Intangible Assets”); and
 - (~~g~~) Other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.

Paragraph 6 is amended as follows:

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 as follows:

- 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 as follows:

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 provide service potential from continuing use that is 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;
 - (b) The most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
 - (c) 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.

A new paragraph is inserted after paragraph 82 as follows:

82A. IPSAS 31, “Intangible Assets” amended paragraphs 6 and inserted paragraphs 26A, 26B and 39A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.

Paragraph BC13 is amended:

BC13. ~~IAS 36~~ IPSAS 21 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~~ IPSAS 31, “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 measured at cost are not excluded from included~~ in the scope of this Standard. Therefore this Standard applies to those assets. Public sector intangible assets measured at cost 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.

Paragraphs BC16-BC19 are amended as follows:

Property, Plant and Equipment and Intangible Assets

BC16. The Standard does not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the allowed alternative treatment (“revaluation model”) in IPSAS 17 and IPSAS 31, “Intangible Assets.” The IPSASB is of the view that under the allowed alternative treatment in IPSAS 17 and IPSAS 31, 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~~ assets for impairment after they had been revalued. The rationale for this difference can be explained by reference to the factors set out in paragraphs BC18 and BC19 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 non-cash-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 any of the depreciated replacement cost approach, 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 and IPSAS 31 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 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)"

Paragraph IG27 is amended as follows:

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS 31, "Intangible Assets" apply to this transaction.

IPSAS 26, "Impairment of Cash-generating Assets,"

Paragraph 2(h) is amended as follows:

2. (h) Cash-generating ~~i~~ntangible assets that are ~~regularly~~ measured at revalued ~~to fair value~~ amounts (see IPSAS 31, "Intangible Assets");

A new paragraph is inserted after paragraph 127 as follows:

127A. IPSAS 31, "Intangible Assets" amended paragraph 2(h). An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, ~~this proposed International Public Sector Accounting Standards IPSAS 31.~~

Background

- BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'Comparison with IFRS' included in each IPSAS. The Comparison with IAS 38 references the December 31, 2008 version of IAS 38.

Scope

- BC3. The Board considered whether or not the power to grant rights and the power to tax should be included in the scope of the Standard. Differing views were expressed as to whether or not these rights meet the definition of an intangible asset, and, if so, whether they would meet the recognition criteria. The Board has not formed a view on this topic and therefore, this Standard does not apply to the power to grant rights and the power to tax. To ensure that the scope of the Standard is clear, the Board agreed to include a specific exclusion for the power to grant rights and the power to tax. The Board is currently developing a Conceptual Framework that is specifically considering whether or not these powers give rise to assets in general purpose financial statements. The Board will reconsider, if necessary, the applicability of this Standard to the power to grant rights and the power to tax in light of its completed Conceptual Framework.

~~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.~~

- BC4. The IASB has issued an Interpretation of IAS 38 dealing with accounting for web site costs. The IPSASB believes the guidance contained in the Standing

Interpretations Committee's Interpretation 32 (SIC 32), "Intangible Assets—Web Site Costs," is relevant to the public sector. Accordingly, IPSAS ~~XX-31~~ includes as application guidance the definitions and guidance contained in SIC32. This application guidance is an integral part of ~~IPSAS XX (ED 40)~~IPSAS 31. The appendix in SIC 32 that illustrates the relevant accounting principles and how they are linked to ~~IPSAS XX (ED 40)~~IPSAS 31 is included in the illustrative examples.

BC5. The Standard does not address emissions trading schemes. The IPSASB noted that, from a government's point of view, emissions trading schemes would be similar to powers to grant rights and powers to tax, which are excluded from the scope of the Standard (see paragraph BC3). The IPSASB discussed whether acquired permits under such schemes may meet the definition of an intangible asset. Other bodies are currently studying whether these permits are financial, rather than intangible in nature from the point of view of the acquiring entity. As a result, the IPSASB decided not to provide guidance on emissions trading schemes in this Standard. The IPSASB will reconsider, if necessary, the applicability of this Standard to emissions trading schemes.

Public Sector Issues

~~BC5~~BC6. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the "identifiable" criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or other legal rights) to better describe the types of arrangements in the public sector. ~~Consideration was given as to whether the term "binding arrangement" should be used to describe the arrangements highlighted in paragraph BC9.~~ The term "binding arrangement" has not been defined, but has been used in IPSASs to describe arrangements that are binding on the parties, but do not take the form of a documented contract, such as an arrangement between two government departments that do not have the power to contract. The IPSASB concluded that this term is required to address the circumstances addressed in this Standard, and has provided guidance in paragraph 22 on circumstances that give rise to binding arrangements, consistent with other IPSASs.

BC7~~6.~~ The IPSASB incorporated in ~~IPSAS XX (ED 40)~~IPSAS 31 guidance on certain public sector issues that are not addressed in IAS 38 including intangible heritage assets., ~~notably intangible heritage assets and non-cash generating intangible assets. The IPSASB considered the need for guidance on intangible heritage assets. The IPSASB plans to will consider its plans to address heritage assets in detail in the future. Pending such a project, the IPSASB believes it important to encourage consistent disclosures when entities choose to disclose information about their heritage assets. Therefore, The IPSASB decided to include the guidance on intangible heritage assets is consistent with IPSAS 17, "Property, Plant and Equipment."~~

BC87. IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” prescribes the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered to what extent, if at all, the requirements of this IPSAS and IPSAS 23 overlap. This IPSAS addresses the circumstance when an intangible asset is acquired at no cost or for a nominal cost. The IPSASB agreed that, for intangible assets arising from such transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 31 for initial measurement of the intangible asset.

~~BC9. The Standard also includes guidance on non-cash generating intangible assets.~~

~~The Standard replaces or amends certain IAS 38 examples with examples relevant to the public sector.~~

BC9108. References to IFRS 3 for guidance dealing with business combinations have been changed to ~~IPSAS XX (ED 41)~~IPSAS 32, “Entity Combinations from Exchange Transactions.” The IPSASB has specifically excluded from the scope of IPSAS 31, intangible assets acquired in an entity combination from a non-exchange transaction. This is because the Board’s project on entity combinations has been split into two parts. The first part is limited to entity combinations from exchange transactions (IPSAS 32) and is being completed concurrently with this Standard. Thus, anyAny intangible assets acquired in an entity combination from an exchange transaction are included in the scope of this Standard. The second part of the entity combinations project will address public sector specific entity combinations, including those from non-exchange transactions. Until this part of the project is completed, the Board considers it appropriate to exclude intangible assets acquired in an entity combination from such transactions, from this Standard.

~~The Standard does not address entity combinations that result from non-exchange transactions. Such transactions have been excluded from the scope of IPSAS XX (ED 41) and will be dealt with in a separate public sector specific project.~~

~~BC11. The Standard replaces or amends certain IAS 38 examples with examples relevant to the public sector.~~

BC10. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38, “Intangible Assets” and IAS 16 “Property, Plant and Equipment,” which require revaluations to be accounted for on an asset-by-asset basis. IPSAS 17, “Property, Plant and Equipment” has modified this approach and requires revaluations to be accounted for by class of asset rather than by individual asset. The IPSASB considered whether to include a similar modification for intangible assets, but concluded that it was not necessary. Intangible assets differ from property, plant and equipment because they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis.

BC11. The IPSASB considered the need to develop guidance on internally-developed software costs. The IPSASB noted that, while such software is common in the public sector, such costs are similar in nature to web site costs (see paragraph BC4). The IPSASB concluded that specific guidance was not required in this Standard. However, the IPSASB agreed that an illustrative example would help users of this Standard to apply the guidance on web site costs to internally-developed software. The IPSASB will consider the need for a specific IPSAS to address this issue.

Transitional Provisions and Effective Date

BC129.——The transitional provisions require that, on adoption of this Standard, the entity’s opening statement of financial position exclude all intangible assets and other intangible items that do not meet the criteria for recognition under this Standard at the date of transition and include all intangible assets that meet the criteria for recognition in accordance with this Standard at that date. ~~Because some entities may have previously applied a standard for intangible assets that differs from IAS 38 in terms of recognition of intangible assets, IPSAS XX (ED 40) requires entities to reassess whether intangible items previously recorded, and whether intangible items not previously recognized as intangible assets meet the recognition criteria in IPSAS XX (ED 40). If any changes are required as a result of these reassessments, they are accounted for in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”~~

BC130. To facilitate the adoption of accrual-basis IPSASs, the Standard also provides ~~a transitional provision s for to assist entities to~~ apply the accrual basis of accounting for the first time, ~~consistent with those set out in IPSAS 17. The Standard requires that when an entity adopts the accrual basis of accounting for the first time, its opening statement of financial position includes all intangible assets that meet the criteria for recognition in accordance with this Standard at that date.~~

ILLUSTRATIVE EXAMPLES

CONTENTS

	Paragraph
Recognition and Measurement of an Internally-Generated Intangible Asset.....	IE1–IE9
Example Applying Paragraph 74 of this Standard.....	IE1–IE4
Example Applying Paragraphs 60–76 of this Standard	IE5–IE6
Internally-Developed Software.....	IE7–IE9
Assessing the Useful Lives of Intangible Assets	IE10–IE25
An Acquired Patent with a Finite Useful Life	IE12–IE13
An Acquired Patent with a Indefinite Useful Life	IE14–IE15
An Acquired Copyright that has a Remaining Legal Life of 50 Years	IE16–IE17
An Acquired Broadcasting License that Expires in Five Years (Part A)	IE18–IE19
An Acquired Broadcasting License that Expires in Five Years (Part B).....	IE20–IE21
An Acquired Public Transit Route Between Two Cities that Expires in Three Years.....	IE22–IE23
An Acquired List of Property Owners	IE24–IE25
Examples Illustrating the Application Guidance	IE26

Illustrative Examples

These examples accompany, but are not part of, ~~IPSAS XX (ED 40)~~IPSAS 31. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ~~IPSAS XX31 (ED40)~~.

Recognition and Measurement ~~Cost~~ of an Internally-Generated Intangible Asset

The following guidance provides ~~e~~Examples on Applying Paragraph 71–74 of this Standard

- IE1. An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 31, 20X8, expenditure incurred for the development of the system was CU1,000,¹ of which CU900 was incurred before March 1, 20X8 and CU100 was incurred between March 1, 20X8 and March 31, 20X8. The entity is able to demonstrate that, at March 1, 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be CU500.
- IE2. At the end of the financial year, the developed system is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., March 1, 20X8). The CU900 expenditure incurred before March 1, 20X8 is recognized as an expense because the recognition criteria were not met until 1 March 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.
- IE3. During the financial year ending March 31, 20X9, expenditure incurred is CU2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be CU1,900.
- IE4. As at March 31, 20X9, the cost of the developed system is CU2,100 (CU100 expenditure recognized at the end of 20X8 plus CU2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the developed system before the impairment loss (CU2,100) to its recoverable service amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IPSAS 21 are met.

Example Applying Paragraphs 60–76 of this Standard

- IE5. The Entity develops statistical reports for its internal use and for use by private sector organizations. Provided that certain requirements are met, the Entity authorizes this reuse of public sector information to foster the creation of wealth

¹ In this Standard, monetary amounts are denominated in “currency units” (CU).

and jobs. In addition, within certain limits, the Entity may charge fees for the private use of such information, particularly for commercial purposes.

IE6. The reports meet the criteria for recognition as an intangible asset set out in paragraph 66. In particular, they provide both service potential to the entity as well as future economic benefits in the form of revenue generated from their sale. As required in paragraphs 74–75, the cost would include all of the internally generated directly attributable costs necessary to create, produce and prepare the asset to be capable of providing the service potential and future economic benefits noted above from the date when the intangible asset first meets the recognition criteria in paragraphs 30, 31 and 66.

Internally-Developed Software

IE7. An entity develops software to better match prison facilities with the prison population. Significant improvements in service delivery result in terms of appropriate matching of offenders to security levels (i.e., minimum, medium and maximum security prisoners matched to the appropriate facility). In addition, the software results in reductions in overall costs through more efficient usage, consistent with legislated quality standards.

IE8. The criteria for recognition of development costs in paragraph 66 (a) through (f) are met. The focus of this example is which costs should be capitalized as an intangible asset.

IE9. Internally-developed software is similar in nature to an internally developed web site (see paragraphs AG1–AG11) and the guidance in those paragraphs is used to assess the following costs:

- Costs incurred to formulate, identify and evaluate alternatives should be recognized as an expense in accordance with paragraph 63.
- Costs incurred to design the software, develop code, test and implement the software should be assessed to determine whether they meet the definition of an intangible asset and the recognition criteria set out in paragraphs 30 and 66, in which case the expenditure is recognized as an intangible asset.
- Costs for operating the software including upgrading the software to add new functions and features, backing up data, reviewing security access are assessed to determine whether they meet the definition of an intangible asset and the recognition criteria set out in paragraph 30, in which case the expenditure is recognized as an intangible asset.
- Costs for training users of the new software and ongoing support activities are recognized as an expense when incurred in accordance with paragraphs 74–80.

Assessing the Useful Lives of Intangible Assets

IE10. The following guidance provides examples on determining the useful life of an intangible asset in accordance with this Standard.

[IE11.](#) Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

An Acquired Patent with a Finite Useful Life

[IE12.](#) Entity A acquires a patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years.

[IE13.](#) The patent would be amortized over its five-year useful life to Entity A, with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with IPSAS 21.

An Acquired Patent with an Indefinite Useful Life

[IE14.](#) Entity A acquires an asset, the patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the Entity B when the improvements are made.

[IE15.](#) An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21.

An Acquired Copyright that has a Remaining Legal Life of 50 Years

[IE16.](#) Entity A acquires a copyright from Entity B to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

[IE17.](#) The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with IPSAS 21.

An Acquired Broadcasting Licence that Expires in Five Years (Part A)

[IE18.](#) Entity A acquires a broadcasting license from Entity B. Entity A intends to provide free broadcasting services in the community. The broadcasting licence is renewable every 10 years if Entity A provides at least an average level of service

to its users of its service and complies with the relevant legislative requirements. The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. Entity A intends to renew the licence indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the licence is expected to contribute to Entity A's ability to provide free broadcasting services indefinitely.

IE19. Entity B does not recognize its power to grant broadcasting licences as an intangible asset. The broadcasting license would be treated by Entity A as having an indefinite useful life because it is expected to contribute to the entity's ability to provide free broadcasting services indefinitely. Therefore, the licence would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with IPSAS 21.

An Acquired Broadcasting Licence that Expires in Five Years (Part B)

IE20. The licensing authority subsequently decides that it will no longer renew broadcasting licences, but rather will auction the licenses. At the time the licensing authority's decision is made, Entity A's broadcasting license has three years until it expires. Entity A expects that the licence will continue to provide service potential until the license expires.

IE21. Because the broadcasting license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be amortized by Entity A over its remaining three-year useful life and immediately tested for impairment in accordance with IPSAS 21.

An Acquired Public Transit Route Between Two Cities that Expires in Three Years

IE22. Entity A acquires from Entity B a public transit route between two cities, which generates revenues. The transit route may be renewed every five years, and Entity A intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity that holds the rights to the route (~~Entity A~~) has complied with the applicable rules and regulations. Entity A expects to provide transit services on the route indefinitely. An analysis of demand and cash flows supports those assumptions.

IE23. Because the facts and circumstances support the public transit route providing cash flows to Entity A for an indefinite period of time, the intangible asset related to the transit route is treated as having an indefinite useful life. Therefore, the ~~route authority~~ public transit route would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with IPSAS 26 annually and whenever there is an indication that it may be impaired.

An Acquired List of Property Owners

IE24. A local authority (Entity A) acquires a list of property owners from another public sector entity which is responsible for registering property deeds (Entity B). Entity

B is at another level of government, and is not part of Entity A’s reporting entity. Entity A intends to use the list to generate tax revenues and Entity A expects that it will be able to derive benefit from the information on the acquired list² for at least one year, but no more than three years.

IE25. The list of property owners would be amortized over Entity A’s best estimate of its useful life, say 18 months. Although Entity B may intend to add property owner names and other information to the list in the future, the expected benefits to Entity A of the acquired list relate only to the property owners on that list at the date Entity A acquired the list. The list of property owners also would be reviewed for impairment in accordance with IPSAS 21 by assessing annually and whenever there is any indication that it may be impaired.

Examples Illustrating the Application Guidance

IE26. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2–AG3 and to illustrate application of paragraphs AG4–~~AG10~~–AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<p>Planning</p> <ul style="list-style-type: none"> • Undertaking feasibility studies; • Defining hardware and software specifications; • Evaluating alternative products and suppliers; and • Selecting preferences. 	<p>Recognize as an expense when incurred in accordance with paragraph 63 of this Standard.</p>
<p>Application and Infrastructure Development</p> <ul style="list-style-type: none"> • Purchasing or developing hardware. 	<p>Apply the requirements of the IPSAS 17.</p>

² Although the local authority may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<ul style="list-style-type: none"> • Obtaining a domain name; • Developing operating software (e.g., operating system and server software); • Developing code for the application; • Installing developed applications on the web server; and • Stress testing. 	<p>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66³ of this Standard.</p>
Graphical Design Development	<p>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66³ of this Standard.</p>
Content Development	<p>Recognize as an expense when incurred in accordance with paragraph 78(c) of this Standard to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products). Otherwise, recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66³ of this Standard.</p>

³ All expenditure on developing a web site solely or primarily for promoting, advertising or providing information to the public at large regarding the entity's own products and services is recognized an expense when incurred in accordance with paragraph 77 of this Standard.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<p>Operating</p> <ul style="list-style-type: none">• Updating graphics and revising content;• Adding new functions, features and content;• Registering the web site with search engines;• Backing up data;• Reviewing security access; and• Analyzing usage of the web site.	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 30 of this Standard, in which case the expenditure is recognized in the carrying amount of the web site asset.</p>
<p>Other</p> <ul style="list-style-type: none">• Selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management;• Clearly identified inefficiencies and initial operating losses <u>deficits</u> incurred before the web site achieves planned performance (e.g., false-start testing); and• Training employees to operate the web site.	<p>Recognize as an expense when incurred in accordance with paragraphs 74–80 of this Standard.</p>

Comparison with IAS 38

~~IPSAS XX (ED 40)IPSAS 31~~, “Intangible Assets” is drawn primarily from IAS 38, “Intangible Assets” (as at December 31, 2008). The main differences between ~~IPSAS XX (ED 40)IPSAS 31~~ and IAS 38 are as follows:

- ~~Certain definitions from other IPSASs that are relevant to an understanding of this IPSAS XX (ED 40)IPSAS 31 have been included in this IPSAS XX (ED 40)IPSAS 31.~~
- The identifiability criterion for recognizing an intangible asset has been expanded to include binding arrangements including contractual rights and other legal rights arising from binding arrangements.
- Commentary additional to that in IAS 38 has been included in various paragraphs of ~~IPSAS XX (ED 40)IPSAS 31~~ to clarify the applicability of the requirements to accounting by public sector entities.
- ~~IPSAS XX (ED 40)IPSAS 31~~ incorporates the guidance contained in the Standing Interpretation Committee’s Interpretation 32, “Intangible Assets—Web Site Costs” as Application Guidance to illustrate the relevant accounting principles.
- ~~IPSAS 31 includes an additional scope exclusion for the power to grant rights and the power to tax. Explanatory guidance has been included to explain this scope exclusion.~~
- ~~IAS 38 requires intangible assets to be initially measured at cost. IPSAS 31 includes guidance on the acquisition of an intangible asset for no cost or for a nominal cost. The IPSAS further states that where an intangible asset is acquired at no cost or for a nominal cost, its costs is its fair value as at the date it is acquired.~~
- ~~IPSAS 31~~ uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” “surplus or deficit,” “future economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “rights from binding arrangements (including rights from contracts or other legal rights)” and “net assets/equity” in ~~IPSAS XX (ED 40)IPSAS 31~~. The equivalent terms in IAS 38 are “income,” “statement of comprehensive income,” “profit or loss,” “future economic benefits,” “retained earnings,” “business,” “contractual or other legal rights” and “equity.”
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 48-49 of ~~IPSAS XX (ED 40)IPSAS 31~~ modify this guidance to refer to intangible assets acquired through non-exchange transactions.
- The examples included in IAS 38 have been modified only as necessary to better address public sector circumstances.
- ~~IPSAS XX (ED 40)IPSAS 31~~ does not require or prohibit the recognition of intangible heritage assets. An entity that recognizes intangible heritage assets is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized and may, but is not

required to, comply with other requirements of this Standard in respect of those intangible heritage assets. IAS 38 does not have similar guidance.

- ~~IPSAS XX (ED 40)~~[IPSAS 31](#) contains transitional provisions for the first time adoption of accrual basis IPSASs. Specifically, IPSAS ~~XX~~[31](#) contains transitional provisions allowing entities to not recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. The transitional provisions also allow entities to recognize intangible assets at fair value on first time adoption.

ED 40 RESPONDENTS’ COMMENTS ON OTHER ISSUES (UPDATED TO NOVEMBER 12, 2009)

PURPOSE:

This paper presents staff’s analysis of the other comments received on ED 40, “Intangible Assets”. This paper was originally circulated on October 14, 2009. Staff has updated it for items that were not complete at that time and for items where the response has changed due to new knowledge.

LIST OF RESPONDENTS:

Response #	Respondent Name	Function
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
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 (APIE) (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)	Auditor
14	Chartered Institute of Public Finance & Accountancy (CIPFA) (UK)	Member or Regional Body
15	United Nations Task Force	Preparer
16	Comptroller General, Province of British Columbia (Canada)	Preparer
17	Joint Accounting Bodies (Australia)	Member or Regional Body
18	Australian Accounting Standards Board (AASB)	Standard Setter/Standards Advisory Body
19	KPMG (late response)	Auditor

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
3 PSAB	<p>1. 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.</p>	<p>The phrase currently used in IPSASs is “future economic benefits and service potential.” It is noted that this may be subject to consequential amendments when the CF project is completed; however, it is premature to make such a change now.</p> <p>No change is proposed.</p>
3 PSAB	<p>(c) General Comments</p> <p>2. Paragraph 13 references the term “heritage value” but does not define it. Neither is the term defined in IPSAS 17 “Property, Plant and Equipment”.</p> <p>PSAB staff suggests that the term be emboldened in paragraph 13 and defined in paragraph 17.</p>	<p>The issue of heritage assets was discussed at the September 2009 IPSASB meeting. It was agreed to leave the guidance on heritage assets consistent with IPSAS 17 but to consider a project on heritage assets as part of the development of the IPSASB’s 2010-2012 Strategic Plan.</p> <p>No change is proposed.</p>
3 PSAB	<p>3. 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.</p> <p>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.</p>	<p>Agreed. However, to be consistent with ED 41, paragraphs 15 and 16 will be moved to be immediately below paragraph 4. Paragraph 16 is a standard IPSASB paragraph which is included in all new IPSASB standards to explain that GBEs apply IFRSs.</p> <p>Update: Paragraphs 15 and 16 now follow paragraph 3.</p>
3 PSAB	<p>4. Although it conforms with IAS 38 at paragraph 9, given the title of the ED, “Intangible Assets”, the subtitle preceding paragraph 18 is confusing.</p> <p>PSAB staff suggests the subtitle preceding paragraph 18 be changed to “Characteristics of Intangible Assets”.</p>	<p>As noted by the Respondent, this title is taken directly from IAS 38. The IPSASB has a policy that unless there is a public sector specific reason for departing from the wording in the underlying IFRS, it does not get amended.</p> <p>No change is proposed.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
3 PSAB	<p>5. 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.</p> <p>PSAB staff suggests that “However” be deleted from the last sentence in paragraph 19.</p>	<p>The wording of this paragraph is taken directly from IAS 38. The IPSASB has a policy that unless there is a public sector specific reason for departing from the wording in the underlying IFRS, it does not get amended.</p> <p>No change is proposed.</p>
3 PSAB	<p>6. 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.</p> <p>PSAB staff suggests including some public sector specific examples of development activities in paragraph 68.</p>	<p>It is proposed that another item be added to paragraph 68 to refer to software development costs.</p> <p>In addition, the example given by Respondent #15 in the table “SOFTWARE DEVELOPMENT COSTS” below regarding software developed for internal use, will be added to illustrate this public sector issue.</p> <p>It is also proposed that a reference be added in the Application Guidance to the similarity in treatment of such costs to web site costs.</p> <p>Update: Paragraph AG11 explains that software development costs are similar to web site costs. Paragraphs IE7–IE9 of the Illustrative Examples are adapted from the example provided by this respondent.</p>
3 PSAB	<p>7. 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</p>	<p>Agree to make the change.</p> <p>The examples have been added to the text of ED 40. IAS 38 doesn’t give any examples for this sentence, so the examples can be deleted.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>because of the scope limitation of paragraph 4(f), would be recognized as goodwill at the acquisition date.</p> <p>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.</p> <p>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.</p>	<p>Update: Reference to “the power to grant rights or the power to tax” has been deleted.</p>
12 ASB (South Africa)	<p>Recognition of an Expense</p> <p>20. There seems to be a contradiction between paragraph .77(b) and the principle included in paragraph .19 of ED 41 <i>Entity Combinations from Exchange Transactions</i>. The principle in paragraph .77(b) can be interpreted as allowing an entity to recognise the “power to grant rights and the power to tax” as an asset as part of goodwill. It is recommended that the example “the power to grant rights and the power to tax” in paragraph .77(b) should be deleted.</p>	
3 PSAB	<p>8. 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</p>	<p>The IPSASB agreed that because the material is from SIC-32, which is an interpretation of the guidance in IAS 38 to web site costs, it should be treated as application guidance in ED 40.</p> <p>No change is proposed.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>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.</p> <p>PSAB staff suggests including the paragraphs in Appendix A in the main body of the standard.</p>	
3 PSAB	<p>9. References in the Application Guidance section to paragraphs in ED 40 require updating.</p> <p>PSAB staff suggests that reference to paragraph 64 be replaced with 66, and 63 to 65, in paragraph AG8.</p>	<p>Agree to make editorial changes.</p> <p>Update: Per SIC-32, the reference to paragraph 63 should actually be to paragraph 66.</p>
4 Cour des Comptes	<p>II. C. Two EXAMPLES FOUND IN THE FRENCH CENTRAL GOVERNMENT FINANCIAL STATEMENTS COULD USEFULLY ENRICH THE EXPOSURE DRAFT</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>1. Carbon credits assets</p> <p>a. Overview</p> <p>Since January 1, 2008, France, as part of the Kyoto Protocol, is accountable to the United Nations of its greenhouse gases emission quotas (assigned allocation unit or AAU). Those AAUs correspond to the total allowed emissions to which France is committed for the period 2008-2012.</p> <p>During this period, each State has to hold, at any moment, a prudential reserve which should never amount to less than 90% of the total allowed emissions. This reserve cannot be transferred or sell to third parties. Of the remaining 10%, part</p>	<p>The IPSASB agreed at its September meeting to include examples of such assets to the extent they were acquired by the entity. In the case of the carbon credits assets, these were granted by a third party (the UN) and could be considered intangible assets of the French government.</p> <p>Agree to add this example.</p> <p>Update: An Observer commented that this example should not be included because the IPSASB has not determined the appropriate accounting treatment of these permits. Therefore, this example has not been inserted and the Basis for Conclusions (BC5) explains the rationale.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>of the AAUs (24%) is distributed for free (in theory until the end of 2009) to polluting industries according to each Member State National Allocation Plan (AAUs within NAP), the remaining allocations being retained by States to deal with various emissions (agriculture, transport). Allottees must give back on April, N+1 an amount of AAUs equivalent to their year N emissions. At the end of 2012, France, like other participants, will have to return a number of AAUs equivalent to its emissions. In order to be able to comply, States have the opportunity to buy and sell AAUs.</p> <p>b. <u>Accounting treatment in French Government financial statements</u> AAUs within NAP meet the definition of an intangible asset according to the French central government accounting standard n°5:</p> <ul style="list-style-type: none"> • they provide an economic benefit to the Central government (ability to emit a certain amount of greenhouse gases related to national economic activity); • they can generate cash flows if the Central government decides to sell its surplus of AAUs (which would mean verified emissions are below allocated quotas for year N); • they are negotiated on an active market, thus their fair value can be measured reliably’. <p>AAUs within NAP were recognised as intangible assets in the French central government opening balance for 2008 for €13.7 billion, the obligation to return as much AAUs as its verified emissions for 2008-2012 being recorded as a liability of same amount. 20% of AAUs within NAP were transferred to polluting industries during 2008, thus diminishing the intangible asset recorded by €2.7 billion.</p> <p>As for December 31, 2008, an impairment loss was accounted for €2.7 billion, indicating a drop in AAU within NAP value, which amounted €20.71 per unit the</p>	

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>first day of trading against €15.36 as of December 2008.</p> <p>c. <u>Application of the exposure draft provisions</u> According to the Cour des comptes, AAUs within NAP meet the definition of an intangible asset as enounced by the exposure draft:</p> <ul style="list-style-type: none"> • they can be sold, which mean they are separable from the Central government, therefore identifiable; • they are granted to the Central government and under its control, according to the Kyoto Protocol; • this allocation may generate future economic benefits for the Central government (ability to emit a certain amount of greenhouse gases related to national economic activity, and ability to sell surplus of AAUs in case verified emissions below allocated quotas); • they are negotiated on an active market, thus their fair value can be measured reliably. 	
4 Cour des Comptes	<p>2. Radio frequency spectrum</p> <p>a. <u>Overview</u> Radio frequency spectrum embraces all frequencies that can be used by radio broadcast systems. The right to use these frequencies is granted by a regulation agency to different telecommunication operators against payment of royalties (UMTS and GSM in particular).</p> <p>b. <u>Accounting treatment in French Central Government financial statements</u> Radio frequency spectrum is part of public property, controlled by Central government and its value has arisen from effective transactions. In accordance with French Central Government accounting standard n°5, an intangible asset has therefore been recorded. This asset has an indefinite useful life, is not amortized and may be impaired given IT evolutions or other market parameters. This asset was recorded for the first time in 2008 financial</p>	<p>In the discussions at the September 2009 IPSASB meeting, it was noted that some examples of intangible items provided by respondents to ED 40 would fall into the “powers to grant rights and to tax” category and should not be used in modifying ED 40. Only those examples that meet the criteria for recognition under ED 40 would be provided. It was noted that the rights to use the frequencies would be intangible assets of the entities that acquire the rights.</p> <p>This example will not be incorporated into ED 40.</p> <p>This issue will be considered as part of Phase 2 of the Conceptual Framework project.</p>

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	<p>statements, for an amount of €4.1 billion, corresponding to discounted cash flows earned against allocation of frequencies to telecommunications operators.</p> <p>c. <u>Application of the exposure draft provisions</u> According to the Cour des comptes, radio frequency spectrum meets the definition of an intangible asset as enounced by the exposure draft</p> <ul style="list-style-type: none"> • radio frequencies can be allocated to telecommunication operators, meaning that they are separable from the Central government, hence identifiable; • it is public property, therefore exclusively controlled by Central government; • it may provide future economic benefits to the Central government (royalties earned against allocation of radio frequencies to telecommunication operators); • fair value can be reliably determined by effective transactions. 	
4 Cour des Comptes	<p>III. B. ARE THE CHANGES MADE TO IAS 38 AND THE ADDITIONAL PUBLIC SECTOR GUIDANCE APPROPRIATELY REFLECTED IN THE REVISED WORDING?</p> <p>Changes made to IAS 38 in particular the adaptation of the vocabulary - correctly reflect the general orientations of the exposure draft regarding intangible assets in public sector entities accounts, and therefore do not need additional comments, with exception of the illustrative examples, which do only deal with amortization and impairment matters.</p> <p>Other aspects of the exposure draft could be usefully illustrated by examples, such as: defining and recognizing an intangible asset, measuring its value at recognition and after, information to disclose etc.</p>	<p>It is noted that such examples would be useful; however, the areas of ED 40 noted are consistent with IAS 38, which doesn't contain examples. This is not a specific public sector issue.</p> <p>No change is proposed.</p>
5 ASB (UK)	4. We note the additional public sector guidance that is provided in the Illustrative Examples and the additional examples that are	Positive support for extent and substance of the examples in ED 40.

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	<p>included for applying paragraph 71 on the cost of an internally generated intangible asset and for illustrating the Application Guidance. We consider these modifications and additions to the wording of IAS 38 particularly helpful.</p>	<p>Comment only, no action required.</p>
<p>8 Dr. Joseph Maresca</p>	<p>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.</p> <p>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)</p>	<p>Comment only, no action required.</p>

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	<p>Control may be inferred if the entity gets future economic benefits. (pp. 16)</p> <p>In process research and development is recognized as an intangible asset. (pp.21)</p> <p>An important point for financial recordation purposes is a predictable cost of intangible assets which can be measured reliably and consistently. (pp. 22)</p> <p>Expenditures on research are recognized in the current period when occurred. (pp.24)</p> <p>Classically, activities considered to be research are the following:</p> <ul style="list-style-type: none"> • how to apply research findings in a commercial or municipal setting like a new hybrid energy bus line • conceptual formulation and design of process alternatives like solar, battery technology or natural gas powered engines • product or process evaluation or modification • design, construction or testing of prototypes, tools, molds etc. • design of a pilot plant or testing facility to emulate real life operation like the "Artificial Sun" or Tokomak • engineering activity aimed at elevating a product or new product from design through testing and manufacturing or placing the idea into the public domain <p>The cost model consists of intangible assets carried at cost less accumulated amortization.</p> <p>The re-valuation model consists of intangible assets carried at revalued amounts.</p> <p>Impliedly, the revalued amounts can be arrived at by an objective benchmark for consistency purposes in actual accounting practice.</p>	
8 Dr. Joseph Maresca	<p>The useful life of intangible assets may be determined rationally by reference to:</p> <ul style="list-style-type: none"> • expected usage • product life cycle 	<p>Paragraph 100 lists the factors to be considered in determining the useful life of an intangible asset. The wording of this paragraph is taken directly from IAS 38. The IPSASB has a policy that unless there is a public sector specific reason for departing</p>

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	<ul style="list-style-type: none"> • technological obsolescence • stability in an industry <p>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.</p> <p>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.</p>	<p>from the wording of the underlying IFRS, it does not get amended. The addition of MTBF is not a public sector specific factor and thus is not appropriate for inclusion.</p> <p>No change is proposed.</p>
8 Dr. Joseph Maresca	<p>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)</p> <p>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.</p> <p>The useful life of the intangible asset should be disclosed whether definite or indefinite. (pp.34)</p> <p>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)</p> <p>Classes of assets should be separated by brand name, copyright, recipes etc.</p>	<p>Comment only, no action required.</p>
9 HoTARAC	<p><i>Additional disclosure and inconsistency with the requirements of IPSAS 17 Property, Plant and Equipment</i></p> <p>As you are no doubt aware, it is the practice of the Australian Accounting Standards Board [AASB] to adapt International Accounting Standards where appropriate for the Australian context. This is done by way of “Aus” paragraphs. In its own considerations</p>	<p>At the February 2009 IPSASB meeting, the IPSASB had considered this view in developing the Ballot Draft. It was decided to retain the IAS 38 disclosure requirements, even where they differ from IPSAS 17.</p> <p>No change is proposed.</p>

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	<p>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.</p> <p>The Board [AASB] in making this exemption noted that IPSAS 17 <i>Property, Plant and Equipment</i> 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 [AASB] 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. ...</p>	
9 HoTARAC	<p><i>Accounting for revaluations by class of asset</i></p> <p>The revaluation model proposed in ED 40 for Intangible Assets is similar to that in IAS 38 <i>Intangible Assets</i> and IAS 16 <i>Property, Plant and Equipment</i> which requires revaluations to be accounted for on an asset by asset basis. IPSAS 17 <i>Property, Plant and Equipment</i> 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.</p> <p>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 <i>Intangible Assets</i> and AASB 116 <i>Property, Plant and Equipment</i>. HoTARAC notes that the ED does not comment on the proposed inconsistency with IPSAS 17.</p>	<p>The IPSASB discussed the revaluation model at the September 2009 meeting, and concluded that the ED 40 principles and the consequential amendments to IPSAS 21 and IPSAS 26, were appropriate.</p> <p>No change is proposed to the accounting principles in ED 40.</p> <p>It is proposed that the rationale for this difference be explained in the Basis for Conclusions, in response to the comment that the ED does not provide the reasons for the inconsistency with IPSAS 17.</p> <p>Update: The explanation is provided in paragraph BC10.</p>
9 HoTARAC	<p><i>Progress on the Frameworks Project</i></p> <p>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</p>	<p>Comment only, no action required.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	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.	
10 APIE	<p>3. Conclusion</p> <p>...</p> <p>The examples given in the Exposure Draft are very similar to IAS 38 and the market sector. This obscures the main specificity of the State, which is to provide public services, even though some government agencies may have partial business activities. On the other hand, the references to brands are appropriate, since the public sector often has very strong brands.</p> <p>Finally, we regret that the Exposure Draft explicitly excludes the main specificities of the public sector, such as the power to levy taxes, grant licences and conduct non-exchange entity combinations. Exposure Draft 40 does not deal with other specific features of the public sector, such as the accounting treatment of radio frequencies, emission permits and public information (databases).</p>	<p>The IPSASB discussed the scope of ED 40 at its September 2009 meeting. The Board confirmed its earlier decision that the exclusion of the power to grant rights and the power to tax is appropriate and that this issue will be addressed in its Conceptual Framework project.</p> <p>No change is proposed.</p>
12 ASB (South Africa)	<p>Introduction</p> <p>1. IN5 states that intangible assets acquired in an entity combination arising from an exchange transaction are included in the scope of the Standard. As it is not clear from this description whether the proposed Standard applies to exchange transactions under common control, exchange transactions not under common control, or both, a reference to the appropriate IPSAS should rather be included (i.e. IPSAS XX (ED 41) <i>Entity Combinations from Exchange Transactions</i>).</p> <p>This amendment should also be incorporated elsewhere in the proposed IPSAS, where appropriate (for example paragraph .44 and .45).</p> <p>2. We are of the view that IN10 does not add any value to the overall understanding of the proposed IPSAS, and should only be highlighted in the comparison with IAS 38. We therefore recommend the deletion of IN10.</p>	<p>Agree to make these changes.</p> <p>Update: Changes were made to paragraphs IN5 and IN15 (formerly IN16) as noted. Paragraph IN 10 was deleted.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>3. IN16 should also highlight that intangible assets that are not yet available for use are also subject to an annual impairment test under IPSAS 26. IN16 currently only highlights that an intangible asset with an indefinite useful life is subject to an annual impairment test under IPSAS 26.</p> <p>4. In addition, the last sentence in IN16 should also include a reference to IPSAS 21, as the requirement to annually test an intangible asset with an indefinite useful life also applies to non-cash-generating assets subsequently measured under the cost model, as reflected in the consequential amendments to paragraph 26 in IPSAS 21 (see IPSAS 21.26 in Appendix B).</p>	
12 ASB (South Africa)	<p>9. The last part of the definition of “cost” should be deleted to align the definition with that in IPSAS 17: <u>Cost</u> is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. ... <i>[10 refers to service potential, and is shown below]</i></p> <p>11. The definition section currently only includes the definitions relating to the impairment of cash-generating assets. As intangible assets measured under the cost method are also subject to impairment testing, the definitions for an “impairment loss of a non-cash-generating asset” should also be included.</p>	<p>Agree to make these changes. Update: Consistent with the IPSASB’s approach of not including definitions for terms previously defined in IPSASs, the definitions of cost, impairment losses and other terms have been deleted.</p>
12 ASB (South Africa)	<p>12. The following standard paragraph as included in other IPSASs should be included after the definition section: Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.</p>	<p>Agree to include this text at the end of paragraph 17. Update: Sentence included at the end of paragraph 16.</p>
12 ASB (South Africa)	<p><i>Intangible Assets: Control</i></p> <p>15. We question the public sector relevance of paragraph .25 and propose the deletion of the paragraph.</p>	<p>The IPSASB agreed to include all the IAS 38 examples even where there occurrence will be rare. This paragraph has been amended to give it more of a public sector flavor (e.g., references to users of a</p>

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		service). No change is proposed.
12 ASB (South Africa)	<p>Recognition and Measurement at Recognition</p> <p>16. Paragraph .29 as amended could be interpreted differently compared to the equivalent paragraph in IAS 38 (see IAS 38.20), as “to develop” was replaced with “on behalf of”. The amendment to the IAS 38 paragraph should be reconsidered.</p> <p>17. We propose that “as appropriate” in paragraph 30(b) should be deleted, and that the concepts in paragraph .33 should be addressed in two separate paragraphs, similar to that in IPSAS 17.26 and .27. In addition, the phrase “in accordance with paragraphs 34-53” only applies to intangible assets measured initially at cost. The phrase should therefore only be included as part of the first concept.</p>	<p>The wording from IAS 38 will be reinstated in paragraph 29. The phrase “to develop” is used in a specific context in the standard (i.e., “the development phase”), which applies equally to the public sector.</p> <p>Agree to make the change to paragraph 30.</p> <p>This is because such expenditure cannot be distinguished from expenditure on behalf of to <u>develop</u> the entity’s operations as a whole. [Note: IAS 38.20 refers to “to develop <u>the business</u> as a whole.”]</p> <p>Agree to make the change to paragraph 33, as follows:</p> <p>33. An intangible asset shall be measured initially at cost, <u>in accordance with paragraphs 33-53.</u></p> <p>33A. except when it Where an intangible asset is acquired through a non-exchange transaction, <u>its cost shall be measured at its fair value as at the date of acquisition when it is measured initially at fair value, in accordance with paragraphs 33-53.</u></p> <p>Update: The two sentences above have been combined into paragraph 33 because both are dealing with initial measurement.</p>
12 ASB (South Africa)	<p><i>Intangible assets acquired through non-exchange transactions other than non-exchange entity combinations</i></p> <p>18. In the public sector it might be likely that fair value cannot be</p>	<p>Agree to make this change.</p> <p>Note that paragraph 53 also has other</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>determined by reference to an active market, and as a result, that entity should use alternative methods to determine the fair value for the intangible asset. We therefore propose that paragraph .53 should also include the reference to paragraph .47 to .49 (and not only to paragraph .87) that allows alternative methods for determining the fair value of the intangible asset, in the absence of an active market.</p>	<p>amendments. See Respondent #19 for details. Update: Paragraph 53 reflects these changes and those of Respondent#19.</p>
<p>12 ASB (South Africa)</p>	<p><i>Exchanges of assets in exchange transactions</i> 19. IPSAS 23 provides guidance on the measurement of assets acquired through a non-exchange transaction that lacks commercial substance. Option (a) in paragraph .54 is therefore not appropriate, as the principles in IPSAS 23 should be applied under such circumstances. As a result, option (a) in paragraph .54 and the entire paragraph .55 should be deleted.</p>	<p>The IPSASB has previously debated this issue. It agreed to retain this guidance, which is consistent with guidance contained in IPSAS 17. The wording has been modified to refer to “exchanges of assets <u>in exchange transactions</u>” and thus explicitly exclude non-exchange transactions to which IPSAS 23 applies. No change is proposed.</p>
<p>12 ASB (South Africa)</p>	<p>21. The example of a “mail order catalogue” in paragraph .78(c) is not an appropriate public sector example, and should be replaced with a more appropriate one.</p>	<p>When approving the ED, the IPSASB had agreed to keep IAS 38 examples as they may be applicable in some public sector entities that are not GBEs. No change is proposed.</p>
<p>12 ASB (South Africa)</p>	<p>Basis for Conclusions 25. The Basis for Conclusions as currently drafted does not in all instances sufficiently explain the IPSASB’s views and reasoning behind the inclusion or exclusion of certain principles when compared to the equivalent IAS 38. For example, BC3 does not explain why the IPSASB is of the view that the definition of an asset was not met. Similarly, BC5 does not clarify why the identifiable criterion was expanded. As the Basis for Conclusions should in all instances clearly explain the reasoning and other public sector considerations that was taken into account in drafting the proposed IPSAS, we propose that the explanations for the departure from IAS 38 should be elaborated. 26. In addition, we recommend that the amendment from</p>	<p>The following changes are proposed: BC3 – will reflect IPSASB’s decision in May 2009 that this relates solely to the Conceptual Framework, with no reference to the asset definition. BC5-BC8 – staff believes the rationale for these is clear (included because they are public sector issues). BC5 will be enhanced to explain the additional guidance on binding arrangements to be added to paragraph 22. (see comments under “Binding Arrangements” above). Wording used will be similar to that used in ED 38. BC6 will be elaborated upon based on the</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>“contractual or other legal rights” to “binding arrangement (including rights from contracts or other legal rights” be further explained in BC5 to further clarify the public sector amendment.</p> <p>27. We propose the deletion of BC6 to BC10 as these paragraphs merely summarise the differences with IAS 38, and should only be included as part of the comparison with IAS 38.</p>	<p>IPSASB’s decisions on Heritage Assets at the September 2009 IPSASB meeting. There will be a reference to future consideration of Heritage Assets in detail; and that pending such a project, the IPSASB believes it important to encourage consistent disclosures when entities do choose to disclose information about their heritage assets.</p> <p>BC7-BC8 will be deleted.</p>
12 ASB (South Africa)	<p>Comparison with IAS 38</p> <p>28. The comparison with IAS 38 is not included in the clean copy of the exposure draft.</p> <p>29. The fifth bullet, that explains the inclusion of an intangible asset acquired as part of an entity combination, should be deleted as it is not a difference with IAS 38.</p> <p>30. The following differences between the proposed IPSAS and IAS 38 should also be highlighted in the comparison:</p> <ul style="list-style-type: none"> • IAS 38 requires intangible assets to be initially measured at cost. The IPSAS further states that where an intangible asset is acquired at no cost or for a nominal cost, its costs is its fair value as at the date it is acquired. • The IPSAS includes an additional scope exclusion of the power to grant rights and the power to tax. Explanatory guidance has also been included to explain this scope exclusion. 	<p>Agree to make these changes.</p>
13 Audit Commission (UK)	<p>We note the addition of public sector guidance in the Illustrative Examples and throughout the text and consider such amendments and additions to the IAS helpful.</p>	<p>Comment only, no action required.</p>
18 AASB (Australia)	<p><i>The term ‘commercial’</i></p> <p>The term ‘commercial’ appears a number of times in ED 40 in relation to development activities [for instance, on page 17 and in paragraph 68(c)]. However, some public sector not-for-profit entities might be involved in development activities that lack a commercial focus. Accordingly, given that ED 40 is intended to be applied in a</p>	<p>The IPSASB previously decided not to delete/replace private sector terms that could apply. The Appendix sets out all the references to “commercial” in ED 40 and has an explanation as to whether or not each reference is appropriate and any proposed changes.</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	public sector not-for-profit context, the AASB queries whether the word ‘commercial’ should be replaced with a more generic term or terms, such as ‘commissioned’ or ‘planned’.	
19 KPMG	<p><i>Intangible Assets</i></p> <p>Paragraph 24, concerning the capitalization of skilled staff, is included as provided for IAS 38 and uses the same reasoning for not capitalizing the benefits of their skills as intangible assets. However, certain public sector entities can and do place legal restrictions on staff to prevent them from moving. If this ED carries this prohibition on capitalisation into the public sector, the argument for doing so will need to be developed.</p>	<p>It is noted that the last sentence of paragraph 24 (unchanged from IAS 38) addresses the issue of protection by legal rights to use the asset, which would apply equally in the public sector. In the example noted by the respondent, the entity would still need to demonstrate that other parts of the definition of an intangible asset are met.</p> <p>No change is proposed.</p>
19 KPMG	<p>Paragraph 25 discusses whether customer relationships meet the definition of an intangible asset. Based on the wording of that paragraph, it was unclear to us whether customer relationships meet the definition of an asset only if they are acquired through an exchange transaction, or if customer relationships meet the definition of an asset in all cases. If it is the latter, we would disagree with that position. Many public sector entities maintain monopolies over various services, such as, water utilities and refuse service, thereby creating “compelled” customer relationships. Additionally, property tax rolls would appear to be another example of “compelled” customer relationships. We do not believe that a public sector entity should recognize intangible assets created through their regulatory powers, in this case, the power to compel citizens to use their service or pay taxes. Therefore, in these cases, we do not believe customer relationships should be recognized as assets by public sector entities.</p>	<p>The cases cited fall into the “powers to grant rights and to tax” category which are explicitly excluded from the scope of ED 40.</p>
19 KPMG	<p>Paragraph 26 discusses the future economic benefits or service potential flowing from an intangible asset. The following example of future economic benefits or service potential is provided in this paragraph:</p> <p>“For example, the use of intellectual property in a production or service process may reduce future production or service costs rather than increase future revenues (e.g., an on-line system that</p>	<p>A reference to service potential will be added to the example as follows:</p> <p>“For example, the use of intellectual property in a production or service process may reduce future production or service costs, <u>or improve service delivery</u>, rather than increase future revenues (e.g., an on-line system that allows citizens to renew</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>allows citizens to renew driving licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing.”</p> <p>This example focuses on how future economic benefits may flow from an intangible asset without the generation of revenue. However, it does not address future service potential. In fact, it could lead one to assume that the intangible asset must either generate revenue or reduce costs to meet the definition of an intangible asset. In the example of an on-line system for driving licenses, we believe this would meet the definition of an asset because of its future service capacity regardless of whether costs of providing these services were reduced.</p>	<p>driving licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).”</p>
19 KPMG	<p>In paragraph 45, we believe examples that are more relevant to a public sector entity should be provided to illustrate the concept. Most public sector entities are not involved with magazine publishing or spring water marketing and the IASB has deleted these examples from IAS 38 (see <i>Improvements to IFRSs</i> published in April 2009).</p>	<p>The IPSASB agreed to retain IAS 38 examples even where they are not prevalent in the public sector. The IPSASB also agreed that ED 40 would be based upon the version of IAS 38 extant at December 31, 2008. The IASB’s April 2009 improvements will be addressed in the IPSASB’s 2010 Improvements project.</p>
19 KPMG	<p>Paragraph 49 discusses fair value estimation techniques that involve profitability of the asset and estimated future net cash flows from the asset. We believe that it should be specified that these approaches are appropriate for cash-generating intangible assets. We do not believe they would properly estimate the fair value of a non-cash-generating asset as described in IPSAS 21, <i>Impairment of Non-Cash Generating Assets</i>.</p>	<p>Agree to make this change to paragraph 49, as follows:</p> <p>“Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in an entity combination from an exchange transaction if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. Techniques for cash-generating intangible assets include, when appropriate:...”</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
19 KPMG	<p>Also in paragraph 52, we believe that the second example (the donation of personal papers by a Nobel Prize winner) could be considered Intangible Heritage Assets. This could give rise to confusion when considering its fair value under paragraph 53 and whether it requires recognition in the first instance given the proposed guidance in paragraphs 10-14. Either this needs to be addressed in the ED or another example should be selected.</p>	<p>The wording of paragraphs 52 and 53 are amended, as follows:</p> <p>52. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. A private citizen, for example a Nobel prize winner may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.</p> <p>53. <u>In this situation, Under these circumstances the entity decides to recognize the copyright as an intangible heritage asset and measures it at the cost of the item is its acquisition date fair value at the date it is acquired.</u> For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of <u>paragraphs 47-49</u> and paragraph 85, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 85, and the supporting commentary in paragraphs 86-97 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
19	KPMG	<p><i>Exchanges of Assets in Exchange Transactions</i></p> <p>In paragraph 54 and elsewhere in the ED, we believe the phrase “commercial substance”, which is the phrase used in IAS 38, should be replaced by “substance”, to be more consistent with the nature of public sector entities.</p>	<p>One of the conditions for the recognition of an intangible asset acquired in exchange for other assets is that the transaction has “commercial substance”. This term has a particular meaning in this context and is explained in paragraph 55. The word “substance” has a wider meaning and does not necessarily convey the same meaning as given in paragraph 55 and therefore it is not appropriate to change the wording of paragraph 54. Note that this phrase is also used in IPSAS 17 when referring to exchanges of property, plant and equipment.</p> <p>The Appendix sets out all the references to “commercial” in ED 40 and has an explanation as to whether or not each reference is appropriate and any proposed changes.</p> <p>No change is proposed.</p>
19	KPMG	<p>In paragraph 55(b), it was unclear whether the entity-specific value of the portion of the entity’s operations affected by the transaction is a relevant measure to a public sector entity and how such value would be determined.</p>	<p>ED 40’s wording is consistent with the underlying IAS 38 and with the equivalent paragraph in IPSAS 17.39.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	DEFINITION OF “BINDING ARRANGEMENT”	PROPOSED IPSASB RESPONSE
9	HoTARAC	<p><i>Definition and guidance in relation to “binding arrangements”</i></p> <p>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</p>	<p>Agree to add the following additional guidance to ED 40.22:</p> <p>“For the purposes of this Standard, a binding arrangement describes arrangements that are binding on the parties to the arrangement and confers similar rights and obligations on the parties to it as if it were in the form of a contract. For example, two government departments may enter into a formal arrangement but the arrangement may not constitute a legal contract because in that jurisdiction</p>

#	RESPONDENT NAME	DEFINITION OF “BINDING ARRANGEMENT”	PROPOSED IPSASB RESPONSE
		prove useful to users in determining what constitutes a binding arrangement.	individual departments may not be separate legal entities with the power to contract.”
12	ASB (South Africa)	<i>Intangible Assets: Identifiability</i> 14. As the concept of a binding arrangement is unique to the public sector (paragraph .21), we recommend that explanatory guidance should be included to explain the term.	This wording is based upon paragraph 7 of IPSAS 11, “Construction Contracts”. Update: Paragraph 22 is inserted and additional explanation added to paragraph BC6 .
19	KPMG	We believe that a definition for “binding arrangement” used in the “identifiable” criteria in paragraph 21 of the ED should be provided. It is unclear to us what that term is meant to represent in the context of that paragraph. For example, is a binding arrangement limited to a contract with a third party or could a public sector entity’s own constitution or charter be considered a binding arrangement? Definition of this term is particularly important as it marks a difference in the wording of the similar criteria in IAS 38. Without a definition, the impact of this wording change on the practical application of these criteria is unclear. Additionally, it appears the notion of future service potential has been inadvertently omitted	

#	RESPONDENT NAME	SERVICE POTENTIAL	PROPOSED IPSASB RESPONSE
9	HoTARAC	<i>Asset definition should incorporate service potential</i> 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.	Agree to make this change. Update: Consistent with the IPSASB’s approach of not including definitions for terms previously defined in IPSASs, the definitions of cost, impairment losses and other terms have been deleted.

#	RESPONDENT NAME	SERVICE POTENTIAL	PROPOSED IPSASB RESPONSE
12	ASB (South Africa)	<p>Definitions</p> <p>10. The concept of service potential should be included in the definition of “entity specific value”:</p> <p><u>Entity-specific value</u> is the present value of the cash flows <u>or service potential</u> an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.</p>	
15	UN Task Force	<p>Definition of ‘asset’ – include ‘service potential’</p> <p>2 We support the Standard’s widening of the meaning of an ‘asset’ to include consideration of either future economic benefits or <i>service potential</i>. Consistent with that aim <u>we recommend</u> that the following amendment (underlined below) be made in order to ensure that intangible assets clearly involve either future economic benefits or <i>service potential</i>:</p> <p><u>Paragraph 17</u></p> <p>An asset is a resource:</p> <p>(a) Controlled by an entity as a result of past events; and</p> <p>(b) From which future economic benefits <u>or service potential</u> are expected to flow to the entity.</p> <p>3 Our review of the draft Standard indicated that in every other place where ‘future economic benefits’ were mentioned the additional words ‘or service potential’ had already been included.</p>	

#	RESPONDENT NAME	PUBLIC SECTOR GUIDANCE AND EXAMPLES – “Franchises”	PROPOSED IPSASB RESPONSE
8	Dr. Joseph Maresca	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.	When approving the ED, the IPSASB had agreed to keep IAS 38 examples as they may be applicable in some public sector entities that are not GBEs. Some of the items noted by this respondent are addressed in ED 40.
10	APIE	On the other hand, the examples given are very similar to situations	Respondent #4 has given an example of carbon

# RESPONDENT NAME	PUBLIC SECTOR GUIDANCE AND EXAMPLES – “Franchises”	PROPOSED IPSASB RESPONSE
	<p>encountered under IAS 38, even though Government Business Enterprises have been excluded from the scope of ED 40. The proposed standard makes repeated references to market knowledge, publishing titles, customers and franchises. These examples are not really very applicable to the public sector, where the objective is to provide public services. This objective is not reflected in the examples.</p> <p>We feel that intangible public assets should highlight literary and artistic property, licences to use intellectual property rights, intellectual property, including brands and know-how, domain names, development costs of the Ministry of Defence, etc. Therefore, we feel that the examples should be adapted ².</p> <p>Some of the examples given in the Implementation Guidance section on determining the useful life of assets are not at all consistent with reality, or at least they are not in France, where public sector entities do not need to obtain broadcasting licences, transit routes or lists of users.</p> <p>² For example, in §6, the ED 40 cites the software required to operate a machine as an illustration. We suggest that the navigation software for a fighter jet belonging to the military should be cited to be more in line with the public sector.</p>	<p>credits assets. This example will be incorporated into ED 40.</p> <p>The example in paragraph 6 will be amended as suggested by this Respondent.</p> <p>Update: Illustrative Example (a) 2 provides an example of an internally-developed licence to use intellectual property rights.</p>
12 ASB (South Africa)	<p><i>Intangible Assets</i></p> <p>13. The example of a “franchise” in paragraph .18 is not an appropriate public sector example, and should be deleted from the list of common examples.</p>	
12 ASB (South Africa)	<p>24. The examples of “franchises” and “recipes” in paragraph .130(d) and (f) are not appropriate public sector examples, and should be deleted.</p>	

# RESPONDENT NAME	SOFTWARE DEVELOPMENT COSTS	PROPOSED IPSASB RESPONSE
15 UN Task Force	<p>Implementation Guidance <i>Costs of Software Developed or Obtained for Internal Use</i></p> <p>19. Guidance is urgently needed on the treatment of software development costs and costs related to software acquisition, when the software is developed or acquired for internal use. Public sector organizations commonly acquire software for financial reporting, resource management, and to support operational activities. Some public sector entities also develop organization-specific software. In both cases it is necessary to review the related costs in terms of whether they should be expensed or capitalized.</p> <p>20. We recommend that guidance on the treatment of software development costs be included in this Standard’s implementation guidance.</p> <p>Such guidance could be based on work already done by the Government Accounting Standards Board (GASB), which applies concepts consistent with those in IAS 38 Intangibles and ED40 Intangibles. The table used in the recommended example below relates the classification system and accounting treatments GASB’s SOP No. 98-1 to the systems development life cycle (SDLC). [Staff note: the table is not reproduced here – please view response for detail]</p> <p>21 We recommend that the illustrative example below be included in the Standard’s implementation guidance:</p> <p>Treatment of internally developed software</p> <p>An entity develops software to better match prison facilities with the prison population. Significant improvements result in terms of appropriate matching of offenders to security levels (minimum, medium and maximum security prisoners matched to the appropriate facility) and reductions in overall costs through more efficient usage, consistent with legislated quality standards. For the purposes of this example, it is assumed that the criteria for recognition of development costs in paragraph 66 (a) through (f) are met. The focus of this example is which</p>	<p>The IPSASB agreed that the scope of this project would not go beyond IAS 38/SIC-32. However, an example will be provided based on the one given by this Respondent.</p> <p>Update: Illustrative Example (a) 2 provides an example of software development costs.</p> <p>The issue of software development will be included in the list of projects to be considered in conjunction with the development of the IPSASB’s 2010-2012 Strategic Plan.</p>

# RESPONDENT NAME	SOFTWARE DEVELOPMENT COSTS	PROPOSED IPSASB RESPONSE
	<p>costs should be capitalized as part of the intangible asset.</p> <p>Development of the software involved the normal software development life cycle (SDLC), shown in column 2 of Table 1 below. The entity incurred costs at each stage of the SDLC. Costs were also incurred during pre-implementation and post-implementation activities, which are also shown in Table 1 below.</p> <p>Costs incurred during the preliminary stage and the post-implementation stage should be expensed. Costs incurred during the application development stage, which covers systems design and construction, should be capitalized.</p>	
19 KPMG	<p>Paragraph 29 of the ED (which is almost identical to its counterpart, IAS 38.20) states that expenditures related to an intangible asset incurred after the initial recognition of an acquired intangible asset will only rarely be recognized in the carrying value of an asset. While we believe this to be true for most of the significant intangible assets held by commercial entities, we believe this not to be true for what we expect to be the most prevalent intangible asset among public sector entities—computer software. We believe that modifications of computer software that add efficiency and/or functionality to the software would meet the definition of an intangible asset and the criteria for recognition and should be included in the carrying value of the software. To omit this from the discussion, we believe, is misleading in the context of public sector entities.</p>	
19 KPMG	<p><i>Application Guidance—Web Site Costs</i></p> <p>As an overall comment, we believe the Board should provide application guidance that more broadly addresses internally generated computer software. We believe the distinction between research and development as proposed in the ED does not easily lend itself to the development of computer software. We believe providing such clarification only for web site costs misses issues that public sector entities will face in accounting for the broader population of software systems.</p> <p>We have concerns with the guidance in AG8 that can be interpreted</p>	

# RESPONDENT NAME	SOFTWARE DEVELOPMENT COSTS	PROPOSED IPSASB RESPONSE
	<p>to limit recognition of web site costs as an intangible asset if it directly generates revenues or reduces costs. Web sites are often used by public sector entities to disseminate important information to its constituency, such as facts about available governmental services, reports that illustrate the public sector entity’s accountability to its constituency and stewardship of assets, and news about the public sector entity. Web sites also are often used to facilitate transaction with the public sector entity for its constituents, including change of residency registration and certain tax collections. We believe these uses of web sites represent service potential to the public sector entity because it assists the entity in carrying out its mission and should result in the costs of a web site being capitalized as appropriate. We also do not think the guidance on reporting the costs of a web site that is solely or primarily for promoting and advertising its own services and products has the same applicability in a public sector context as in a commercial context and, therefore, we believe it should be deleted. This concept is also present in AG 9.</p>	

# RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
2 FEE	<p><u>Drafting points</u> Paragraph 144 includes wording based on transitional provisions in IPSAS 17 ‘Property, Plant and Equipment’ and refers to property, plant and equipment. This reference appears to be incorrect, and should be reframed to refer to intangible assets.</p> <p>We also suggest that the heading ‘Recognition and Measurement at Recognition’, while accurate is confusing. This could be more helpfully expressed as ‘Recognition and Initial Measurement’.</p>	<p>Agree to make these changes (note that paragraph 144 will be amended based on the IPSASB’s decisions at the September 2009 meeting).</p> <p>Update: This change is no longer required due to extensive revisions to the transitional provisions section.</p>
12 ASB (South Africa)	<p>IN16 last sentence Amend “...under IPSAS 26, to annually test an intangible asset with an indefinite useful life” to “...under IPSAS 26, to annually test an intangible asset with an indefinite useful life <u>for impairment</u>”</p>	<p>Agree to make this change.</p>

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
12	ASB (South Africa)	IN20 Amend “IPSAS XX(ED 40) also contains certain exemptions for recognition.....” to “IPSAS XX(ED 40) also contains certain exemptions <u>relief</u> for recognition.....”	Agree to make this change. Update: The sentence referred to is deleted.
12	ASB (South Africa)	Paragraph 11 second sentence Amend “...significant public person in, for example...”to “...significant public person in <u>on</u> , for example...”	Agree to make this change.
12	ASB (South Africa)	Paragraph 14 first sentence Amend “...about recognized intangible assets...”to “...about recognized intangible <u>heritage</u> assets...”	The reference to recognized intangible assets is correct, however, the paragraph referencing is not. The changes to paragraph 14 will be as follows: 14. The disclosure requirements in paragraphs 129- 139 <u>136</u> require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:...
12	ASB (South Africa)	Paragraph 17 Definition: impairment loss Amend “an impairment loss is the amount.....” to “an impairment loss <u>of a cash-generating asset</u> is the amount.....”	Agree to make this change. Update: Consistent with the IPSASB’s approach of not including definitions for terms previously defined in IPSASs, the definitions of cost, impairment losses and other terms have been deleted.
12	ASB (South Africa)	Paragraph 20 first sentence Amend “...the definition of an intangible asset require an” to “...the definition of an intangible asset <u>requires</u> an”	Agree to make this change.
12	ASB (South Africa)	Paragraph 44 first sentence Amend “...separable or arises from contractual or other legal rights, sufficient...” to “...separable or arises from <u>binding arrangements</u> (<u>including rights from contracts</u> contractual or other legal rights), sufficient...”	Agree to make this change.

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
12	ASB (South Africa)	Paragraph 69 last sentence Amend "...if the asset will generate economic benefits only in ..." to "...if the asset will generate economic benefits <u>or service potential</u> only in ..."	Agree to make this change.
12	ASB (South Africa)	Paragraph 75 second paragraph Amend "...as an element of the cost of asset that" to "...as an element of the cost of <u>an</u> asset that"	Agree to make this change.
12	ASB (South Africa)	Paragraph 77 Amend "expenditure on an intangible item shall be ..." to "expenditure on an intangible item <u>asset</u> shall be ..."	There has been no change from IAS 38 and the reference to "item" rather than "asset" is intentional, as these are <u>not</u> assets, but items to be expensed. No change is proposed.
12	ASB (South Africa)	Paragraph 87 second sentence Amend "... (see paragraph 74, the revaluation...." to "... (see paragraph 74), the revaluation...."	Agree to make this change.
12	ASB (South Africa)	Paragraph 97 first sentence Amend "...the increase recognised in the revaluation surplus..." to "...the increase recognised in the <u>accumulated</u> revaluation surplus..."	Paragraphs 96 and 97 are amended, as set out below, to be consistent with the wording of the underlying IAS 38 and with ED 41 regarding the replacement of references to other comprehensive income.
19	KPMG	We note that paragraph 97 only allows a decrease recognized in the revaluation surplus to be transferred directly to accumulated surpluses / deficits when the surplus is realized. However, it is not clear why increases may not be treated this way, particularly when they are allowed to be so treated in IAS 38.	96. <u>If an intangible asset's carrying amount of an intangible asset is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be recognized directly in net assets/equity debited directly to revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized directly in net assets/equity reduces the amount accumulated in equity under the heading of revaluation surplus.</u> 97. The decrease recognized <u>The cumulative revaluation surplus included in net assets/equity</u>

# RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
		<p>may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.</p>
12 ASB (South Africa)	<p>Paragraph 135(b) Amend "...on the distribution of the balance to shareholders or other equity holders..." to "...on the distribution of the balance to shareholders or other equity holders <u>owners</u>..."</p>	Agree to make this change.
12 ASB (South Africa)	<p>Paragraph 144 second sentence Amend "...initially recognized an item of property, plant and equipment at cost..." to "...initially recognized an item of property, plant and equipment <u>intangible asset</u> at cost..."</p>	Agree to make this change.
12 ASB (South Africa)	<p>Paragraph 150 second sentence Amend "...major classes of asset that have been....." to "...major classes of <u>intangible assets</u> that have been....."</p>	Agree to make this change.
12 ASB (South Africa)	<p>Paragraph 150 last sentence Amend "...details of the assets or classes of asset that were not" to "...details of the <u>intangible assets</u> or classes of <u>intangible assets</u> that were not"</p>	Agree to make this change.
12 ASB (South Africa)	<p>Comparison bullet 2 Amend "...include contractual rights arising ..." to "...include contractual rights <u>and other legal rights</u> arising ..."</p>	Agree to make this change.

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
12	ASB (South Africa)	Comparison bullet 8 Amend "...have been modified only as necessary to better" to "...have been modified only as necessary to better"	Agree to make this change.
14	CIPFA	<u>Drafting Joints</u> Paragraph 144 includes wording based on transitional provisions in IPSAS 17 'Property, Plant and Equipment' and refers to property, plant and equipment. This reference appears to be incorrect, and should be reframed to refer to intangible assets. We also suggest that the heading 'Recognition and Measurement at Recognition', while accurate is confusing. This could be more helpfully expressed as 'Recognition and Initial Measurement'.	Agree to make these changes. Update: This change is no longer required due to extensive revisions to the transitional provisions section.
18	ASB (Australia)	<i>Drafting and editorial issues</i> The AASB notes that the interrelationship between ED 40 and IPSASB ED 41 <i>Entity combinations from Exchange Transactions</i> gives rise to a potential drafting issue. The AASB recommends in its submission on ED 41 that the scope of the IPSAS developed from ED 41 should include entity combinations from non-exchange transactions that are not excluded from the scope of IFRS 3 <i>Business Combinations</i> . Accordingly, the AASB recommends removing 'from an exchange transaction' from each reference made to an entity combination in the IPSAS developed from ED 40. The AASB notes that some editorial issues arise with ED 40. AASB staff will provide editorial suggestions on ED 40 directly to IPSASB staff. [Staff note: see list provided as item 2 in this posting]	The IPSASB, at its September 2009 meeting, discussed the scope of ED 41. It confirmed its earlier decision that the scope of ED 41 will remain limited to entity combinations from exchange transactions. The finalization process for ED 40 and ED 41 will include a consistency check across both Standards.
19	KPMG	Additionally, it appears the notion of future service potential has been inadvertently omitted from the definition of an asset in paragraph 17.	Agree to make this change. Update: Consistent with the IPSASB's approach of not including definitions for terms previously defined in ISPASs, the definitions of cost, impairment losses and other terms have been deleted.
19	KPMG	In paragraph 39(b) and elsewhere in the ED, we believe the phrase "operating losses", which is the phrase used in IAS 38, should be	Agree to make this change.

# RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
	replaced by “operating deficit”, to be more consistent with the nature of public sector entities.	
19 KPMG	We note that paragraph 42 is derived from paragraph 33 of IAS 38. However, there is no reference to the reliable measurement criterion, which is addressed in the last two sentences of IAS 38.33. We believe that this criterion should also be addressed in paragraph 42.	Agree to make this change.
19 KPMG	In paragraphs 43 and 44 of the ED, we believe the phrase “contractual and other legal rights” when describing identifiability should be replaced with “binding arrangements” based on the proposal in paragraph 21.	<p>Agree to make this change, as follows.</p> <p>43.(b) Is identifiable, i.e., is separable or arises from contractual <u>binding arrangements</u> (including rights from contracts or other legal rights).</p> <p>44. If an intangible asset acquired in an entity combination from an exchange transaction is separable or arises from <u>binding arrangements</u> (including rights from contracts contractual or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset’s fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset’s fair value.</p>
19 KPMG	<p><i>Internally Generated Intangible Assets</i></p> <p>In paragraph 66(b), we believe that the word ‘sell’ is too narrow for the types of transactions that could occur in the public sector. We therefore recommend replacing the phrase “use or sell” with “use, sell or exchange”. Additionally, the examples of development activities in paragraphs 68 appear to be more applicable to commercial entities. We suggest developing examples that have broader application for public sector entities.</p>	<p>This would also apply to paragraph 66(c) and 66(e).</p> <p>Agree to add the phrase “distribute at no charge or for a nominal charge” consistent with IPSAS 12 and proposed ED 36 wording.</p>
19 KPMG	We suggest deleting paragraph 71. We believe this is an editorial comment that is not appropriate in the standards section of an IPSAS.	<p>The wording of this paragraph is consistent with IAS 38.62.</p> <p>No change is proposed.</p>

# RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
19 KPMG	<p><i>Recognition of an Expense</i></p> <p>We believe that paragraph 80 of the ED could be better expressed as follows:</p> <p>“Paragraph 77 does not preclude an entity from recognizing a prepayment for goods or services as an asset, when payment has been made in advance of the entity receiving the right to access the goods or receiving the services, as appropriate.”</p>	<p>The wording of this paragraph is consistent with IAS 38.70.</p> <p>No change is proposed.</p>
19 KPMG	<p>We note that paragraph 86(b) does not allow “the initial recognition of intangible assets at amounts other than cost”. However, we believe that this is not consistent with paragraph 33, which allows intangible assets acquired through a non-exchange transaction to be measured initially at fair value.</p>	<p>An intangible asset acquired through a non-exchange transaction is initially measured at cost, the use of fair value to measure the asset is a practical method to get to a measure of cost.</p> <p>No change is proposed.</p>
19 KPMG	<p>In paragraph 100(d), we believe the word “industry”, which is the phrase used in IAS 38, should be replaced by “operating sector”, to be more consistent with the nature of public sector entities.</p>	<p>This is not a unique public sector issue. “Industry” is referred to in IPSAS 21.42, IPSAS 25.4(b), IPSAS 25.44, IPSAS 26.40 and IPSSAS 26.49.</p> <p>No change is proposed.</p>
19 KPMG	<p>In line 3 of paragraph 104, we believe the phrase “contractual or other legal rights” should be replaced by “binding arrangements (including rights from contracts or other legal rights)”, to be more consistent with the remainder of the paragraph.</p>	<p>Agree to make this change.</p>
19 KPMG	<p>We believe that the examples given in paragraph 110, when residual value may not be zero, could also include when there is a commitment by a third party to continue obtaining service potential from the asset at the end of its useful life.</p>	<p>This is not a unique public sector issue, as no reference is made in paragraph 110 to “economic benefits” either. It is implicit that the entity purchasing the asset could be doing it to obtain either the future economic benefits or its service potential.</p> <p>No change is proposed for the respondent’s issue. However, paragraph 110(a) should clarify that the asset could also be transferred, as per the following wording:</p> <p>There is a commitment by a third party to purchase the asset or for the entity to distribute</p>

# RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
		<u>the asset at no charge or for a nominal charge at the end of its useful life; or</u>
19 KPMG	In paragraph 111, we believe that the second sentence should be expanded to say: “A residual value other than zero implies that one of the exceptions noted in paragraph 110 above applies, or that an entity expects to dispose of the intangible asset before the end of its economic life.”	The wording of this paragraph is consistent with IAS 38.101. No change is proposed.
19 KPMG	We believe that paragraph 112 should be expanded to include assets that provide service potential rather than economic benefits.	Paragraph 112 addresses the estimate of residual value. The terminology in paragraph 112 is consistent with that used in the definition of residual value in the IPSAS Glossary. No change is proposed.
19 KPMG	We also noted that the references in AG8 to paragraphs in the IPSAS should be updated.	Agree to update these references.

APPENDIX – REFERENCES TO “COMMERCIAL” IN ED 40

PURPOSE:

This Appendix sets out the references to “commercial” in ED 40 (based on a word search) and the proposed changes are to address Respondents’ comments related to the appropriateness of its use.

REFERENCES AND PROPOSED CHANGES:

- Paragraph 17 (definitions)

The following changes are proposed (noted in markup):

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use in providing services.

- Paragraphs 54-55

Exchanges of Assets in Exchange Transactions

54. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

55. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) The configuration (i.e., risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset sold; or

- (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

The IPSASB agreed at the February 2009 meeting to retain this wording from IAS 38, which is also consistent with that in IPSAS 17.38-39. No change is proposed.

- **Paragraph 68(c)**

The following changes are proposed (noted in markup):

- (c) The design, construction and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services; and...

- **Paragraph 100(c)**

- (c) Technical, technological, commercial or other types of obsolescence; ...

The IPSASB agreed at the February 2009 meeting to retain examples used in IAS 38 of they could also apply to the public sector. No change is proposed, as these are all types of obsolescence that can occur in the public sector.