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International Accounting Standards Board

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Intangible Assets

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation or Exposure Draft.

Introduction

The Intangible Assets research project is referred to in the Memorandum of Understanding (MoU) between the IASB and the FASB. The MoU sets out a Roadmap of Convergence between IFRSs and US GAAP 2006-2008.

In addition to benefits from convergence, this Intangible Assets project provides an opportunity for making substantive improvements to the current requirements of accounting for Intangible Assets specified in IAS 38 *Intangible Assets*.

A project proposal was developed and considered by the IASB at its meeting in December 2007. At that time, the Board decided not to add a project on intangible assets to its active agenda. The Board acknowledged the importance of addressing the accounting issues relating to intangible assets, noting concerns with current requirements that lead to inconsistent treatments for particular types of intangible assets depending on how they arise. However, the Board noted that properly addressing the accounting for intangible assets would impose a large demand on the Board's limited resources. Instead, the Board expressed a desire that the research work begun as part of the development of the agenda proposal should continue until the Board could consider it again for addition to the active agenda. Consideration will now be given to determining the scope and a process for continuing such research work.

The Project Report is structured as follows:

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- Objective
- Project scope
- Next steps
- Background
- Tentative decisions to date
- Contact information

Objective

1. The initial objective is to continue to develop material that will facilitate an agenda decision on the scope and timing of an active agenda project. The timing of the agenda decision is uncertain.

Project scope

2. There is a range of possible scopes and objectives that could be adopted for an Intangible Assets project. The scope could be one, some or all types of intangible assets. The objective could be recognition, measurement and disclosure or disclosure-only. The December 2007 project proposal considered different scopes and objectives, including a comprehensive recognition-based project.
3. In relation to comprehensive recognition, IASB/FASB decided that the December 2007 proposal should consider the merits of a project that addresses the initial accounting for identifiable intangible assets other than those acquired in a business combination (with a particular focus on, but not limited to, internally generated identifiable intangible assets), and the subsequent accounting for all identifiable intangible assets.
4. Accordingly, the scope of the proposal included initial accounting for intangible assets acquired:
   - separately, including those acquired in exchange for a non-monetary asset or assets;

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- by way of a government grant; and
- in a group of assets or net assets that is not a business.

5. Initial accounting for intangible assets acquired in a business combination, and the initial and subsequent accounting for goodwill, were outside the scope of the proposal.

6. Amongst other things, the December 2007 proposal:
   - incorporated the views of a broad range of users, insights from academic studies and implementation experience with IFRS 3 *Business Combinations* principles; and
   - proposed, if a comprehensive recognition-based project is undertaken, adopting the IFRS 3 principles for internally generated intangible assets as a working hypothesis, thereby leaving open the question of the suitability of the principles for such assets.

Next steps

7. The final proposal was presented to the IASB in December 2007. At that time, the Board decided not to add a project on intangible assets to its active agenda. The Board expressed a desire that the research work begun as part of the development of the agenda proposal should continue until the Board could consider it again for addition to the active agenda. Consideration will now be given to determining the scope and a process for continuing such research work.

Background

8. Many of the basic principles reflected in IAS 38, such as those relating to the recognition and measurement of research and development, can be traced back to Exposure Draft 9 International Accounting Standard Proposed Statement – *Accounting for Research and Development Costs*, which was issued for comment on 1 February 1977. There have been significant developments in accounting

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thought since then. It is therefore timely that IAS 38 is subject to fundamental review. This is particularly important given the increased significance now being placed on intangible assets.

9. The current requirements in IAS 38 place significant limitations on the types of intangible assets that entities are permitted to recognise and the subsequent remeasurement of those assets. They also specify only minimal requirements for the disclosure of information about intangible assets that might compensate for the limitations on recognition and measurement. In particular, IAS 38 does not allow the recognition of assets arising from research or the recognition of internally generated brands, mastheads, publishing titles, customer lists and items similar in substance. Furthermore, it limits the recognition of assets arising from development to those that meet certain criteria (including demonstrable technical and commercial feasibility of completion). In addition, after initial recognition, an entity is permitted to carry an intangible asset at cost or fair value, but can only use fair value when it can be determined by reference to an 'active market'. As indicated in paragraph 78 of IAS 38, it is uncommon for active markets to exist for internally generated intangible assets.

10. The measurement/remeasurement and recognition and/or disclosure of intangible assets in accordance with the principles in the *Framework* would arguably improve the relevance and reliability of information in general purpose financial reports. Furthermore, the removal of the current difference in the treatment of intangible assets acquired in a business combination and internally generated intangible assets (and between internally generated tangible and intangible assets) would lead to consistent accounting for circumstances that are economically very similar. Developing a standard for intangible assets based on conceptually sound and consistent principles could potentially result in financial statements that more faithfully represent the assets and, therefore, financial position of an entity. However, the benefits of such a standard need to be considered in light of implementation costs and user needs.

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11. The draft agenda proposal incorporates an analysis of the views of a range of users, insights from academic studies and implementation experience with IFRS 3 principles. To ensure that the project includes a pragmatic perspective, ongoing consultation with users and preparers of financial reports would need to be conducted as part of the project.

Tentative decisions to date

12. At its October 2006 and January 2007 meetings, the IASB confirmed that the proposal's objective should be to develop material that will facilitate an agenda decision in December 2007 on the scope and timing of an active agenda project.

13. At the April 2007 IASB/FASB joint meeting, the boards considered a revised draft of the January 2007 version of the proposal and agreed that it forms an appropriate basis for developing a final proposal to facilitate agenda decisions of both boards by December 2007.

14. In addition, in relation to a comprehensive recognition-based project, the boards agreed that the scope of the proposal should:
    - include the initial accounting for identifiable intangible assets other than those acquired in a business combination (with a particular focus on, but not limited to, internally generated identifiable intangible assets);
    - include the subsequent accounting for all identifiable intangible assets; and
    - exclude the initial and subsequent accounting for goodwill.

15. In relation to the initial accounting for identifiable intangible assets other than those acquired in a business combination, the boards agreed to focus explicitly on the initial accounting for intangible assets acquired:
    - separately, including those acquired in exchange for a non-monetary asset or assets;
    - by way of a government grant; and
    - in a group of assets or net assets that is not a business,

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in the scope of the project proposal. Such a scope of the project would facilitate consistency in the initial accounting for intangible assets, and between the initial and subsequent accounting for intangible assets.

16. The boards noted that, for the purpose of discussion at future FASB meetings, the proposal would need to be amended to reflect the requirements in US accounting standards and the FASB agenda criteria.

17. In December 2007, the IASB decided not to add a project on intangible assets to its active agenda at this time. Because of the IASB decision, the FASB did not discuss it. However, the IASB would like the research work that begun with the development of the agenda proposal to continue until the Board can consider it again for addition to the active agenda. The Board will determine the scope and a process for continuing such research work.

Contact information

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