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Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: **June 2007, London**

Project: **Intangible Assets**
 (Agenda Paper 5B)

EXECUTIVE SUMMARY

1. The IASB's *Due Process Handbook* (March 2006) sets out the five criteria to be considered in deciding whether to add a potential item to the IASB's agenda. The FASB has similar agenda criteria. The IASB criteria are:
 - (a) the relevance to users of the information involved and the reliability of information that could be provided;
 - (b) existing guidance available;
 - (c) the possibility of increasing convergence;
 - (d) the quality of the standards to be developed; and
 - (e) resource constraints.

2. Our view is that an Intangible Assets project should be added to the IASB's and FASB's active agendas with a scope of the initial accounting for internally generated intangible assets and the subsequent accounting for all intangible assets. Such a project satisfies the first four agenda criteria, as discussed below. Work on the fifth criterion will be undertaken once the Boards are further advanced in their review of the draft project proposal.

3. Criterion 1 *the relevance to users of the information involved and the reliability of information that could be provided*: We conclude that intangible assets are a significant class of assets for a wide range of entities across many jurisdictions and that information about intangible assets is important to the needs of users. The issues are pervasive and, to the extent that the current requirements in IAS 38 *Intangible Assets* are inadequate (see Criterion 2), the current accounting treatment will give rise to problems that are frequent and material unless resolved. We acknowledge that resolving the diverse user views that currently exist on how best to remedy the problems (for example, a recognition versus disclosure-only solution) will be challenging for the Boards. The feasibility of arriving at a solution is considered in Criterion 4.

4. Criterion 2 *existing guidance available*: Our view is that IAS 38 is out of date and the information it generates does not appropriately reflect economic conditions or results. Minor amendments to IAS 38 would not be sufficient to significantly improve current requirements. Consequently, we propose a fundamental review of IAS 38 to the extent it addresses matters that are within the scope of the proposed project.

5. Criterion 3 *the possibility of increasing convergence*: We conclude that there is a good prospect that the proposed Intangible Assets project will gain support from national standard setters and regulators, particularly if the project is an IASB/FASB joint project. Accordingly, the project will contribute to convergence.

6. Criterion 4 *the quality of the standards to be developed*: Although it is necessarily a subjective assessment, on balance, we are persuaded that a technically feasible solution is achievable and that the expected benefits of improved financial reporting of intangible assets will exceed the costs.
7. Criterion 5 *resource constraints*: This criterion will be formally assessed once the project proposal team has clearer directions from the Boards and after consultation with IASB and FASB Directors.
8. Given the significance of the possible changes to IAS 38, we think it is not appropriate to move directly to an Exposure Draft. Instead, we propose that the initial objective of the project should be to produce a Discussion Paper exploring the issues and setting out the preliminary views of the Boards. An outline of the issues that might be addressed in the Discussion Paper is provided in Appendix 1.

[Rest of paper not provided to Observers.]