Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Framework Project**	**Meeting:**	204
Topic:	**Tier 3 Exposure Draft Proposals – intangible assets other than goodwill**	**Agenda Item:**	3.3
		Date:	21 May 2024
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Objective of this paper

1 The objective of this paper is for the Board, in relation to the feedback received on the Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)*:

(a) **to consider** staff analysis of the feedback on the Board's preliminary views about the Tier 3 requirements on intangible assets (goodwill is considered separately in Agenda Paper 3.2 of this Board meeting); and

(b) **to decide** on the staff recommendations of the abovementioned matters for the purpose of drafting the Tier 3 Exposure Draft (ED).

Structure of this paper

2 This paper is structured as follows:

(a) Summary of staff recommendations (paragraph 3);

(b) Background and reasons for bringing this paper to the Board (paragraphs 4 –10);

(c) Staff analysis and recommendations regarding the following matters arising from the consideration of stakeholder feedback on the Discussion Paper (DP) proposals for the Tier 3 requirements for intangible assets:

(i) Matters to be addressed based on feedback on the DP proposals (paragraph 11);

(ii) Summary of feedback from DP (paragraphs 12 – 13);

(iii) Current requirements under Australian Accounting Standards (paragraphs 14 – 22);

(iv) Summary of approaches taken by selected other jurisdictions (paragraphs 23 – 29);

(v) Summary of feedback from NFP PAP members on matters in this Staff Paper (paragraph 30);

(vi) Findings from academic research and other literature (paragraphs 31 – 33);

(vii) Matters to be addressed (paragraph 34):

(A) Matter 1: Options for simplifying the recognition and initial measurement requirements for intangible assets for Tier 3 entities:

(a) Options for simplification (paragraphs 35 – 36);

(b) Evaluation of options against Tier 3 principles (paragraph 37);

(c) Staff analysis and recommendation (paragraph 38)

(B) Matter 2: Options for simplifying the subsequent measurement requirements for intangible assets, including those acquired in a business combination, for Tier 3 entities:

(a) Options for simplification (paragraphs 39 – 40);

(b) Evaluation of options against Tier 3 principles (paragraph 41);

(c) Staff analysis and recommendation (paragraph 42)

(C) Matter 3: Whether to develop further guidance on dealing with configuration or customisation costs in a cloud computing arrangement and development costs of a website that facilitates donors making donations to the Tier 3 entities:

(a) Staff analysis and recommendation (paragraph 43)

(d) **Appendix A**: Extract of May 2023 Agenda Paper 3.1.1, staff preliminary analysis of the feedback on the DP and suggested next steps.

Summary of staff recommendations

3 Staff recommend that the Tier 3 requirements, for the purpose of drafting the ED, should align with Tier 2 requirements for intangible assets except for simplifying the language and:

(a) not recognising internally generated intangible assets;

(b) considering the useful life of indefinite-lived intangible assets to be finite based on management's best estimate but not exceeding ten years;

(c) requiring reviewing useful life, residual value, and depreciation rate only if there is a trigger event/indicator since the last annual reporting date; and

(d) not developing further guidance on dealing with configuration or customisation costs in a cloud computing arrangement and development costs of a website that facilitates donors making donations to the NFP entity.

Background and reasons for bringing this paper to the Board

4 The Board decided at its May 2023 meeting to proceed with the development of an ED on a Tier 3 Accounting Standard with simplified recognition, measurement and disclosure requirements for smaller NFP private sector entities.

5 As detailed in paragraphs 5.164-166 of the DP, when developing the DP, the Board had not yet formed a view of how it should address intangible assets as part of its Tier 3 reporting requirements because the Board considered intangible assets may not appear to be common in the financial statements of smaller NFP private sector entities.

6 The Board considered the summarised feedback on the DP and staff preliminary analysis and suggested actions for the next steps in Agenda Paper 3.1.1 of the May 2023 Board meeting. At that meeting, the Board noted the categorisation to distinguish the suggested action for the next steps presented in Agenda Paper 3.1 of the May 2023 Board meeting on the topics that staff will need to

bring back for further discussions and incorporate changes to the Board's preliminary views for consideration in future meetings.[1]

7 Based on the stakeholder feedback presented in [Agenda Paper 3.1.1] of the May 2023 Board meeting, while the results from [AASB Research Report 19]: *Common Financial Statement Items Charities with $0.5-$3 million in revenue*, April 2023 (RR 19) indicated that intangible assets may not be a common transaction for smaller NFP entities, feedback from stakeholders indicated that NFP entities may hold more intangible assets in future. After considering the DP feedback and further staff analysis and recommendations in [Agenda Paper 3.1] at the September 2023 Board meeting, the Board decided to address business combinations and goodwill and other intangible assets in the Tier 3 Standard.[2]

8 In this paper, staff are bringing analysis of the feedback on the DP and seeking the Board's direction on the matters below according to the project timeline presented in [Agenda Paper 3.1] at the August 2023 Board meeting on the Tier 3 requirements for intangible assets.

9 Initial and subsequent measurement of non-financial assets acquired at significantly less than fair value is not within the scope of this paper as the Board has already made the following decisions at its March 2024 meeting:

(a) An accounting policy choice for non-financial assets acquired at significantly less than fair value to be measured initially either at cost, which may be nil or a nominal amount or at fair value; and

(b) Permit an entity to apply either the cost model or the revaluation model as its accounting policy for the subsequent measurement of classes of non-financial assets acquired at significantly less than fair value, regardless of the initial-measurement policy. An entity may elect to apply different measurement models to different classes of assets.

Staff consider the Board's decision on the initial and subsequent measurement of non-financial assets acquired at significantly less than fair value would also cover intangible assets. As such, this paper only deals with purchased and internally generated intangible assets.

10 Finally, the accounting treatment for goodwill and the recognition and initial measurement of intangible assets other than goodwill acquired in a business combination are not within the scope of this paper. Please refer to Agenda Paper 3.2 of this meeting for details.

Matters to be addressed based on feedback on the DP proposals

11 As mentioned in paragraph 5 of this paper, when developing the DP, the Board had not yet formed a view of how it should address intangible assets as part of its Tier 3 reporting. To gather feedback to help the Board assess the extent of existence and use of intangible assets by smaller NFP private sector entities, the DP included the following question:

> ***Question 40***
>
> ***Paragraphs 5.164 to 5.167 discuss that the Board has not yet formed a view to develop requirements for accounting of intangible assets in a Tier 3 Standard. The Board is seeking to understand the extent of use of intangible assets by smaller not-for-profit private sector entities including the typical forms of any intangible assets held. This will help inform the Board's deliberations on intangible assets in a future Tier 3 Standard. Are you aware of any intangible assets and their type, either internally generated or externally acquired, commonly***

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1 Agenda Paper 3.1 of the May 2023 Board meeting presented three main categories to distinguish the suggested action for next steps based on the feedback on the DP. The three categories were:
(1) Category A (ED drafting based on DP proposals with minor issues to be resolved);
(2) Category B (ED drafting based largely on DP proposals with some potential changes); and
(3) Category C (further analysis and direction required).

2 Refer to the [minutes] of the 13-14 September 2024 Board meeting.

held and recognised by smaller not-for-profit private sector entities? If so, please provide details of these assets.

Summary of feedback from DP

12 As presented in Agenda Paper 3.1.1 at the May 2023 Board meeting, respondents to the DP had mixed views about whether intangible assets were commonly held and recognised by smaller NFP entities. Many stakeholders (60%) noted that some intangible assets, such as software, licenses, goodwill and trademarks, as well as crypto assets, are most commonly held by smaller NFP entities. As such, some simple guidance for intangible assets should be included in the Tier 3 Standard, as many Tier 3 entities would be expected to use more intangible assets in the future. In addition, those that supported including guidance on intangible assets in the Tier 3 Standard suggested:

(a) the Tier 3 Standard to address common items that can or cannot be capitalised, such as research, development, training and formation costs;

(b) requirements should articulate the characteristics of intangible assets to address current practical challenges being encountered by the applicable of AASB 138 *Intangible Assets*; and

(c) simplification/clarification of the treatment of implementation cost in relation to software as a service (SaaS) arrangements should be considered as customer relationship management and donor management systems implementation costs are very common even in smaller NFP entities. In addition, some guidance to clarify whether an NFP entity applying AASB Interpretation 132 *Intangible Assets – Website Costs* could capitalise development costs of a website that facilitates donors making donations to the NFP entity would be helpful.

13 However, some stakeholders (40%) considered there were no intangible assets held by smaller NFP entities and/or intangible assets are immaterial to the entities. Therefore, there is no need to include specific accounting requirements for intangible assets in the Tier 3 Standard.

Current requirements under Australian Accounting Standards

14 NFP private sector entities are required to comply with AASB 138 *Intangible Assets* to account for intangible assets.

Definitions

15 AASB 138 paragraph 8 defines an intangible asset as an identifiable non-monetary asset without substance. The Standard specifies three critical attributes of an intangible asset being:

(a) identifiability;

(b) control; and

(c) future economic benefits.[3]

3 According to AASB 138, an asset is identifiable if it either: (a) is separable, ie 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 contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (paragraph 12); an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits (paragraph 13); the future economic benefits 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 process may reduce future production costs rather than increase future revenues (paragraph 17).

Initial and subsequent measurement

16 At a high level, expenditure for an intangible item is recognised as an expense unless the item meets the definition of an intangible asset, and:

(a) it is probable that there will be future economic benefits from the asset; and

(b) the cost of the asset can be reliably measured (AASB 138 paragraph 17).

17 Generally, an intangible asset shall be measured initially at cost. However, for NFP entities, an intangible asset shall be measured initially at its fair value if the consideration for the intangible asset is significantly less than the fair value principally to enable the entity to further its objectives (AASB 138 paragraph Aus24.1).

18 The cost of generating an intangible asset internally is often difficult to distinguish from the cost of maintaining or enhancing the entity's operations or goodwill. For this reason, internally generated brands, mastheads, publishing titles, customer lists and similar items are not recognised as intangible assets (AASB 138 paragraph 63). The costs of generating other internally generated intangible assets are classified into whether they arise in a research phase or a development phase. Research expenditure is recognised as an expense. Development expenditure that meets certain criteria is recognised as the cost of an intangible asset (AASB 138 paragraphs 57-62). Interpretation 132 states that any internal expenditure on the development and operation of an entity's own website shall be accounted for in accordance with AASB 138. Further illustrative examples accompany the interpretation; for example, where websites are developed solely or primarily for promoting and advertising the entity's own products and services, all expenditure on developing the website shall be recognised as an expense when incurred.

19 After initial recognition, an entity must choose either the cost model or the revaluation model for each class of intangible asset (AASB 138 paragraphs 74-75). An intangible asset with a finite useful life is amortised and is subject to impairment testing (AASB 138 paragraphs 97-99). An intangible asset with an indefinite useful life is not amortised but is tested annually for impairment (AASB 138 paragraphs 107-108).

20 If choosing a policy to revalue intangible assets to fair value, NFP entities account for revaluations on a class of asset basis, unlike for-profit entities where revaluations are accounted for separately on an asset-by-asset basis. This means increments on one intangible asset are offset against decrements on another intangible asset in the same class before any net increment (decrement) of the asset class is recognised (AASB 138 paragraphs Aus85.1, Aus86.1, and Aus86.2).

21 When an intangible asset is disposed of, the gain or loss on disposal is included in profit or loss (AASB 138 paragraph 113).

Disclosures

22 AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* requires an entity to disclose the following for each class of intangible assets (AASB 1060 Paragraphs 137-141):

(a) useful lives or amortisation rates;

(b) amortisation methods;

(c) gross carrying amount;

(d) accumulated amortisation and impairment losses;

(e) line items in the income statement in which amortisation is included;

(f) reconciliation of the carrying amount at the beginning and the end of the period, including additions, acquisitions through business combinations, assets held for sale, disposals revaluations, amortisation, impairment and reversals of impairments and other changes;

(g) description and carrying amount of individually material intangible assets;

(h) certain special disclosures about intangible assets acquired by way of government grants;

(i) information about intangible assets whose title is restricted;

(j) contractual commitments to acquire intangible assets;

(k) the amount of research and development expenditure recognised as an expense in the current period;

(l) basis for determining that an intangible asset has an indefinite life; and

(m) additional disclosures about intangible assets carried at revalued amounts, such as the effective date of the revaluation and whether an independent valuer was involved.

Summary of approaches taken by selected other jurisdictions

International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

23 The *IFRS for SMEs* Accounting Standard has simplifications for the accounting treatment for intangible assets other than goodwill that reflect the needs of users of small and medium-sized (SME) entities' financial statements and cost-benefit considerations (*IFRS for SMEs* Section 18). Compared with IAS 38 *Intangible Assets*, the *IFRS for SMEs*:

(a) prohibits recognition of internally generated intangible assets. Expenditure incurred internally on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in the *IFRS for SMEs* Accounting Standard.

(b) requires intangible assets to be subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. The revaluation model is prohibited;

(c) considers the useful life of an intangible asset to be finite. If the entity is unable to estimate useful life, then use the management's best estimate but not more than ten years; and

(d) requires reviewing useful life, residual value, and depreciation rate only if there is a significant change.

24 The UK FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* (FRS 105), UK FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102), Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (Charities SORP), Singapore Charity Accounting Standards (CAS), and Hong Kong Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) and Financial Reporting Standard (SME-FRS) are based on the *IFRS for SMEs* Accounting Standard, except for the following but not limited to:

_UK:_

FRS 105:

(a) does not allow an entity to separately identify and recognise intangible assets acquired as part of a business combination; and

(b) does not mention accounting treatment for intangible assets acquired by way of a government grant.

FRS 102/ Charities SORP:

(a) permits development expenditure that meets certain criteria to be recognised as the cost of an intangible asset;

(b) specifies an intangible asset acquired through a non-exchange transaction, is initially measured at fair value;

(c) allows revaluation model for subsequent measurement; and

(d) does not apply to heritage assets.[4]

Singapore CAS:

(a) does not mention accounting treatment for intangible assets acquired by way of a government grant;

(b) does not require intangible assets to be assessed for impairment. After initial recognition, intangible assets shall be measured at cost less accumulated amortisation; and

(c) requires the useful lives, amortisation method and residual value of intangible assets to be reviewed at the end of each reporting period and revised if necessary, subject to the constraint that the revised useful life shall not exceed ten years from the date of acquisition.

HK SME-FRF & SME-FRS:

(a) does not mention accounting treatment for intangible assets acquired by way of a government grant;

(b) permits development expenditure that meets certain criteria to be recognised as the cost of an intangible asset; and

(c) requires reviewing the amortisation period and the amortisation method at least at the end of each financial year, regardless of whether there is a significant change in the asset or how it is used.

New Zealand Tier 3 Standard

25 New Zealand Tier 3 Standard simplifies the definition of intangible assets as "assets without a physical presence (for example, trademarks, patents)". Under this Standard, donated intangible assets for which values are not readily obtainable, do not need to be recognised but shall be disclosed in the notes to the performance report (by class if appropriate). Intangible assets shall be assessed for impairment. Other than that, the New Zealand Tier 3 Standard does not provide other guidance regarding intangible assets. However, staff are aware that the External Reporting Board (XRB) staff are drafting some FAQs on intangible assets to accompany the New Zealand Tier 3 Standard.

26 Entities may elect to apply the requirements of a Public Benefit Entity (PBE) Standard that is part of the Tier 2 PBE Standards to a specific type of transaction as long as it applies that option to all transactions of that type (see paragraph D6 of New Zealand Tier 3 Standard). New Zealand Tier 1 and Tier 2 PBE entities refer to PBE IPSAS 31 *Intangible Assets* to account for intangible assets. Compared with IAS 38, PBE IPSAS 31:

(a) specifies that an intangible asset acquired through a non-exchange transaction, such as a donation, is initially measured at fair value; and

4 There are no explicit requirements relating to heritage assets in IFRS and many other jurisdictions. Specific requirements for heritage assets can be found in UK FRS 102 and Charities SORP; however, heritage assets are a distinct class of tangible fixed assets or intangible fixed assets under these two standards. AASB 138 does not explicitly mention intangible heritage assets. In contrast, AASB 116 *Property, Plant and Equipment* has separate Australian implementation guidance (paragraphs G1-G4) relating to heritage and cultural assets.

(b) specifically considers intangible heritage assets.[5]

Canada Part II of the Handbook Accounting Standards for Private Enterprises (ASPE) and Part III of the Handbook Accounting Standards for Not-for-profit Organisations (ASNPO)

27 NFP entities in Canada are required to apply ASPE for recognition of an intangible asset and ASNPO for guidance on writing down intangible assets, contributed intangible assets, and simplifications for smaller NFP entities. Compared with IAS 38, the Canadian accounting standards:

(a) allow entities to make an accounting policy choice to either expense or capitalise development costs of internally generated intangible assets (ASPE 3064);

(b) require NPF entities to recognise contributed intangible assets[6] at fair value. However, in unusual circumstances where the fair value cannot be reasonably determined, both the intangible asset and the related contribution are recorded at nominal value. Information shall be disclosed about contributed intangible assets recognised at nominal value (ASNPO 4434);

(c) prohibit revaluation model for subsequent measurement (ASPE 3064);

(d) prohibit reverse write-down of intangible assets (ASNPO 4434); and

(e) requires NFP entities to recognise any unamortised deferred contributions related to the intangible asset written down as revenue as long as all restrictions have been satisfied (ASNPO 4434).

28 The Canadian accounting standard provides further simplifications for small NFP entities (annual revenues below $500,000) by not recognising intangible assets but only disclosing the following information (ASNPO 4434):

(a) the policy the NFP entity follows in accounting for intangible assets;

(b) information about major categories of intangible assets not recorded in the Statement of Financial Position, including a description of the assets; and

(c) if the NFP entity expenses intangible assets when they are acquired, the amount expensed in the current period.

US Topic 350 Intangibles—Goodwill and Other

29 For NFP entities, the U.S. GAAP applied to accounting for intangible assets is generally the same as for business entities. Compared with IAS 38, the U.S. GAAP:

(a) requires entities to expense research and development costs as incurred (except for certain computer software and website development costs);

(b) prohibits revaluation model for subsequent measurement;

(c) requires entities to recognise assembled workforce acquired outside of a business combination as an intangible asset if it meets certain asset recognition criteria; and

(d) does not specifically restrict the application of a revenue-based method of amortisation.

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5 New Zealand Tier 1 and 2 Not-For-Profit Standards consider both tangible and intangible heritage assets. Tangible heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. 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. New Zealand Tier 3 Standard only considers tangible heritage assets.

6 ASNPO 4410 Paragraph 2 (b) defines a contribution as a non-reciprocal transfer to an NFP entity of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to an NFP entity is considered to be a contribution.

Summary of feedback from NFP PAP members on matters in this Staff Paper

30 Further feedback was provided by the NFP Project Advisory Panel (NFP PAP) at the May 2024 meeting and one member provided feedback outside of the meeting. Members had the following views:

(a) They supported:

(i) not recognising internally generated intangible assets regardless of whether they meet the recognition criteria specified in paragraph 57 of AASB 138 or not;

(ii) considering the useful life of indefinite-lived intangible assets to be finite based on management's best estimate but not exceeding ten years; and

(iii) requiring reviewing useful life, residual value, and depreciation rate only if there is a trigger event/indicator since the last annual reporting date.

(b) A few members considered some simplifications to allow capitalisation of SaaS arrangements should be developed in the Tier 3 Standard as the issue is pervasive even for smaller NFP entities, even if the issue is not unique to Tier 3 entities and would be relevant to Tier 1 and Tier 2 entities. In particular:

(i) a member noted that many of their clients incur significant configuration or customisation costs in cloud computing arrangements. Those entities obtain ongoing benefits from the arrangements and intend to use the software for multiple years. However, according to the IFRIC decision, those arrangements cannot be capitalised because they are not controlled by the entity. The member suggested that it would be helpful to provide some simplification, particularly regarding the ability to capitalise SaaS arrangements. Even though the issue might not be unique to Tier 3 entities, the member thought it was necessary to provide some simplifications in the Tier 3 Standard, as the issue is complex and smaller entities are spending a significant IT cost that is, for a smaller entity, considered a large expense in the year incurred. The member suggested an assessment based on intent of the entity's use of that software could be considered instead to allow the capitalisation of such assets because:

(A) if a Tier 3 entity intends to receive future benefits from the SaaS arrangement, rather than on an assessment of control, then the SaaS arrangement could be recognised as intangible assets; and

(B) it would be appropriate to set a standard based on intent since, for example, entities determine amortisation period of leasehold improvements based on the intent to utilise the asset, or intention to lease the property.

(ii) a member suggested that if SaaS arrangements would be capitalised as intangible assets, a maximum amortisation period should be set for them.

(c) However, a few members had different views on developing Tier 3 specific guidance to capitalising SaaS arrangements. These members had the following views:

(i) one member disagreed with the suggestion to develop standards based on intent.

(ii) capitalisation would increase the complexity. To illustrate, there might be additional expenses down the track in relation to capitalised SaaS cost, it would be difficult to determine whether these subsequent expenditures should be capitalised.

Findings from academic research and other literature/updates

31 Staff did not find any academic research on intangible assets specifically relating to NFP entities; however, staff noted the following research relevant to SMEs:

(a) Seo and Kim (2020)[7] explore the opportunities for investment in intangible assets such as human capital, advertising and R&D as valuable sources for better SMEs performance in Korea. The findings from the research indicated that intangible assets have a positive effect on SMEs' profitability and value.

(b) Iriyanto, Suharnomo, and Anas (2021)[8] conducted a case study of SMEs in Indonesia and found that better intangible assets would improve SMEs' competitive advantage.

Staff noted that the findings from the research above indicated that intangible assets are not a cost or waste for SMEs. Business managers could increase SMEs' compatibility, profitability, and firm value by investing more in intangible assets. Staff think this would correlate with the stakeholder feedback for an increase in the usage of intangible assets as NFP entities look for innovative ways to utilise their resources.

32 In addition, as discussed in the Productivity Commission's draft report on philanthropic giving[9], new technologies provide both opportunities and challenges for charities. Even though new technologies may create challenges for some charities to keep pace with donor expectations on their online and payment experience, the emergence of new technologies facilitates new ways of giving, such as the use of QR codes and peer-to-peer giving platforms. Social media is used to drive fundraising campaigns. Websites that match people or organisations seeking support with those looking to help have provided an alternative avenue for people to pursue volunteer opportunities. Therefore, charities generally have strong incentives to use new technologies to make giving easier.

33 Staff are aware that the IASB plans to start a project to comprehensively review the accounting requirements for intangible assets. Initial research will seek to identify the scope of the project and how best to stage work on this topic to deliver timely improvements to IFRS Accounting Standards following the IASB's Agenda Consultation.[10]

Matters to be addressed

34 The Board decided at its May 2023 meeting to develop an Exposure Draft on a Tier 3 Accounting Standard that will contain simplified accounting requirements for smaller NFP private sector entities. Based on the feedback on the DP noted in paragraph 12 above, staff consider there are three matters to be considered for developing the Tier 3 accounting for intangible assets:

(a) **Matter 1:** Options for simplifying the recognition and initial measurement requirements for intangible assets for Tier 3 entities (paragraphs 35 – 38);

(b) **Matter 2**: Options for simplifying the subsequent measurement requirements for intangible assets, including those acquired in a business combination, for Tier 3 entities (paragraphs 39 – 42); and

(c) **Matter 3**: Whether to develop further guidance on dealing with configuration or customisation costs in a cloud computing arrangement and development costs of a website that facilitates donors making donations to the Tier 3 entities (paragraph 43(a)).

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7 Seo, H.S. and Kim, Y., 2020. Intangible assets investment and firms' performance: Evidence from small and medium-sized enterprises in Korea. *Journal of Business Economics and Management*, *21*(2), pp.421-445.

8 Iriyanto, S., Suharnomo, H. and Anas, M., 2021. Do intangible assets and innovation orientation influence competitive advantages? A case study of SMEs in Indonesia. *Universal Journal of Accounting and Finance*, *9*(1), pp.105-115.

9 See Productivity Commission's draft report on philanthropic giving

10 See the IASB research project pipeline.

Matter 1: Options for simplifying the recognition and initial measurement requirements to account for intangible assets for Tier 3 entities

35 With reference to the 'Approach to simplification' flowchart in Appendix A of Agenda Paper 3.1 for this meeting, staff analysis considers current practice in Australia and international jurisdictions, feedback received from the NFP PAP and the academic and other literature findings and considers there are three options on the Tier 3 recognition and initial measurement requirements for intangible assets and staff analysis on each option in Table 1 as follows:

(a) **Option 1**: align with Tier 2 recognition and initial measurement requirements for intangible assets (see paragraphs 16–18) except for simplifying the language. Disclosure requirements would be based on AASB 1060 with further consideration for simplifications;

(b) **Option 2**: same as Option 1 except for not recognising internally generated intangible assets regardless of whether they meet the recognition criteria specified in paragraph 57 of AASB 138 or not. Expenditure incurred internally on an intangible item shall be recognised as an expense when it is incurred;

(c) **Option 3**: same as Option 1 except for making an accounting policy choice to either expense or capitalise internally generated intangible assets that meet the recognition criteria specified in paragraph 57 of AASB 138.

36 Staff consider there is another possible alternative. That is to provide further simplifications for smaller NFP entities by not recognising intangible assets but only disclosing relevant information in the notes to the financial statements. As mentioned in paragraph 28 of this paper, ASNPO 4434 provides such further simplifications for small NFP entities with annual revenue below $500,000 CAD. Staff did not consider this alternative further because:

(a) stakeholder feedback and prior literature shows that financial statements users devote less attention to disclosures than recognised amounts on the financial statements. Given that stakeholders' feedback shows that Tier 3 entities would be expected to use more intangibles in future, disclosing intangible items in the notes would not provide adequate information to users of the financial statements for decision-making; and

(b) even though the Board have formed a view not to specify reporting thresholds for the application of the Tier 3 Standard, the ACNC 'medium' size band (entities with revenue of $500,000 or more and less than $3 million) provided the Board with a reference point for identifying transactions and balances that might commonly be undertaken by entities to be able to prepare general purpose financial statements that comply with the Tier 3 Standard. Given that this simplification is provided to Canadian small NFP entities with annual revenues below $500,000 CAD, such simplification would not be appropriate to be included in the Tier 3 Standard.

Table 1 Options for simplifying Tier 3 recognition and initial measurement requirements for intangible assets

Option 1 – Align with Tier 2 requirements except for simplifying the language	Option 2 – Same as Option 1 except for not recognising internally generated intangible assets	Option 3 – Same as Option 1 except for allowing entities to make an accounting policy choice to either expense or capitalise internally generated intangible assets
Similar to AASB 138, UK FRS 102, UK Charities SORP, HK SME-FRF & SME-FRS and NZ Tier 2 requirements	**Similar to *IFRS for SMEs* and UK FRS 105, Singapore CAS, and U.S. GAAP (except for certain computer software and website development costs)**	**Similar to Canada ASPE**
Arguments for this approach		
1) Maintains consistency with Tier 1 and Tier 2 requirements. 2) Applying the Tier 2 requirements enhances the relevance, reliability and comparability of information provided about intangible assets. 3) Facilitating easier transition for preparers and auditors to move between other tiers of reporting. 4) Simplifying the language may address the concerns that NFP entities find it difficult to apply the criteria or the definition to recognise intangible assets.	1) As noted in paragraph BC113 of *IFRS for SMEs*, many preparers and auditors of SMEs' financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis and; furthermore, capitalisation of only a portion of the development costs does not provide useful information. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions. 2) This approach provides simplification for smaller entities. Therefore, it would, to some extent, address the current practical challenge being encountered by the application of AASB 138. 3) This approach would reduce judgement for preparers since it requires expensing all development costs rather than requiring preparers to determine when they need to capitalise development costs. 4) Stakeholders' feedback in paragraph 12 suggested that software, licenses, goodwill and trademarks, as well as crypto assets, are most commonly held by smaller NFPs. As such, Option 2 to not capitalise internally generated intangible assets would not likely impact many smaller NFP entities. 5) This approach would shorten the length of the Tier 3 Standard.	1) Allows consistency with Tier 1 and Tier 2 requirements for those preparers that choose to capitalise development expenditure that meets the recognition criteria under Tier 2 requirements. 2) As indicated in paragraph BC113 of *IFRS for SMEs*, smaller entities may not have the resources to assess whether a project is commercially viable on an ongoing basis. The accounting policy choice allows simplification for these entities. 3) Entities may be required to move to a higher tier of reporting requirements. Allowing entities to make an accounting policy choice to either expense or capitalise development costs could allow a smooth transition between tiers.

Option 1 – Align with Tier 2 requirements except for simplifying the language	Option 2 – Same as Option 1 except for not recognising internally generated intangible assets	Option 3 – Same as Option 1 except for allowing entities to make an accounting policy choice to either expense or capitalise internally generated intangible assets
	6) This approach is supported by NFP PAP members.	
Arguments against this approach		
1) This option does not respond to the feedback from stakeholders on the difficulties in determining when to capitalise development costs. 2) As noted in the summary of approaches taken by other jurisdictions, many other jurisdictions provided some forms of simplification for internally generated intangible assets in the NFP sector. 3) The arguments in support of Option 2 are arguments against Option 1.	1) The arguments in support of Option 1 to align the requirements with Tier 2 are arguments against Option 2. 2) It may undervalue assets on the balance sheet since internally generated intangible assets would not be capitalised. However, according to stakeholders' feedback and the findings of RR 19, staff do not expect it to be common for smaller NFP entities to have internally generated intangible assets.	1) Allowing entities to make an accounting policy choice to either expense or capitalise development costs may be considered to be more difficult for preparers as it increase judgement. 2) Allowing a choice may result in inconsistencies and reduce comparability amongst Tier 3 entities. 3) The arguments against applying the method in Options 1 and 2 would apply in Option 3.

<u>Evaluation of options against the Tier 3 Principles</u>

37 In addition to the analysis in Table 1 above, staff also analysed each of the proposed options against the Tier 3 principles previously agreed by the Board. Staff consider each set of the proposed options is broadly aligned with the Tier 3 principles, but note the following:

Table 2 Evaluation of options against the Tier 3 Principles

Principles	Staff assessment
Tier 3 financial statements are general-purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements.	Option 2 does not require entities to recognise internally generated intangibles. As such, the usefulness and relevance of the information provided in the financial statements may suffer. Option 3 allows smaller NFP entities to make an accounting policy choice, which can lead to inconsistency and the information provided in the financial statements may not be useful to users.
Accounting requirements do not impose disproportionate costs on preparers when compared to the benefits of the information.	Option 1 and Option 3 might impose more costs to preparers than Option 2, given stakeholder feedback indicating that many Tier 3 entities would be expected to use more intangibles in the future, and assessing whether the development expenses meet recognition criteria is costly. Option 3 may impose an even greater cost to preparers as the entity would need to apply judgement to determine which method should be applied to account for internally generated intangible assets.
Where possible, leveraging the information management uses to make decisions about the entity's operations.	Option 2 may, to a large extent, leverage the information management uses. Management will not need to assess whether the intangible item is commercially viable on an ongoing basis if Tier 3 entities are not required to recognise internally generated intangible assets.

Staff recommendation

38 Staff recommend Option 2, that is, to align with Tier 2 recognition and initial measurement requirements for intangible assets except for simplifying the language and not recognising internally generated intangible assets regardless of whether they meet the recognition criteria specified in paragraph 57 of AASB 138 or not. Expenditure incurred internally on an intangible item shall be recognised as an expense when it is incurred. Disclosure requirements would be based on AASB 1060 with further consideration for simplifications. Staff recommendation is based on the reasons outlined in Table 1 above, and consider it the simplest option to apply and address stakeholders' concerns on the DP.

> **Question 1: Do Board members agree with the staff recommendation in paragraph 38, for the purpose of drafting the Tier 3 ED, to align with Tier 2 recognition and initial measurement requirements for intangible assets except for simplifying the language and not recognising internally generated intangible assets?**
>
> **If not, what does the Board suggest?**

Matter 2: options for simplifying the subsequent measurement requirements for intangible assets, including those acquired in a business combination, for Tier 3 entities

39 With reference to the 'Approach to simplification' flowchart in Appendix A of Agenda Paper 3.1 for this meeting, staff analysis considers current practice in Australia and international jurisdictions, feedback received from the NFP PAP and the academic and other literature findings and consider there are two options on the Tier 3 subsequent measurement requirements for intangible assets and staff analysis on each option in Table 3 as follows:

(a) **Option 1**: align with Tier 2 subsequent measurement requirements for intangible assets (see paragraphs 19-20) except for simplifying the language. Disclosure requirements would be based on AASB 1060 with further consideration for simplifications; and

(b) **Option 2**: same as Option 1 except for:

(i) considering the useful life of indefinite-lived intangible assets to be finite based on management's best estimate but not exceeding ten years; and

(ii) not requiring an annual review of the useful life, residual value and amortisation method of intangible assets. Instead, a review is required only if there is a trigger event/indicator since the last annual reporting date similar to those the Board decided for Tier 3 impairment indicators.[11] For example, indicators could include when management or entity structural changes which changes how an intangible asset is used or technological advancement. If such events/indicators are present, useful life, residual value, and

11 The Board decided at its April 2022 Board meeting that non-financial assets other than inventory, is only required to be assess for impairment when they have physically damaged or when their service potential might have affected adversely by a change in the entity's strategy or changes in external demand for the entity's services.

amortisation methods will be reviewed and revised prospectively to reflect the new expectations. [12]

40 Staff consider there are other issues, including those noted below. These are:

(a) Impairment

Singapore CAS does not require intangible assets to be assessed for impairment. After initial recognition, intangible assets are measured at cost less accumulated amortisation. Staff did not consider this simplification further because, as noted in Agenda Paper 3.1 of the May 2023 meeting, impairment of non-financial assets was categorised as a Category A topic. That is, the Board proceeded with drafting the ED based on the DP proposals, as most of the stakeholders agreed to them.

As noted in paragraph 5.160 (b) of the DP, there are two indicators of impairment of non-financial assets, that is:

(i) physically damaged; and

(ii) service potential might have been adversely affected by a change in the entity's strategy or changes in external demands of the entity's services.

Staff consider the Board's decision on impairment indicators for non-financial assets would apply to intangible assets because even though the first indicator might not be applicable as intangible assets would not be physically damaged (noting some intangible assets may be contained in or on a physical substance such as a memory stick); however, the second indicator is still applicable to assess whether an intangible asset is impaired. Staff do not think prohibiting intangible assets from being assessed for impairment would align with the Board's decision to assess impairment of non-financial assets. Therefore, staff did not consider prohibiting intangible assets from being assessed for impairment.

(b) Revaluation model

The *IFRS for SMEs* and many jurisdictional requirements prohibit the revaluation model from being used for the subsequent measurement of intangible assets. Staff did not consider this simplification further because, as noted in paragraph 9(a), at its March 2024 meeting, the Board decided to permit an entity to apply either the cost model or the revaluation model as its accounting policy for the subsequent measurement of classes of non-financial assets acquired at significantly less than fair value, regardless of the initial-measurement policy. Staff do not think prohibiting the revaluation model for non-financial assets acquired through a normal purchase would align with the Board's decision to allow a revaluation model for donated non-financial assets. In addition, as mentioned earlier, non-financial assets include intangible assets so that the decision would apply to intangible assets. Therefore, staff did not consider prohibiting the revaluation model from being used for the subsequent measurement of intangible assets.

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12 Agenda Paper 3.1 for the May 2023 Board meeting presented three main categories to distinguish the suggested action for next steps based on the feedback from the Discussion Paper. The three categories were: (1) Category A (ED drafting based on DP proposals with minor issues to be resolved); (2) Category B (ED drafting based largely on DP proposals with some potential changes); and (3) Category C (further analysis and direction required). Changes in accounting estimates was classified as Category A, meaning most stakeholders agreed with the Board's preliminary views in the DP, and consequently, staff recommend drafting the Tier 3 ED section based on the preliminary views in the DP. As noted in Agenda Paper 5.3, at the November 2023 Board meeting, almost all stakeholders agreed with the Board's preliminary view that the Tier 3 requirements for changes in accounting estimates to be accounted for prospectively.

(c) Subsequent expenditures

As noted in AASB 138 paragraph 20, 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 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 business 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 recognised in the carrying amount of an asset. Therefore, staff did not consider simplification for subsequent expenditures on intangible items.

Table 3 Options for simplifying Tier 3 subsequent measurement requirements for intangible assets

<table>
<tr><th rowspan="2">Option 1 – Align with Tier 2 requirements except for simplifying the language</th><th colspan="2">Option 2 – Align with Tier 2 requirements except for:</th></tr>
<tr><th>Finite lives with a maximum of ten years</th><th>Review only when significant changes happen</th></tr>
<tr><td>Consistent with AASB 138</td><td>Similar to IFRS for SMEs and UK FRS 105, UK FRS 102, UK Charities SORP, HK SME-FRF & SME-FRS and Singapore CAS</td><td>Similar to IFRS for SMEs and UK FRS 105, UK FRS 102, UK Charities SORP</td></tr>
<tr><td colspan="3">Arguments for this approach</td></tr>
<tr><td>1) Maintains consistency with Tier 1 and Tier 2 requirements.
2) Applying the Tier 2 requirements enhances the relevance, reliability and comparability of information provided about intangible assets.
3) Simplifying the language may address the concerns that NFP entities find it difficult to apply the subsequent measurement of intangible assets.</td><td colspan="2">1) As noted in paragraph BC111 of IFRS for SMEs, some stakeholders pointed out that many smaller entities will find it difficult to assess impairment as accurately or as promptly as larger or listed entities, meaning the information could be less reliable. Amortisation, particularly if coupled with a relatively short maximum amortisation period, would reduce the circumstances in which an impairment calculation would be triggered.
2) As noted in paragraph BC247 of IFRS for SMEs, requiring management to make a best estimate of the useful life of intangible assets is unlikely to require additional work because management needs to assess whether the useful life can be established reliably.
3) As noted in paragraph BC108 of IFRS for SMEs, many preparers and auditors of SMEs’ financial statements said that the requirement in IAS 36 Impairment of Assets for an annual calculation of the recoverable amount of goodwill and other indefinite-lived intangible assets is onerous for SMEs because of the expertise and cost involved.
4) This approach provides simplification for smaller entities. Therefore, it would, to some extent, address the current practical challenge being encountered by the application of AASB 138.
5) This approach would enhance comparability amongst Tier 3 entities.
6) This approach is supported by NFP PAP members.</td></tr>
</table>

Option 1 – Align with Tier 2 requirements except for simplifying the language	Option 2 – Align with Tier 2 requirements except for:	
	Finite lives with a maximum of ten years	Review only when significant changes happen
Arguments against this approach		
1) This option does not respond to the feedback from stakeholders that simplified guidance for intangible assets should be included in the Tier 3 Standard, as many Tier 3 entities would be expected to use more intangibles in future. 2) As noted in the summary of approaches taken by other jurisdictions, many other jurisdictions provided some form of simplification or alternative method of accounting for internally generated intangible assets in the NFP sector. 3) The arguments in support of Option 2 are arguments against Option 1.	1) The arguments in support of Option 1 to align the requirements with Tier 2 are arguments against Option 2.	

41 In addition to the analysis in Table 3 above, staff also analysed each of the proposed options against the Tier 3 principles previously agreed by the Board members. Staff consider each set of the proposed options is broadly aligned with the Tier 3 principles, but note the following:

Table 4 Evaluation of options against the Tier 3 Principles

Principles	Staff assessment
Tier 3 financial statements are general-purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements.	Option 2 requires entities to review useful life, residual value, and depreciation rate only if there is a significant change in the asset or how it is used, whereas, under AASB 138, entities need to conduct the review at least at each financial year-end. So, it may lead to intangible assets being over- or understated. As such, the usefulness and relevance of the information provided in the financial statements would suffer. In addition, Option 2 requires Tier 3 entities to consider the useful life of indefinite-lived intangible assets to be finite based on management's best estimate but not exceeding ten years. The IASB acknowledged that allocating an arbitrarily determined maximum period for amortising goodwill and other indefinite-lived intangible assets with a maximum period would not faithfully represent economic benefits. However, the IASB decided for cost-benefit reasons, rather than conceptual reasons that goodwill and other indefinite-lived intangible asset should be considered to have finite lives and amortised over their estimated useful lives, with a maximum amortisation period of ten years (refer to BC108 – BC112 of *IFRS for SMEs* ED).
Accounting requirements do not impose disproportionate costs on preparers when compared to the benefits of the information.	Option 1 might impose more costs on preparers than Option 2 because Option 1 only considers simplifying language, whereas Option 2 provides some simplification to help management reduce judgement in estimating useful life.
Where possible, leveraging the information management uses to make decisions about the entity's operations.	Option 2 may, to a large extent, leverage the information management uses because: • useful life, residual value, and depreciation rate shall only be reviewed when there is a significant change in the asset or how it is used; and • requiring management to make a best estimate of the useful life of intangible assets is unlikely to require additional work.

Staff recommendation

42 Staff recommend Option 2 based on the arguments presented in Table 3. That is, simplifying the subsequent measurement requirements to consider indefinite-lived intangible assets to have finite lives with a maximum amortisation period of ten years and review useful life, residual value and depreciation rate only if there is a trigger event/indicator since the last annual reporting date. Staff suggest indicators could include when management or entity structural changes which changes how an intangible asset is used or technological advancement. Option 2 is simpler to apply than Option 1 and aligns with the Board's decision already made on impairment requirements regarding non-financial assets, as mentioned in paragraph 40(a).

Question 2: Do Board members agree with the staff recommendation in paragraph 42, for the purpose of drafting the Tier 3 ED, to:

(a) align with Tier 2 subsequent measurement requirements for intangible assets except for considering indefinite-lived intangible assets to have finite lives with a maximum amortisation period of ten years; and

(b) review useful life, residual value and depreciation rate only if there is a trigger event/indicator since the last annual reporting date.

If not, what does the Board suggest?

Matter 3: Whether to develop further guidance on dealing with configuration or customisation costs in a cloud computing arrangement and development costs of a website that facilitates donors making donations to the Tier 3 entities

Staff recommendation

43 As highlighted in paragraph 12(c), a few stakeholders noted the diversity in accounting for configuration or customisation costs in a cloud computing arrangement and the development costs of a website that facilitates donors making donations to the NFP entity. Staff do not recommend developing further guidance on dealing with the diversity in practice because the issues are not unique to Tier 3 and would be relevant to Tier 1 and Tier 2 entities, and the Board considered not making any changes to the existing Tier 1 and Tier 2 requirements as part of this project.

(a) *For Configuration or customisation costs in a cloud computing arrangement*

The IFRIC received a request to address how a customer should account for the costs of configuring or customising a supplier's application in a Cloud Computing or SaaS arrangement. At its March 2021 meeting, the IFRIC noted that according to paragraph 18 of IAS 38, an entity recognises an item as an intangible asset when the entity demonstrates that the item meets both the definition of an intangible asset and the recognition criteria in paragraphs 21–23 of IAS 38. IAS 38 defines an intangible asset as "an identifiable non-monetary asset without physical substance". IAS 38 notes that an asset is a resource controlled by an entity and paragraph 13 specifies that an entity controls an asset if it has "the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits". The IFRIC observed that, in the SaaS arrangement described in the request, the customer often would not recognise an intangible asset because it does not control the software being configured or customised and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software. The

IFRIC determined that sufficient guidance existed within the relevant accounting standards and that no amendments to accounting standards were required.[13]

However, as mentioned in paragraph 30, a few NFP PAP members considered some simplifications to allow capitalisation of SaaS arrangements should be developed in the Tier 3 Standard, even if the issue is not unique to Tier 3 entities. One member suggested to set a standard based on intent since, that is if a Tier 3 entity intends to receive future benefits from the SaaS arrangement, rather than on an assessment of control, then the SaaS arrangement could be recognised as intangible assets. Staff do not recommend that the Board to develop such Tier 3 guidance because:

(i) NFP PAP members had mixed views about the appropriateness of developing standards based on intent;

(ii) staff consider developing requirements to capitalise SaaS arrangements based on intent may increase judgement, noting stakeholders, in many instances, have indicated judgement may increase cost, especially for smaller NFP entities. Staff also noted that NFP PAP supported not recognising internally generated intangible assets as it reduces judgements for preparers to determine whether these assets meet the recognition criteria; and

(iii) as noted by another NFP PAP member, capitalisation would increase the complexity. There might be additional expenses down the track, it would be difficult to determine whether these subsequent expenditures should be capitalised or not. As such, staff consider requiring SaaS arrangements to be expensed would be the simplest approach for Tier 3 entities.

(b) *For the development costs of a website that facilitates donors making donations to the NFP entity*

If the Board agrees with the staff recommendation in Matter 1, then internally generated intangible assets would not be recognised, and no further specific guidance would be needed in this regard. If the Board disagrees with the staff recommendation in Matter 1, staff still do not recommend that the Board provide more or specific guidance to Tier 3 entities beyond existing literature. Apart from the reason stated above in this paragraph, staff would like to note that paragraph 8 of Interpretation 132 specifies that a website arising from development shall be recognised as an intangible asset for website cost if it meets the recognition and initial measurement requirements in AASB 138. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits in accordance with paragraph 57 (d) of AASB 138 when, for example, the website is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity that cannot demonstrate how a website developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits (which is also synonymous with the notion of service potential) will be required to recognise all expenditures on developing such a website as an expense when incurred. As such, staff considers determining whether website cost meets recognition/measurement criteria to be recognised is specific to the entity's facts and circumstances, and providing specific guidance may create unintended consequences.

Question 3: Do Board members agree with the staff recommendations in paragraph (a), for the purpose of drafting the Tier 3 ED, not to develop any guidance dealing with:

(a) configuration or customisation costs in a cloud computing arrangement; and

13 For more details about the IFRIC decision, please refer to Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets).

(b) development costs of a website that facilitates donors making donations to the NFP entity?

If not, what does the Board suggest?

Appendix A – Extract of the summary of detailed feedback presented in Agenda Paper 3.1.1 at the May 2023 Board meeting

<table>
<tr><th colspan="2">Q40) Existence of intangible assets*
Total response = 368</th></tr>
<tr><td>147 (40%) respondents selected the following types of intangible assets:
• Copyright = 37 (including CPA/CA ANZ)
• Cryptocurrencies = 9 (including MA, CPA/CA ANZ)
• Goodwill = 62
• Patents = 34
• research and development = 42
• software = 114 (including IPA, SD)
• trademarks = 59 (including CPA/CA ANZ)
• Licenses = 6 (including PP, CPA/CA ANZ)
• website development = 2
• non-refundable deposits = 1 (including BDO)</td>
<td>Many stakeholders noted some intangible assets may be held by smaller NFP entities such as:
• software and related development costs (e.g. for courses and other accreditation for members and students) being most common, followed by goodwill and trademarks (IPA, SD);
• bed licenses and poker machine licences (PP);
• crypto assets and other crypto assets likely to become more prominent over time (MA, CPA/CA ANZ);
• other intangible assets such as copyrights, licenses and trademarks can either be donated or acquired by smaller entities (CPA/CA ANZ); and
• non-refundable deposits (BDO).
Some of these stakeholders noted a simplified guidance for intangible assets should be included in the Tier 3 Standard to future-proof the requirements as many Tier 3 entities would be expected to use more intangibles in future.
A few of those stakeholders that supported developing guidance within the Tier 3 Standard on accounting requirements for intangible assets also suggested:
• it would be useful for the Tier 3 Standard to address common items that cannot be capitalised such as research, training, formation cost and software not controlled by the organisation (i.e. that on the cloud), sales and marketing costs (PP);
• requirements should articulate the characteristics of intangible assets to address current practical challenge being encountered by the application of AASB 138, while also making it clear there is a demonstrable need to achieve a future economic benefit (CPA/CA ANZ);
• simplification/clarification of treatment of implementation cost in relation to SaaS arrangements should be considered as customer relationship management (CRM) and donor management systems implementation costs are very common even in smaller organisations (SD);
• smaller entities consider very commonly when they should capitalise cost (e.g. marketing, training and software-as-a-service costs) (SD); and
• AASB Interpretation 132 Intangible Assets – Web Site Costs permits the capitalisation of development costs of a website for which the entity can demonstrate probable future economic benefits when, for instance, the website is capable of generating revenues, including direct revenues from enabling orders for goods and/or services to be placed. The Interpretation does not clarify whether, for instance, an NFP entity could capitalise development costs of a website that</td></tr>
</table>

	facilitates donors making donations to the not-for-profit entity that would be relevant for many smaller NFP entities and accordingly, Tier 3 guidance would be useful (BDO).
Number of respondents that did not select the intangible assets listed = 221 (60%) (including ACNC, UWA)	Many other respondents considered smaller NFP entities held no intangibles assets. They considered: • it is not a significant issue for most NFP organisations and the accounting requirements should not be amended for Tier 3 entities (UWA); • including specific accounting requirement appears to outweigh benefits of accounting for uncommon transactions (ACNC); and • even though intangible assets may be held, they are generally immaterial.
Staff analysis: Staff note mixed views on whether smaller NFP entities have commonly intangible assets. Based on RR19, less than 5% of the sampled charities were identified to have intangible assets. While the results from the research may indicate that intangible assets may not be a common transaction for smaller NFP entities. As such staff consider there is merit to further consider including the accounting for intangible assets as part of a Tier 3 Standard.	
Staff suggested action for next steps: Staff recommend that the accounting requirements for intangible assets should be included in a Tier 3 Standard. Staff will **further analyse** and bring recommended options for Tier 3 requirements in this regard to the Board to consider at a future meeting.	