For consideration by the AASB at its 12 & 13 December meeting

AASB December 2001
Agenda paper 9.5

A Comparison of Positions Taken in the US, IASB and AASB Staff Issues Paper on The Initial and Subsequent Accounting for Intangible Assets (including Goodwill) Acquired as part of an Entity or Operation

Attached is a table that summarises the key issues and the positions taken on those issues by the US (through SFASs 141, 142 and 144); IASB (per the Business Combinations project summary as at 30 October 2001, in particular paragraphs 18 to 32 [intangible assets other than goodwill] and 42 to 46 [goodwill] – see agenda paper 9.2) and the Issues Paper prepared by AASB staff (see agenda papers 9.4A and 9.4). The final column is left blank, ready to insert the AASB's tentative views to be arrived at after discussion (including discussion of the results of the field test – see agenda paper 9.3) at the December 2001 AASB meeting.

In describing the various positions, it is apparent that there are differences emerging between the US and the IASB positions (for example, reporting unit vs cash generating unit). Staff are liaising with the relevant IASB staff member to clarify the extent to which the way an IASB position is described in the project summary is intended to differ from the US position. Staff will provide a verbal report of the outcome of the liaison during the discussion of the relevant issues at the AASB meeting.

The table does not provide a comprehensive list of issues. To the extent the AASB has time to consider other issues (such as negative goodwill), it is intended that they be considered in the context of the IASB's decisions (as reported in the project summary).

It is proposed that the issues be addressed in the order presented in the table. At the commencement of the discussion of each issue, staff will make a brief verbal presentation including, where available, information about the views of the field testers.

Explanation of abbreviations used in the table:

FV = Fair Value
CA = Carrying Amount
VIU = Value in Use
NRV = Net Realisable Value
SLM = Straight Line Method

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	US	**IASB decisions (per project summary)**	**Issues paper discussion points**	**AASB**
1 Goodwill				
1.1 Initial				
1.1.1 Definition	residual	residual	conceptual	
1.1.2 Recognition	automatic	automatic	automatic	
1.1.3 Measurement	residual	residual	residual	
1.2 Subsequent				
1.2.1 Amortise	no	no	maybe (rebuttable maximum 20 year presumption)	
1.2.2 Impairment test	yes	yes	yes	
1.2.2.1 When test	at least annually, more frequently where indicated	annually. a subsequent cash flow test (comparing actual cash flows achieved with those projected) is to be done to support determination of recoverable amount.	on acquisition and at least annually, more frequently where indicated	
1.2.2.2 Level of the entity	reporting unit	cash generating unit (which is not larger than a primary reportable segment per IAS 14)	reporting unit	
1.2.2.3 How test	if FV > CA of reporting unit, determine implied FV of goodwill and compare that with goodwill CA. implied FV of goodwill = FV of reporting unit – FV of net identifiable assets that would be recognised if the unit were to be acquired	if higher of VIU/NRV > CA of cash generating unit, determine implied value of goodwill and compare that with goodwill CA. implied value of goodwill = higher of VIU/NRV of cash generating unit – FV of net identifiable assets that would be recognised if the unit were to be acquired	adjust for pre-existing internally generated goodwill (per FRS 11). ?determine whether FV or higher of VIU/NRV as part of Impairment project	
1.2.2.4 Relationship to impairment test of identifiable assets	separately and after	?separately and after	separately and after	
1.2.3 Revaluation	no, even on reversal of impairment	no, even on reversal of impairment	no, except reverse impairment loss when a specific external event giving rise to an impairment has reversed	

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	US	IASB decisions (per project summary)	Issues paper discussion points	AASB
2 Identifiable Intangibles				
2.1 Initial				
2.1.1 Definition	asset	asset	asset	
2.1.2 Recognition criteria	legal/separable (subsumes reliable measurement)	legal/separable & reliable measurement	legal/separable & reliable measurement	
2.1.3 Measurement	FV	FV	FV	
2.1.4 Can create negative goodwill	yes	yes	?to be addressed in a future issues paper	
2.2 Subsequent				
2.2.1 Amortise	maybe	maybe	maybe	
2.2.1.1 Useful life	no presumption	rebuttable maximum 20 year presumption (if indefinite, reassess regularly to determine if now finite)	rebuttable maximum 20 year presumption	
2.2.1.2 Residual value	rebuttable zero presumption	rebuttable zero presumption	rebuttable zero presumption	
2.2.1.3 Pattern of use	rebuttable SLM presumption	rebuttable SLM presumption	rebuttable SLM presumption	
2.2.2 Impairment test	yes	yes	yes, same as tangible assets	
2.2.2.1 When test amortised assets	per SFAS 144 – indicators and undiscounted cash flow trigger test	only when impairment is indicated	?per AASB's impairment project decisions	
2.2.2.2 When test unamortised assets	at least annually, more frequently if indicated	if certain criteria are met (see para 31 of IASB project summary)	at least annually, more frequently if indicated	
2.2.2.3 What test	maybe asset group if amortised. single asset if unamortised	maybe cash-generating unit	?per AASB's impairment project decisions	
2.2.2.4 How test	compare FV & CA	compare higher of VIU/NRV* & CA	?per AASB's impairment project decisions	
2.2.2.5 What write down?	pro rata across identifiable assets (but not below FV)	pro rata across identifiable assets (but not below net selling price)	pro rata across identifiable assets (but not below NRV/FV)	
2.2.3 Revaluation	no	yes, to FV, only if traded in active market	yes, to FV, only if traded in active mkt	
2.2.3.1 Reverse impairment	no	yes, if change in the estimates used to determine the recoverable amount since the last impairment loss was recognised	yes	

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* The IASB project summary notes that the IASB has not yet reconsidered the impairment approach adopted in IAS 36 for identifiable assets and may, at some later point, consider amending that approach.