

Purchased Intangibles: Narrow-Scope Amendments

Responses to Exposure Draft

March 2020

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Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

From: Jodie Wells <jwells@qalipu.ca>

Sent: Monday, December 2, 2019 7:28 AM

To: Martha Jones Denning <MJonesDenning@psabcanada.ca>

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

This email originates from an external source. Ce courriel provient d'une source externe.

Yes – purchased intangibles should be recognized in public sector financial statements!



Jodie Wells, CPA, CMA | Director of Finance

Finance Department

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Qalipu.ca

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

From: Marissa Wadman <mwadman@mgm.ca>

Sent: Tuesday, December 3, 2019 9:38 AM

To: Martha Jones Denning <MJonesDenning@psabcanada.ca>

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

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Yes – purchased intangibles should be recognized in public sector financial statements. They (can) represent a significant portion of an Indigenous governments operations and not showing them on the statement of financial position as an asset is misleading to the users. Intangibles such as fishing licenses meet all three characteristics of an asset.

Marissa McNeil, CPA, CA
Manager



& Associates, Chartered Professional Accountants

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Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

From: Yvonne John <yjohn@mfgov.ca>

Sent: Wednesday, December 18, 2019 3:01 PM

To: Martha Jones Denning <MJonesDenning@psabcanada.ca>

Cc: Scott Munro <Scott_Munro@fnfmb.com>; Michael Puskaric <mpuskaric@psabcanada.ca>; Charles-Antoine St-Jean <CSt-Jean@psabcanada.ca>; Theresa O'Keefe <tokeefe@mfgov.ca>

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

This email originates from an external source. Ce courriel provient d'une source externe.

Hi Martha

I agree that purchased intangibles should be recognized in our Financial Statements.

Thanks

Yvonne

Yes, I agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft.

I believe the intangible asset (e.g. fishing license) should follow a similar method to the Revaluation Model and be tested for impairment on an annual basis.

This furthers the question of how to best determine the fair market value without creating administrative problems and best practices on how to test for impairment.

December 18, 2019

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Michael:

Re: Exposure Draft - Purchased Intangibles: Narrow Scope Amendments

The First Nations Financial Management Board (“the FMB”) is pleased to provide the Public Sector Accounting Board (“PSAB”) with its comments on the Exposure Draft ‘Purchased Intangibles: Narrow Scope Amendments’ dated November 2019.

The FMB agrees that the CPA Canada Public Sector Accounting Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in the Exposure Draft for the following reasons:

1. It demonstrates that PSAB is listening to the Indigenous government financial statement preparer community. The need for the amendments proposed in this Exposure Draft originated within this stakeholder group and have been recorded in past meetings of the Public Sector Accounting Discussion Group.
2. Many Indigenous governments located in coastal communities rely on commercial fisheries as part of their economic development strategy. Many of these governments have acquired fishing, crabbing and lobster permits and licenses as part of exchange transactions. It is a mischaracterisation of the importance and value of these licenses and permits when they are accounted for as an expense rather than as enduring assets with value.
3. The inability for an Indigenous government to recognise the cost of an acquired license or permit in its financial statements distorts the accountability or stewardship objectives. The use of valuable own source revenue to acquire commercial licenses attracts scrutiny by community members. Treating these purchases as an expense sends a troubling message especially when the debt used to purchase them remains on the statement of financial position.



First Nations
**FINANCIAL
MANAGEMENT
BOARD**

**CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

4. The FMB has observed a trend of Indigenous government financial statements receiving qualified audit opinions as a result of preparers choosing to recognise purchased intangible assets in order to meet their reporting objectives. This trend indicates that the current prohibition on the recognition of purchased intangibles is not meeting users needs and is not relevant.

We thank you for the opportunity to express our support for this Exposure Draft. Please contact us if you have any questions or would like to discuss any of our comments in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read 'Scott Munro', is written over a light grey horizontal line.

Scott Munro, CPA, CA
Director, Standards and Certification

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

From: Harry Paranjothy <hparanjothy@nhcn.ca>

Sent: Thursday, December 19, 2019 9:09 PM

To: Martha Jones Denning <MJonesDenning@psabcanada.ca>

Subject: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

This email originates from an external source. Ce courriel provient d'une source externe.

Hi Martha,

Thank you for your email and we welcome the opportunity to provide input into the recognition of purchased intangibles.

Yes – Purchased intangibles should be recognized in public sector statements. In our case, the intangibles that we may be financing would be mineral rights. Allowing us to recognize such assets on our balance sheet would help us be accountable to the community should we go ahead with the transaction.

Thanks,

Harry Paranjothy, CPA

Financial Consultant/Director of Finance & Acting CFO

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Email: hparanjothy@nhcn.ca

From:
Sent: Monday, January 13, 2020 8:33 AM
To: Public Sector Accounting
Subject: Comment on Document: PSAB Purchased Intangibles Exposure Draft - EN

This email originates from an external source. Ce courriel provient d'une source externe.

A comment has been submitted:

Language: English
Board/Council: PSAB
Doc for Comment: PSAB Purchased Intangibles Exposure Draft - EN
Name: john paul
Title:
Organization:
Email: john.paul@apcfnc.ca
Phone:
Keep Private: No
Comments:

the change would allow for the accurate valuation of certain items provided to organizations which do have a specific value and will more clearly reflect the financial position of the entity. Accuracy is a fundamental principle connected to transparency of institutions.

Maureen Buckley CPA, CA

Assistant Deputy Minister and Provincial Controller

Office of the Provincial Controller Division|Office of the Treasury Board |Treasury Board Secretariat

7 Queen’s Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Maureen.Buckley@ontario.ca

Following is the Province of Ontario’s response to PSAB’s Exposure Draft on Purchased Intangibles

Response to the specific question is provided below:

1. Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

No, Ontario does not support the proposed changes to Section PS 1000 and Section PS 1201 and the process being undertaken by PSAB. Ontario strongly recommends PSAB perform a more comprehensive review of the accounting for all intangibles with the assistance of a task force so both the Board and stakeholders can understand the accounting options available, the types of costs that will be impacted and the consequences of any accounting change. Adequate time for adoption of any change must be provided by PSAB.

Ontario has significant concerns that PSAB is not following its due process and is proposing to make significant changes to standards with very minimal understanding of the consequences of such changes. Below are the primary concerns of Ontario regarding PSAB’s purchased intangible project:

1. Lack of due process being followed by PSAB

Ontario has significant concern PSAB is not following its due process and is proposing a significant change in accounting requirements without appropriate involvement of the stakeholder community. Ontario does not consider the change in accounting for purchased intangibles to be appropriate for a narrow scope amendment as contemplated in paragraph .29 of PSAB’s Standard-Setting Due Process Manual dated January 2019.

PSAB has a stated due process to be followed in developing or changing a standard. The due process is to ensure stakeholders’ input and concerns are heard and addressed by PSAB. This proposed change could have significant consequences for some public sector entities that need to be explored and discussed. PSAB is not following its due process in

relation to this project. There is no evidence PSAB is aware of the extent and the consequences of the change being proposed. There is no evidence that PSAB established a task force in relation to this project, developed a project proposal or published a consultation paper or statement of principles. The exposure draft stage of a project is to be the last stage after all stakeholders' views have been communicated and considered. A Public Sector Discussion Group (PSDG) meeting is not sufficient to gather the views of the stakeholder community. The PSDG meetings are non-authoritative. Conclusions are not reached by the PSDG, votes are not taken, and members discuss their views without significant due diligence and research being performed.

2. Incomplete analysis prepared by PSAB

Because PSAB has not followed its due process there is no indication in the Exposure Draft of the types of purchased intangibles in the public sector, the extent of these intangibles and the implication of the accounting changes being proposed. There is no "implications of the proposal" section included in the Exposure Draft as PSAB has not followed its due process.

PSAB in developing or changing a standard should perform research of the accounting by other standard setters. Again, there is no indication PSAB has performed this analysis. There is no evidence the Board has considered the consequence of inconsistent accounting between purchased and developed intangibles. The exposure draft stage is not the appropriate stage to seek initial input from the stakeholder community. This Exposure Draft does not explain the rationale and arguments for and against capitalizing intangibles. A rushed change or standard is more likely to be a flawed change or standard.

PSAB needs to form a task force and start to consider matters such as:

- how to define intangibles – should it be consistent with intangible properties defined in Section PS 4230 for example
- what types and extent of intangibles are held by public sector entities - will crypto currencies be considered intangibles for example
- whether it is appropriate to account for purchased and developed intangibles differently
- do public sector entities use their intangibles in the same manner as they use their tangible capital assets
- are there intangibles with an indefinite life
- would the proposals create a bias for public sector entities to purchase rather than develop intangibles and what are the consequences of such a bias
- what is the accounting by other standard setters
- the pros and cons of capitalising intangibles

- what are the impacts on budgeting of different alternatives
- what type of impairment and write-down provisions are appropriate for intangibles
- where should intangibles be presented on the statement of financial position – some may not be used in a service capacity function as do tangible capital assets

Without a thorough analysis of the topic, it is not appropriate for PSAB members and stakeholders to make any changes to the existing standards which have been in effect for a considerable period of time.

3. No standard being proposed by PSAB

PSAB is proposing to require purchased intangibles to be recognized. PSAB however is not proposing to introduce a standard regarding the accounting for intangibles. There will be no guidance provided on measurement, amortization, impairment and disclosure for example in relation to intangibles. There is even no definition of intangibles. Are intangibles and intangible properties as defined in Section PS 4230 equivalent? Several years ago, PSAB introduced the requirement tangible capital assets be recognized by public sector entities. The difference is that there was a standard developed on the accounting for tangible capital assets. The lack of guidance on intangibles will create confusion and inconsistency in accounting amongst public sector entities.

Ontario recommends in conjunction with a project considering the accounting for all intangibles, a standard on intangibles be developed by PSAB at the same time if it is determined after due process that intangibles should be recorded.

4. Inadequate transitional period being provided by PSAB

Changes to the accounting for intangibles could have a significant fiscal impact for public sector entities and could be onerous to adopt. The requirement of public sector entities to capitalize tangible capital assets for the first time was a significant exercise for many public sector entities requiring significant time and effort. Alternatively, PSAB is proposing to provide almost no transitional period for these changes for purchased intangibles.

PSAB is proposing these changes being effective in fiscal 2021/22, changes which public sector entities were provided no advance warning of. The new requirements could require the Province to review for prior purchased intangibles going back years and to change their accounting including determination of an amortization period and impairment review. Ontario considers the effective date of the proposed changes to be inappropriate considering the work that could be required to implement these changes. A longer transition period is required after PSAB completes its comprehensive project on the accounting for intangibles.

Subject: RE: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

From: Mike McIntyre <mikemcintyre@membertou.ca>

Sent: Friday, January 31, 2020 3:44 PM

To: Martha Jones Denning <MJonesDenning@psabcanada.ca>

Subject: Re: PSAB Exposure Draft - Opening the Door to Recognition of Purchased Intangibles in Financial Statements

This email originates from an external source. Ce courriel provient d'une source externe.

Martha

yes I agree with the treating purchased intangible assets such as fishing licences as capital assets.

my main reasons:

many of these transactions are material

failure to do so, understates the capital assets of the government entity, and does not recognize the future cash flows of the said intangibles.

Mike



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

January 31, 2020

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Ms. Puskaric:

RE: ExPOSURE DRAFT AND BASIS FOR CONCLUSIONS -PURCHASED INTANGIBLES: NARROW-SCOPE AMENDMENTS -NOVEMBER 2019

Thank you for providing us with the opportunity to comment.

We have concerns with the proposed amendments in their current form. The proposal allows for the recognition of intangible assets but does not provide further guidance. The difficulties inherent in measuring intangible assets are explicitly recognized in the current conceptual framework (PS 1000.57-58). There is no guidance in important areas such as amortization and impairment. In the absence of a robust and comprehensive standard, a public sector entity is obliged to determine the appropriate criteria by referring to other sources of generally accepted accounting principles (GMP).

Identifying the appropriate sources of guidance may not be a straightforward process. There are many possible sources of GAAP, such as the guidance set out by the International Accounting Standards Board (IASB), the US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB) and International Public Sector Accounting Standards Board (IPSASB). These standards can differ in areas such as definition, scope and recognition and measurement criteria. This results in a number of possible outcomes, leading to inconsistency in application and ultimately diminishing the comparability of financial statements and reducing the usefulness of public sector financial statements for decision-making.

We noted that the proposed guidance does not include a definition of an intangible asset. Public sector entities may have many types of intangibles, not necessarily paralleling those that can be found in the private sector. Without a definition, public sector entities cannot determine which assets fall within the scope of the amendment. Adding to the complexity is the fact that different accounting frameworks can define certain characteristics of intangibles as being either in or out of the scope of the standard on intangibles.

Impairment of intangible assets in other accounting frameworks is generally based on a comparison of the carrying amount of the intangible asset with the estimated value of future cash flows. However, this does not take into account the non-exchange, compulsory nature of taxation. The government's ability to raise taxes to recover past expenditures should not be the test of whether an asset should be impaired. Therefore, guidance is needed to ensure that only revenues outside of the government reporting entity are considered when determining the value of future cash flows, similar to the provisions of PS 3070.17, which limits the value of the purchase price premium (goodwill) to non-tax revenues from future operations.

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Mr. Michael Puskaric

Page2

January 31, 2020

For these reasons, a narrow-scope amendment is not the appropriate vehicle for PSAB to deal with the complexities of recognizing intangible assets in public sector financial statements. We strongly recommend that PSAB develop a comprehensive standard on the recognition of purchased intangibles.

Our response to the matter on which you specifically requested comments is set out below.

Question

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

No, we do not agree with proposals in the Exposure Draft as it is currently presented. As we describe in our introductory comments, the narrow-scope amendment does not provide sufficient guidance to public sector entities.

The recognition of intangibles is a significant change. The effective date of a new standard on intangible assets should allow enough time for public sector entities to transition smoothly.

Other Observations

As written, it is not clear what the impact of this amendment might have on the guidance on intangible assets that is part of the 4200 series of standards (government not-for-profit standards).

We noted that only the proposed Basis for Conclusion indicates that purchased intangibles are those acquired through an arm's length exchange transaction between knowledgeable, willing parties that are under no compulsion to act. As the Basis for Conclusions do not form part of the PSA Handbook and are not part of public sector generally accepted accounting principles, it would be prudent for PSAB to include the definition of a purchased intangible within the standard itself.

It is also not clear whether computer software should be considered an intangible in the scope of this amendment or if it continues to be considered a tangible capital asset in accordance with the second paragraph of PS3150, *Tangible Capital Assets*. If computer software is considered an intangible, then internally developed software would no longer be recognized unless an exception is made.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk

Auditor General of Ontario

Michael Puskaric
Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Puskaric:

SUBJECT: Purchased Intangibles – Narrow Scope Amendments

Thank you for the opportunity to comment on the Exposure Draft (ED) *Purchased Intangibles – Narrow Scope Amendments*. Our response to the specific question posed is provided in Appendix A below.

If you have any further questions related to these comments, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at Diane.Peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roch Huppé, Comptroller General of Canada
Roger Ermuth, Assistant Comptroller General, Financial Management

Responses to Questions Posed

1) Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

We do not agree with the approach to amend PSAS with the proposed narrow scope amendment for purchased intangibles. Although we agree in theory that intangibles should be recognized as assets, removing the prohibition represents a fundamental change to our financial statements and, therefore, the consequences are more far reaching than a narrow scope amendment. A thorough analysis should be conducted by PSAB to assess the implications of this proposal on all public sector entities.

We believe that removing the prohibition on recognition of purchased intangibles for all public sector entities without providing the guidance that should be followed does not serve the public interest. Specific guidance for all intangible assets needs to be developed to ensure that an appropriate and consistent accounting treatment is applied by all public sector entities.

Our specific concerns related to the consequences of the proposals are as follows, although this is not an exhaustive list:

No guidance on accounting for intangible assets in PSAS

- As PS 3210 *Assets* only provides guidance on recognition, and PS 3150 *Tangible Capital Assets* specifically excludes intangibles, there is no guidance in PSAS on:
 - *Definition/Scope* - the scope of the proposal to recognize purchased intangibles lacks clarity as there is no definition of intangible assets in PSAS.
 - *Initial cost* – consider whether directly attributable costs of preparing the asset for its intended use should be capitalized in addition to the purchase price.
 - *Leased intangibles* - purchased intangibles may be acquired through a lease transaction. *PSG-2 Leased Tangible Capital Assets* does not apply to intangibles.
 - *Subsequent expenditures* – consider whether these should be capitalized or expensed.
 - *Amortization* – determination of useful life needs to be considered, including consideration of the economic versus legal life. Some intangibles may have indefinite useful lives.
 - *Impairment* – indicators of impairment may be different for intangibles. Intangibles that have indefinite useful lives should be tested for impairment.
 - *Disclosures* – the extent of disclosures should be considered.
- Given the lack of guidance in PSAS, entities will have to use standards of other standard setters through the GAAP hierarchy, potentially leading to inconsistent accounting treatment of purchased intangibles in the Canadian public sector.
 - Given that the definition of an asset in PSAS is not consistent with that in IPSAS or IFRS, it is not clear whether applying those standards would be appropriate.

- Alternatively, entities may decide to analogize to PS 3150.

Lack of consistent recognition for the same resource

- Intangible assets may be acquired through a transfer payment agreement. Given that transfers of intangibles are specifically excluded from the scope of PS 3410 *Government Transfers*, transferred intangibles would not be recognized as assets whereas the same assets acquired through a purchase would be recognized.
- Consequential amendment required: footnote 4 in PS 3410 is not consistent with the proposed changes.

Lack of information on the criteria for “purchased”

- The Basis for Conclusions states that purchased intangibles are acquired through an arm’s length exchange transaction between knowledgeable, willing parties under no compulsion to act.
 - There is a lack of clarity as to whether this is a requirement, as the Basis for Conclusions is not authoritative. There is no similar direction for purchased natural resources or Crown lands.
 - There could be situations where purchased intangibles are acquired from a related party; it is not clear why these transactions should be excluded.
 - There may be situations where intangibles are acquired in a non-monetary transaction that is an arm’s length exchange transaction between knowledgeable, willing parties under no compulsion to act. It is not clear whether intangibles acquired in a non-monetary transaction can be recognized.

Exclusion of internally generated intangibles

- While we understand that the proposal excludes internally generated intangibles due to the additional complexities in recognition and measurement, the same considerations would apply to internally generated computer software, which is recognized as an asset by public sector entities.
- When resources are given up by an entity to acquire an intangible that will provide future economic benefits and/or service potential, an asset should be recognized whether it is internally generated or purchased. Consequently, we believe that it is inappropriate to introduce an accounting inconsistency based on the method to obtain an intangible.

Effective date

- We disagree with the proposed effective date of April 1, 2021. Even if adoption is prospective, this does not give entities enough time to establish accounting processes and system changes needed to capture information on purchased intangibles, as well as to train and educate our departments on this fundamental change. Consideration also needs to be given to the extent of changes required for entities to implement other upcoming new standards (i.e. Asset Retirement Obligation, Financial Instruments and Revenue).

Purchased Intangibles – Narrow Scope Amendments

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

We agree the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction. However, any proposed changes to Sections PS 1000 and PS 1201 should be accompanied with detailed standards.

We concur it makes sense to recognize intangibles purchased through an exchange transaction on the financial statements if they meet the definition of an asset under Section PS 1000. If intangibles meet the definition of an asset, public sector entities should report intangibles and amortize them over their useful life. This better reflects the underlying economic substance of the transaction.

We also concur the accounting of intangibles purchased through exchange transactions in which a negotiated price is paid allows for easier measurement than other intangibles. However, intangibles that are developed or inherited in right of the Crown should also be explored by PSAB for possible recognition as an asset on the financial statements of a public sector entity if the criteria under Section PS 1000 is met. While intangibles developed or inherited in right of the Crown may be more difficult to value, this should not preclude their recognition on the financial statements.

Other accounting standards, such as IFRS and IPSAS, have detailed standards regarding intangibles for scope, definitions, recognition, measurement, presentation, and disclosure. This allows for consistency in the accounting and financial reporting for intangibles amongst different public sector entities.

While general guidance exists under the GAAP hierarchy, intangibles is a subject matter open to interpretation. Detailed accounting standards under PSAS to accompany any proposed changes to Sections PS 1000 and PS 1201 would avoid inconsistent application in the accounting and financial reporting of intangibles.

In addition, having a transitional provision for April 1, 2021 could cause issues with regard to implementation. PSAB should further investigate and consult with governments and organizations across the country before making any amendments to the PSA Handbook regarding intangibles.



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Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
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January 29, 2020

Re: PSAB Exposure Draft - Purchased Intangibles: Narrow-Scope Amendments

Dear Mr. Puskaric,

We have read the above-mentioned Exposure Draft that was issued November 2019 and are pleased to have the opportunity to provide responses to your specific question as outlined below.

1. *Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?*

We do not agree with the proposed amendments. Although we agree in principle that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, we strongly disagree with this change being made through a narrow scope amendment. We believe the Board should develop a separate standard on accounting for purchased intangible assets. We believe making this change through a narrow scope amendment is inappropriate due to the issues outlined below.

- The term intangibles is not defined in the main section of the PSA Handbook. There is a definition of “intangible properties” in Section PS 4230, *Capital Assets Held by Not-for-Profit Organizations*, as government not-for-profit organizations following the PS 4200 series of Sections have been recognizing intangible assets in the past. However, for public sector entities that do not follow the PS 4200 series, there is no definition of intangible assets for them to look to for guidance. Since recognizing purchased intangible assets will affect a significant number of public sector entities, we believe the Board needs to include a clear definition of intangible assets in the PSA Handbook.
- The proposed amendments to paragraph PS 1000.57 state that “purchased natural resources, intangibles and Crown lands are recognized in government financial statements when...” However, it is not clear whether the term “purchased” would also include intangibles that are acquired by a public sector entity as part of an acquisition or restructuring transaction. We believe the Board needs to provide guidance on this area.
- The proposed guidance explains when a purchased intangible asset would be recognized initially. However, it does not provide guidance on how the intangible asset would be accounted for subsequently. For example, does a public sector entity need to determine whether an intangible asset has a finite or indefinite useful life? If it has a

finite useful life, does the intangible asset need to be amortized? Does the public sector entity need to consider whether the intangible asset could be impaired in the future? What guidance would it follow for determining impairment? Without subsequent measurement guidance, diversity will emerge and public sector entities could end up with overvalued intangible assets recorded on their books indefinitely. We strongly believe the Board needs to provide guidance on subsequent measurement for intangible assets to ensure public sector entities have clear guidance to follow and this does not cause diversity in practice.

- The location of the transitional provisions for the recognition of purchased intangibles is buried in a footnote. This is not easy for a reader to see and may result in many public sector entities completely missing that there is actually a requirement for them to recognize purchased intangible assets for fiscal years beginning on or after April 1, 2021. We would encourage the Board to include the transitional provisions at the end of the main body of the standard, similar to what it has done for standards such as Section PS 3280, *Asset Retirement Obligations*, and Section PS 3430, *Restructuring Transactions*, to ensure they will not be missed by users of the PSA Handbook.
- The transitional provisions provided related to the recognition of purchased intangible assets are not entirely clear. When the Board says that prospective application is an option in accordance with paragraph PS 2120.13, it is not entirely clear what this means. Paragraph PS 2120.06(a) defines prospective application as applying to new events or transactions that occur after the date of transition and as applying to balances outstanding at the date of change. Many public sector entities already own purchased intangibles. Some public sector entities may have records that allow them to go back and determine the amount these purchased intangibles were acquired for. However, for other entities it may be difficult to determine this information. If it is the Board's intention that all public sector entities would be required to recognize all intangible assets they have purchased in the past, we would encourage the Board to provide some transitional relief for entities, as this information could be quite difficult to obtain for many intangible assets. Additionally, since no subsequent measurement guidance is currently included in the proposals, it appears public sector entities would have to go as far back as the entity's inception to determine what intangible assets have been purchased over the years, even though the useful life of those intangible assets may have come to an end many years ago. We would encourage the Board to provide clear practical transitional guidance for public sector entities on this topic.

Overall, we appreciate the Board's recognition that purchased intangible assets are important assets held by public sector entities that deserve recognition in the financial statements. However, as previously stated we do not believe this change can be appropriately dealt with through a narrow scope amendment. We believe that the unintended consequences of a narrow scope amendment will be diversity in practice. Instead, we believe the Board needs to develop a standard on accounting for purchased intangible assets.

If the Board does not believe a separate intangible asset standard is warranted at this time, an alternative would be to include the guidance on purchased intangible assets within Section PS 3150, *Tangible Capital Assets*. If this was done, the concerns raised in our response above would still need to be addressed, however, that may be easier to do within Section PS 3150. This approach would also be aligned with how intangible assets and tangible capital assets are both dealt with in Section PS 4230, *Capital Assets Held by Not-for-Profit Organizations*, within the PS 4200 series of standards.



Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Sayja Barton, Director National Accounting Standards (705-945-0990 or email sbarton@bdo.ca).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Armand Capisciolto'.

Armand Capisciolto, FCPA, FCA
National Accounting Standards Partner
BDO Canada LLP
acapisciolto@bdo.ca
416-369-6937

Colin Semotiuk
Ian Sneddon
Office of the Auditor General of Alberta
Edmonton, Alberta

January 30, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric,

Our response to the PSAB Purchased Intangibles: Narrow-Scope Amendments is below.

1. Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

We agree that the PSA Handbook should allow recognition of purchased intangible assets. Intangible assets may have clear value to a public sector entity and may be deliberately purchased to obtain future benefits. Recognition of purchased intangible assets also helps to increase accountability for the stewardship of these assets.

For these reasons, we support the Proposal and Rationale provided under the Basis of Conclusion section of the Exposure Draft that appears to limit the amendment to arm's length transactions on a fair value basis. As noted under the Proposal section, "*purchased intangibles are those acquired through an arm's length exchange transaction between knowledgeable, willing parties that are under no compulsion to act.*" This significant definition and narrowing of scope is absent from the proposed amendment to PS 1000, and without it the amended PS 1000 would appear to allow the recognition of purchased intangibles at any exchange amount (not just on a fair value arm's length basis). The recognition requirements for intangible assets should be included in the Recognition section of PS 1000. The requirement could use the term "fair value" as this is already clearly defined in the PSA Handbook.

The recognition requirement for intangibles could be clarified by adding a third requirement to PS 1000.55:

- (c) for purchased intangible assets, the asset was acquired through an arm's length exchange transaction on a fair value basis.

Furthermore, we are concerned how this amendment should be applied to inter-entity transactions. Would a transaction between two entities who have no influence upon each other be considered arm's length if they are under common control? How would purchased intangible assets be consolidated into the financial statements of the Government if they were purchased from a related party? Would they be recognized by a government organization and then eliminated as part of the consolidation of the government reporting entity? We recommend that the PSA Handbook prohibit the recognition of new intangible assets from inter-entity transactions. Commonly controlled entities should not be able to create intangible assets through exchange transactions between themselves. Previously recognized purchased intangible assets may be transferred between such entities at carrying value through restructuring transactions. By adding this to the standards, it prevents entities under common control from creating transactions to increase their assets, or the assets of the government reporting entity.

We have also identified the following additional consequential amendments that we suggest be included:

PS 1201.57 *The statement of financial position should report non-financial assets segregated by main classifications, such as:*

- (a) *tangible capital assets;*
- (b) *inventories held for consumption or use; and*
- (c) *prepaid expenses.* [APRIL 2005]
- (d) purchased intangible assets.* [2020]**

PS 1201.64A The disclosure of information regarding purchased intangible assets in government financial statements includes: the types of assets; the additions, disposals, consumption and valuation adjustments of purchased intangible assets in the accounting period; and the net carrying amount of the assets.

PS 1201.101 Other significant items that explain the difference between the operating surplus or deficit for the accounting period and the change in net debt in the period may include:

- (a) the amortization of tangible capital assets;
- (b) the net carrying amount of any tangible capital assets disposed of;
- (c) any adjustments relating to write-downs of tangible capital assets ;
- (d) any interest capitalized in the period as a function of constructing or developing tangible capital assets;
- (e) any other expenditures, such as those for salaries and benefits of employees, capitalized in the period as a function of constructing or developing tangible capital assets;
- (f) the net carrying amount of any purchased intangible assets**
- (g) any adjustments relating to write-downs of purchased intangible assets.**

- (h) the consumption of other non-financial assets;
- (i) expenditures to acquire other non-financial assets, such as prepaid expenses;
- (j) other comprehensive income arising in applying the modified equity method when reporting on the results of government business enterprises and business partnerships; and
- (k) remeasurement gains and losses.

In addition, we are concerned that this amendment appears beyond the ‘narrow scope’ amendment it is described as. It appears ‘narrow’ in the sense that only a few words in the PSA Handbook are changing, but the changes to PS 1000 represent a significant change to public sector accounting concepts. The term ‘narrow scope’ may cause some users who will be significantly affected to overlook the exposure draft. Going forward we strongly suggest PSAB reserve ‘narrow scope’ amendments for amendments that are clearly ‘narrow scope.’ We do appreciate that these proposed amendments were circulated as an exposure draft.

Thank you for the opportunity to comment.

Sincerely,

Colin Semotiuk CPA, CA

Ian Sneddon CPA, CA

January 30, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Purchased Intangibles: Narrow-Scope Amendments

Dear Sir,

Thank you for the opportunity to comment on the above-noted exposure draft (“ED”). MNP LLP is one of Canada’s largest chartered professional accountancy and business advisory firms, with a significant focus on clients in the public sector (specifically Indigenous governments). We believe that we are well positioned to provide feedback on this important issue.

We have reviewed the ED and have provided our responses to the question below.

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

Yes, we agree with purchased intangibles being recorded as assets. For many of our clients, this solves the mis-match scenario where an intangible such as a license is purchased with debt, but the license itself is expensed. This may also address the recent issue of how to record cloud computing services that is a frequent topic raised by our public sector clients.

We have a concern with restricting the amendment to “purchased” intangibles. We think this may generate a comparability problem. As there exists variability across the country with respect to Indigenous treaties and organizational structures for Indigenous governments, there could be scenarios where intangibles such as the ones being contemplated in the proposed amendment (e.g., fishing or timber licenses) exist that have not been purchased. By restricting asset recognition to “purchased” intangibles, we could see some governments with assets recorded, and some without assets recorded, for example:

- Intangibles contributed/pushed down from other levels of government as part of treaty negotiations or other processes; or
- Intangibles transferred to a government in a reorganization of government business operations.

In these cases, a value may be easily identifiable as other governments or commercial entities would have purchased those same licenses/rights. Under the proposed change, only governments who have purchased the license would record an asset. Therefore, Community A may have an intangible asset recorded for a fishing license, and Community B may not have an intangible asset recorded for a virtually

identical license, simply due to how the license was acquired. In both cases, the values are relatively easily determinable, due to active markets or bidding processes.

While the proposed amendment does scope out “inherited intangibles”, we feel there is still room to look at intangibles acquired through transactional or negotiated methods. Most often these intangibles have a commercial counterpart (e.g., fishing or timber licenses) and provide service potential to the community. Measurement guidance may be needed in these scenarios where intangibles are acquired through means other than a purchase. We encourage PSAB to consider the impact to comparability and whether the restriction to “purchased” intangibles creates an unintended loss of comparability.

For clarification, we are not in favor of delaying adoption of the narrow-scope amendments for purchased intangibles to address the concern we have raised above. We feel that the purchased intangibles amendment will solve a current problem in Indigenous financial reporting, and the other issues raised in our response can be dealt with in a future project.

We would be pleased to offer our assistance to the PSAB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users’ needs.

MNP LLP is one of Canada’s largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed business in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizeable contingent of publicly traded companies.

Yours truly,

MNP LLP

Scott Walker

Scott Walker, CPA, CA, CAFM

Partner – Assurance Services; National Audit Director, Indigenous Services

Cory Vanderhorst

Cory Vanderhorst, CPA, CA

Partner – Ass

Office of the Auditor General of Canada (OAG)
Exposure Draft – Purchased Intangibles: Narrow-Scope Amendments

31 January 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Exposure Draft – *Purchased Intangibles: Narrow-Scope Amendments*

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific question posed in the Exposure Draft.

Sincerely,

Lissa Lamarche CPA, CA

Assistant Auditor General
Office of the Auditor General of Canada

Specific question posed by PSAB:

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

OAG response:

We agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, when those purchased intangibles meet the PS 1000.35 definition of an “asset”, as well as the PS 1000.55 requirements for recognition. For reporting entities with material intangible assets fitting this description, removal of the recognition prohibition will allow for better information for financial statement users as to the full extent of assets controlled by the reporting entity, with which to carry out the entity’s mandate, and from which future economic benefits are expected to be derived.

With that said, we would like to raise the following observations for further consideration as the Board finalizes its deliberations on this Exposure Draft:

- The question posed by PSAB has been framed in reference to “[intangibles purchased through an exchange transaction](#)”. Multiple paragraphs within the Exposure Draft equally make such a reference, including paragraph 5 which further specifies “[an arm’s length exchange transaction](#)”. As such, the Exposure Draft implies that an arm’s length exchange transaction is a fundamental requirement to be able to recognize a purchased intangible asset. However, we note that the proposed amendments currently do not provide any indication of this. If the Board does indeed intend for the recognition

prohibition to be removed on purchased intangible assets only where they occur in an arm's length exchange transaction, then edits to the proposed amendments will be necessary to make this clear.

- The narrow-scope amendments proposed result in the existence of recognition guidance for purchased intangible assets. However, without the addition of further amendments, there would still appear to exist no explicitly specific measurement or disclosure guidance within the PSA Handbook to assist financial statement preparers with how to account for and disclose information about recognized intangible assets subsequent to initial recognition. We note that paragraph 11 of the Exposure Draft states that PSAB is not proposing to include any additional guidance in the PSA Handbook at this time as a consequence of allowing recognition of purchased intangibles. We don't consider it advisable to remove the recognition prohibition on purchased intangible assets, without also ensuring that there is explicit guidance within the PSA Handbook for subsequent measurement of the resulting assets, including amortization and particularly impairment. We are concerned that not having guidance for subsequent measurement will increase the risk of material comparability issues arising between different public sector financial statements. As identified in paragraph 12 of the Exposure Draft, there are currently two areas where the PSA Handbook contains measurement and disclosure guidance relating to intangible assets that are excluded from the current recognition prohibition, being computer software in scope of PS 3150, and purchase premiums arising on the acquisition of a government business enterprise (GBE) in scope of PS 3070. The measurement guidance applicable to computer software in PS 3150 calls for (among other things) amortization in a rational and systematic manner, as well as write-downs when conditions indicate that the computer software no longer contributes to a government's ability to provide goods or services, or when the value of future economic benefits associated with the computer software is less than its net book value. The measurement guidance applicable to a purchase premium on acquisition of a GBE in PS 3070 calls for (among other things) amortization over the lesser of the life of the purchase premium and 20 years, as well as write-downs when there has been a permanent impairment in value of the purchase premium. A key distinction between these two types of intangible assets is that computer software is generally a finite-life asset, whereas purchase premiums are generally an indefinite-life asset. In contemplating the potential new purchased intangible assets which may now be recognized in public sector financial statements, it is reasonable to presume that both finite-life and indefinite-life purchased intangible assets will be recognized. In order to reduce the likelihood of material comparability issues arising, while still allowing for the application of professional judgment by financial statement preparers based on their particular fact patterns, we recommend that PSAB consider the addition of a new footnote to be placed on the amended PS 1000.57 paragraph. This possible new footnote could include guidance along the following lines:
 - “Subsequent to initial recognition of a purchased intangible asset with a finite life, financial statement preparers are encouraged to refer to measurement and disclosure guidance applicable to computer software, found in Section PS 3150, TANGIBLE CAPITAL ASSETS. Subsequent to initial recognition of a purchased intangible asset with an indefinite life, financial statement preparers are encouraged to refer to measurement and disclosure guidance applicable to purchase premiums, found in Section PS 3070, INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES.”
- Footnote 4 of PS 3410, *Government transfers*, which is found on paragraph .05(e), would also require a consequential amendment as a result of the proposed amendments to PS 1000. This footnote currently reads:
 - “In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements.”

- PS 1200, *Financial statement presentation*, although now found within the ARCHIVED PRONOUNCEMENTS in the PSA Handbook, is still applied by various Governments who have not yet adopted PS 1201, *Financial statement presentation*. Those Governments will be required to adopt PS 1201 in the same year that they adopt PS 3450, *Financial instruments*, which currently has a mandatory effective date of financial years beginning on or after 1 April 2021. If these proposed amendments are going to be available for early adoption within the 31 March 2020 financial statements of public sector entities that are applying PS 1201, then PSAB may want to consider if the same amendments proposed to PS 1201.068-.069, should also be proposed to PS 1200.064-.065, to ensure that Governments still applying PS 1200 are afforded the same opportunity for early adoption of this proposed new guidance within their 31 March 2020 financial statements.
- As a minor editorial consideration, the PSA Handbook currently uses the terminology “works of art” within certain Sections (i.e. PS 3150, PS 3410, PS 4230, and PS 4240), whereas it uses the terminology “art” within other Sections (i.e. PS 1000, PS 1201, and Archived PS 1200). PSAB may want to consider whether these narrow-scope amendments provide a timely opportunity to achieve full internal consistency across the PSA Handbook in regards to this terminology, by amending paragraphs PS 1000.57, PS 1201.069, and Archived PS 1200.065, to refer to “works of art” instead of “art”.

Par courriel

Québec, le 30 janvier 2020

Monsieur Michael Puskaric, CPA, CMA
Directeur, comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Objet : Exposé-sondage « Éléments incorporels achetés »

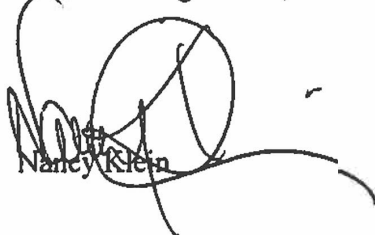
Monsieur,

Vous trouverez ci-joint les commentaires du ministère des Affaires municipales et de l'Habitation à l'exposé-sondage « Éléments incorporels achetés – Modifications de portée limitée » émis par votre Conseil.

Pour toute question concernant nos commentaires, vous pouvez contacter M. Yvon Bouchard, FCPA, FCA, au 418 691-2015 poste 3812.

Veillez agréer, Monsieur, nos salutations distinguées.

La directrice générale,



Nancy Klein

c. c. M. Yvon Bouchard, FCPA, FCA

Exposé-sondage « Éléments incorporels achetés – Modifications de portée limitée »

Commentaires du Ministère des Affaires municipales et de l'Habitation (MAMH)

L'objectif de l'exposé-sondage est de modifier les chapitres SP 1000 et SP 1201 pour permettre la constatation des éléments incorporels achetés, à titre d'actifs dans les états financiers.

Actuellement : aucun élément incorporel ne peut être constaté à titre d'actif, sauf les logiciels, ceux-ci étant compris dans la définition des immobilisations corporelles (SP 3150).

	Cadre conceptuel actuel		Seule modification proposée par le CCSP	Proposition du MAMH
	Mode d'acquisition	Constatation à titre d'actifs ?		
Ressources naturelles et terres du domaine public	Achetées	« Oui »		« Oui »
	Dévolues ¹	« Non »		« Non »
	Reçues sous forme d'apports	Non précisé, mais présumé « Non »		« Non »
Éléments incorporels ²	Achetés	« Non »	« Oui »	« Oui »
	Dévolus	« Non »		« Non »
	Développés	« Non »		« Oui » si contreparties données
	Reçus sous forme d'apports	Non précisé, mais présumé « Non »		« Oui » si une juste valeur peut être établie
Œuvres d'art et trésors historiques	Peu importe le mode	« Non »		« Non »
Autres éléments	Dévolus	« Non »		« Non »

Commentaires du MAMH

La notion de « bien reçu sous forme d'apport » existe dans des normes particulières du *Manuel de comptabilité de CPA Canada pour le secteur public*, notamment :

- dans le chapitre SP 3150 – *Immobilisations corporelles*. Selon le paragraphe SP 3150.14, les gouvernements peuvent recevoir des immobilisations corporelles sous forme d'apports. Le coût de ces immobilisations est considéré être égal à leur juste valeur (JV) à la date de l'apport;
- dans les chapitres SP 4230 – *Immobilisations détenues par les OSBL* et SP 4240 – *Collections détenues par les OSBL*. Leur coût est considéré être égal à leur JV à la date de l'apport, lorsqu'une telle JV peut être établie.

Afin d'être congruent, le MAMH est d'avis que le cadre conceptuel devrait :

- couvrir le concept « reçu sous forme d'apport » tout comme les concepts « acheté », « dévolu » et « développé »;
- permettre que les éléments incorporels développés puissent être constatés, à titre d'actifs, lorsque leur évaluation peut être basée sur des contreparties données comme dans le cas du développement des immobilisations corporelles;
- permettre que les éléments incorporels reçus sous forme d'apports puissent être constatés, à titre d'actifs, si une JV à la date de l'apport peut en être établie.

MAMH, Direction générale des finances municipales
30 janvier 2020

¹ Dévolu(e)s = acquis(es) ou échu(e)s par droit, donc de façon obligatoire en vertu de dispositions législatives. Différent de ce qui est reçu gratuitement sous forme de dons ou d'apports, auquel cas c'est volontaire.

² Autres que les logiciels, lesquels peuvent être constatés, à titre d'actifs, en tant qu'immobilisations corporelles.

January 31, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Purchased Intangibles: Narrow Scope Amendments – Exposure Draft

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on the Purchased Intangibles – Narrow Scope Amendment Exposure Draft. Our comments are set out below.

Question

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

Yes, we agree with the proposal to allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft.

For certain stakeholders (e.g., First Nations with fishing licenses), purchased intangibles make up a significant portion of assets acquired. As a result, expensing these assets upon acquisition distorts the true financial picture of the entity, especially if these assets are financed through debt. Removing this restriction will improve the reliability and decision usefulness of these financial statements and is consistent with current provisions in the PSA handbook which allows for the recognition of purchased natural resources and Crown lands.

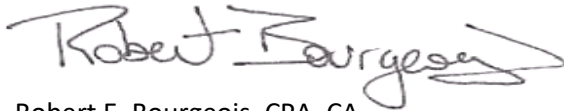
We are, however, concerned that without further guidance and a concrete definition of purchased intangibles that this may lead to unintended consequences, including differences in interpretation, inconsistent application across public sector organizations, and potential differences in presentation and disclosure. We understand that PSAB is not proposing further guidance, but we think it would be prudent to consider the following:

- Definition of purchased intangibles and examples
 - Should intangibles included in a non-monetary transaction be in scope?
 - Are there any limitations as to what qualifies as a purchased intangible?
 - Do these include software licenses, or will they continue to be treated as computer software under PS 3150?
- Requirements around impairment testing – considering such factors as change in use, market prices, timing of when future economic benefits realized, etc.

- Presentation and classification of purchased intangibles
 - Should purchased intangibles be classified as TCA or on a separate line in the Statement of Financial Position?
- Any impact of this change on accounting for cloud-computing arrangements
 - Should all licenses now be recorded as purchased intangibles if included in a cloud-computing agreement or any IT project?
 - Should implementation costs associated with cloud-computing arrangements or any IT project remain as TCA or now be classified as part of the related purchased intangible?

Just to add to the comments above, currently as it stands, Section PS 1000 under Elements defines non-financial assets and tangible capital assets, but purchased intangibles are not defined nor are the changes in this exposure draft proposing that they be defined. The classification of non-financial assets (TCA, Inventories, and Prepays) is described in Section PS 1201.057, but there is no proposed mention of purchased intangibles as a separate class. Similarly, there is no proposed change to APPENDIX A ILLUSTRATIVE FINANCIAL STATEMENTS to show where purchased intangibles may be classified in the financial statements. Omitting this type of guidance may create confusion as to where to record purchased intangibles, and without any clear guidance, may lead some to believe they should be classified under TCA. We believe purchased intangibles should be classified separately under non-financial assets to remove the ambiguity.

Sincerely,



Robert E. Bourgeois, CPA, CA
A/ Executive Director, Government Accounting
NS Dept of Finance and Treasury Board



Québec, le 31 janvier 2020

Monsieur Michael Puskaric, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

**OBJET : Commentaires sur l'exposé-sondage « Éléments incorporels
achetés - Modifications de portée limitée »**

Monsieur,

Vous trouverez ci-joints nos commentaires concernant l'exposé-sondage mentionné en objet.

Nous sommes généralement en accord avec les propositions de cet exposé-sondage.

Je vous prie d'agréer, Monsieur, nos salutations distinguées.

Le contrôleur des finances,

Simon-Pierre Falardeau, CPA, CA

Le directeur de la pratique
professionnelle,

Pierre Drouin, CPA, CGA

p. j. (1)

QUESTIONS DU CCSP - COMMENTAIRES DU CONTRÔLEUR DES FINANCES

1. Êtes-vous d'avis que le Manuel du secteur public devrait permettre la constatation, dans les états financiers du secteur public, des éléments incorporels achetés dans le cadre d'une opération avec contrepartie, comme il est proposé dans les modifications de portée limitée des chapitres SP 1000 et SP 1201 présentées dans le présent exposé-sondage? Pourquoi?

Oui, nous sommes d'avis que le Manuel du secteur public devrait permettre la constatation, dans les états financiers du secteur public, des éléments incorporels achetés dans le cadre d'une opération avec contrepartie lorsqu'ils répondent à la définition d'un actif et aux critères généraux de constatation.

Nous croyons toutefois qu'à la suite d'« achetés » la précision « ou transférés » devrait être ajoutée. :

SP 1000 FONDEMENTS CONCEPTUELS DES ÉTATS FINANCIERS

« .57 Les ressources naturelles, les éléments incorporels¹ et les terres du domaine public achetées ou transférées sont constatées à titre d'actif dans les états financiers du gouvernement lorsqu'ils répondent à la définition d'un actif ainsi qu'aux critères de constatation. Toutefois, lorsque des ressources naturelles, des éléments incorporels et des terres du domaine public ont été dévolues à l'État et n'ont pas été achetées par le gouvernement, ~~elles~~ ne sont pas constatées ~~comptabilisées~~ comme des actifs dans les états financiers du gouvernement. De même, les éléments incorporels développés, ainsi que les œuvres d'art et les trésors historiques, ne sont pas non plus constatés comme des actifs. ~~Ces éléments ne sont pas constatés comme des actifs du fait que les coûts, les avantages et la valeur économique de ces éléments ne peuvent être quantifiés de façon raisonnable et vérifiable selon les méthodes existantes. De même, les œuvres d'art et les trésors historiques ne sont pas non plus constatés comme des actifs.~~ » [Nos surlignements]

En effet, conformément au paragraphe 09 du chapitre SP 3420 OPÉRATIONS INTERENTITÉS, ou au paragraphe 20 du chapitre SP 3430 OPÉRATIONS DE RESTRUCTURATION, un élément incorporel préalablement constaté à titre d'actif dans les états financiers de l'entité cédante pourrait être transféré à une entité bénéficiaire. Si cet élément transféré respecte la définition d'un actif et les critères de constatation, il devrait être constaté à titre d'actif dans les livres de l'entité bénéficiaire. Contrairement à un actif dévolu à l'État pour lequel la valeur est difficile à déterminer, la valeur comptable d'un actif préalablement acheté par l'entité cédante est facile à déterminer. Cette proposition est aussi pertinente pour les ressources naturelles et les terres du domaine public transférées.

Les éléments incorporels achetés ou transférés qui respectent la définition d'un actif et les critères généraux de constatation, tout comme les ressources naturelles et les terres du domaine public achetées ou transférées, devraient être constatés à titre d'actifs, car les coûts, les avantages et la valeur économique de ces éléments peuvent être quantifiés de façon raisonnable et vérifiable. De plus, la capitalisation de ces éléments permettrait de présenter, dans les états financiers, une meilleure information quant à la situation financière de l'entité du secteur public et son évolution au cours de l'exercice.

Nous sommes également d'avis que le paragraphe 12 a) des bases des conclusions devrait être modifié ou retiré. En effet, il semble indiquer que les logiciels sont des éléments incorporels auxquels il est permis d'appliquer le chapitre SP 3150 IMMOBILISATIONS CORPORELLES. Or, ce chapitre présente, au paragraphe 02, les logiciels comme un exemple d'immobilisations corporelles. De plus, si les logiciels étaient vraiment des immobilisations incorporelles, les modifications proposées dans le présent exposé-sondage ne permettraient plus de capitaliser les développements informatiques réalisés à l'interne. En cohérence avec ce commentaire, nous suggérons la modification corrélative suivante à la note de bas de page 2 du chapitre SP 3150 : « Aux fins du présent chapitre, la définition des immobilisations corporelles englobe les logiciels ainsi que les développements informatiques qu'ils soient, ou non, développés à l'interne. »

Nous nous questionnons sur les raisons du CCSP de maintenir l'exclusion des éléments incorporels développés à la constatation à titre d'actifs dans les états financiers. En effet, les normes internationales pour les secteurs privé et public, IAS 38 IMMOBILISATIONS INCORPORELLES et IPSAS 31 IMMOBILISATIONS INCORPORELLES, permettent, à certaines conditions, la constatation à titre d'actif des coûts liés aux activités de développement d'immobilisations incorporelles générées à l'interne. Nous sommes d'avis que le traitement comptable des éléments incorporels développés devrait être revu par le CCSP.

Nous sommes d'avis que les indications pour déterminer quand et comment constater les éléments incorporels achetés qui se trouvent au paragraphe 13 des bases des conclusions ne sont pas suffisantes. Le Manuel du secteur public devrait inclure des directives concernant la constatation, l'évaluation, la décomptabilisation ainsi que la présentation et les informations à fournir des éléments incorporels achetés constatés à titre d'actifs.

Nous suggérons de modifier ou de retirer, dans le paragraphe 58 du chapitre SP 1000, la phrase à l'effet que l'incorporel est souvent désigné par l'expression « capital humain ». À notre avis, elle porte à confusion et elle n'est pas cohérente avec la définition d'autres référentiels comptables. À titre d'exemple, IAS 38 indique qu'« une immobilisation incorporelle est un actif non monétaire identifiable sans substance physique ». Par ailleurs, même si une entité « achète » les services d'un employé, il ne s'agit pas d'un actif incorporel. S'il était décidé de conserver la phrase, nous suggérons de la modifier en retirant la référence aux incorporels. Ainsi, il serait indiqué : « Le capital humain, qui englobe par exemple le talent ou le capital intellectuel des employés du secteur public, n'est pas constaté comme un actif par application des principes comptables actuels. »

À notre avis, une section sur les dispositions transitoires devrait être incluse afin de préciser si les modifications seront en vigueur dès leur adoption et si les entités du secteur public pourront ou devront comptabiliser les actifs incorporels achetés précédemment.

Finalement, en cohérence la modification corrélative proposée dans l'exposé-sondage, nous suggérons de changer « terres publiques » par « terres du domaine public » dans les chapitres SP 3150, SP 3210 ACTIFS et SP 3260 PASSIF AU TITRE DES SITES CONTAMINÉS.



Auditor General
MANITOBA

January 31, 2020

Mr. Michael Puskaric, CPA, CMA
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric,

Re: Exposure Draft and Basis for Conclusions: Purchased Intangibles: Narrow-Scope Amendments – November 2019

Thank you for the opportunity to provide comments on the above mentioned exposure draft. We have reviewed the exposure draft and have provided our comments to the requested questions below.

- 1. Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?**

We agree with the proposed changes allowing the recognition of purchased intangibles if they meet the characteristics of an asset.

However, we feel that the proposed narrow-scope amendments fail to address disclosure requirements related to intangibles purchased through an exchange transaction, and subsequent measurement after initial recognition (such as amortization or impairment of the intangible asset). We feel these issues should be addressed prior to the approval of the narrow-scope amendments proposed in this exposure draft.

Sincerely,

Phil Torchia, CPA, CA
Assistant Auditor General, Innovation and Effective Business Practices

PURCHASED INTANGIBLES: NARROW-SCOPE AMENDMENTS Government of the Northwest Territories.

Question:

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft?

We agree with the narrow scope amendments proposed in this exposure draft to remove the recognition prohibition for intangible assets purchased through an exchange transaction. For pragmatic reasons including the inability to reasonably quantify intangibles, PSAB had chosen to prohibit recognition of purchased intangible assets. However, there are intangible assets that meet the definition of assets and the recognition criteria in section PS 1000. We believe that writing off intangible assets purchased through an exchange transaction affects understates the financial results and financial position of an entity. We believe writing off intangible assets purchased through an exchange transaction is not consistent with PS 1000 as these meet the definition of an asset.

Additional comment.

Currently the Standard does not define an intangible asset. Adding that definition will give clarity to users what is considered an intangible asset.

Êtes-vous d'avis que le Manuel du secteur public devrait permettre la constatation, dans les états financiers du secteur public, des éléments incorporels achetés dans le cadre d'une opération avec contrepartie, comme il est proposé dans les modifications de portée limitée des chapitres SP 1000 et SP 1201 présentées dans le présent exposé-sondage? Pourquoi?

Réponse

Nous sommes d'accord que le Manuel du secteur public devrait permettre la constatation des éléments incorporels achetés. Toutefois, nous sommes en désaccord avec le cheminement actuel soit de permettre la constatation des éléments incorporels achetés dans le cadre d'une opération avec contrepartie sans fournir d'indications sur l'évaluation et les informations à fournir.

L'absence d'indication sur le moment de constatation ainsi que sur l'évaluation initiale et ultérieure des actifs incorporels achetés (amortissement, dépréciation) laissera place à beaucoup de jugement. Ainsi, les modifications proposées augmentent les risques que des pratiques différentes soient appliquées et pourraient engendrer des modifications importantes lorsqu'un projet de norme sur les actifs incorporels sera élaboré.

De plus, l'objectif poursuivie dans le cadre du présent projet nous apparaît incohérent par rapport à celui suivie lors de la création des normes sur les obligations de mises hors service, des revenus et du projet de normes sur les partenariats public-privé qui est de fournir un cadre normatif afin de réduire la disparité des pratiques comptables et favoriser une meilleure comparabilité.

Malgré tout, si le CCSP décide d'approuver les modifications tel que présentées dans l'exposé-sondage, les modifications suivantes devraient être apportées :

- ajouter des précisions dans les bases de conclusions pour ne pas que les entités adoptent des méthodes comptables inadéquates par rapport aux actifs incorporels ;
- les méthodes comptables doivent préciser minimalement l'évaluation du coût de l'actif incorporel (contrepartie, coût directement attribuable à la préparation de l'actif en vue de son utilisation prévue), la méthode et la durée de l'amortissement, la constatation et l'évaluation d'une moins-value, etc. Par conséquent un ajout doit être apporté aux modifications proposées au SP 1000 Fondements conceptuels des états financiers afin que les indications applicables actuellement aux logiciels en vertu du SP 3150 Immobilisations corporelles soient également applicables aux éléments incorporels achetés. Quant aux éléments incorporels achetés ayant une durée de vie utile indéterminée, une référence aux indications prévues au SP 3070 Participations dans les entreprises publiques doit être ajoutée. Ces indications sont présentées actuellement au

paragraphe 12 des bases de conclusion décrivant les incidences de l'exposé-sondage et devraient être directement dans les normes ;

- apporter une modification corrélative à la note explicative 4 du SP 3410.05 e) Paiement de transfert qui précise : « Conformément au chapitre SP 1000, FONDEMENTS CONCEPTUELS DES ÉTATS FINANCIERS, l'ensemble des éléments incorporels, ainsi que les éléments dont le gouvernement est titulaire du fait qu'ils ont été dévolus à l'État, comme les terres du domaine public, les forêts, l'eau et les ressources minières, ainsi que les œuvres d'art et les trésors historiques, ne sont pas comptabilisés comme des actifs dans les états financiers du gouvernement. »¹

¹ « In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements. »



Grant Thornton

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January 31, 2020

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

via: info@psabcanada.ca

Dear Sir:

**SUBJECT: EXPOSURE DRAFT – PURCHASED INTANGIBLES: NARROW-
SCOPE AMENDMENTS (NOVEMBER 2018)**

Grant Thornton LLP (hereinafter “we”) would like to thank you for the opportunity to provide comments on the Public Sector Accounting Board’s (hereinafter the “PSAB”) Exposure Draft, *Purchased Intangibles: Narrow-Scope Amendments* (hereinafter the “ED”). Please see our comments below:

- 1. Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?**

Yes, we agree. However, we do not believe that this proposal is exactly a narrow scope amendment because it has far reaching implications and does not have enough guidance to implement the change. First, PSAS does not contain a definition for an intangible asset; it must include one in order to ensure consistent recognition principles.

Also, PSAS does not provide guidance related to recognition or measurement on adoption of this change, which has left room for divergence in practice when public sector entities apply the new requirement. For example, what should entities do if they no longer have the details for the original cost for an intangible? If the PSAB plans to put through this major change in accounting, we believe that, at a minimum, it should provide guidance to ensure consistent treatment within entities themselves and between public sector entities with regards to initial recognition on transition and relief in cases where entities may not have the information needed to determine original costs. Beyond initial recognition, guidance on subsequent recognition is also crucial and needed immediately.

We understand PSAB's wish to move quickly on an issue that will have a significant impact on many public sector entities' financials statements and provide more relevant information to their stakeholders; however, we also believe that the current proposals would be released without enough guidance to ensure appropriate, consistent treatment and application on adoption and subsequently. We strongly believe PSAB should take some more time to create sufficient guidance if it wants to allow recognition of these intangibles.

As a final point, we propose that the PSAB fast track a project to produce a standard on intangible assets (at a minimum "purchased intangibles") in order to provide guidance on recognition, initial and subsequent measurement, presentation and disclosure.

If you wish to discuss any of our comments, please contact Melanie Joseph (at Melanie.Joseph@ca.gt.com or 416-607-2736).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'MJ', is positioned above the typed name.

Melanie Joseph, CPA, CA
National PSAS Leader
Grant Thornton LLP

Subject: Public Sector Accounting
RE: Purchased intangibles

From: Lorrie Schmalenberg <LSCHMALE@regina.ca>
Sent: Sunday, February 2, 2020 8:33 PM
To: Public Sector Accounting <info@psabcanada.ca>
Subject: Purchased intangibles

This email originates from an external source. Ce courriel provient d'une source externe.

I agree that the PSA handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for sections PS 1000 and PS 1201.

Intangibles are complex, diverse and subject to a high level of uncertainty in measurement. Full consideration of which intangibles should be allowed to be recorded in PSA F/S is a significant undertaking and which will be considered at a future date and reviewed in due course as part of the new conceptual framework and revised reporting model.

The single, specific issue at hand is not, in my opinion, as complex or controversial as many others. Specifically,

- Purchased intangibles meet the definitions in 1000.55 given that there is an exchange transactions which sets the basis for measurement and determines the future economic benefits to be acquired or given up;
- 1000.57 and 1000.58 seem contradictory in my opinion particularly given the situation under consideration where there is an established value; however, it does seem clear that the existing language would prohibit including purchased intangibles, thus the need for a change/deletion of language
- They can meet the definition of an Asset per section 3210, though professional judgment needs to be used as noted in the document and in 1150
- The UNDRIP Article 26 makes it clear that Indigenous groups have autonomy over these resources and that they own them; a prohibition against recognizing these as assets seems in contradiction to this legislation. The removal of the prohibition would harmonise the legislation. Further, in consideration of other intangibles, one assumes that whether the intangible provides a service and/or produces a revenue would be a defining factor as would materiality and impact to the users and preparers of financial statements.

I'm impressed with the presentation of Scott Munro, the speed at which this exposure draft was created and taken to stakeholders for comment and the presumed result that this will mean Indigenous groups in particular can prepare their F/S in a way that is now more consistent with their business, fully show the value of their assets and their financial position.

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January 31, 2020

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric:

Re: Purchased Intangibles - Narrow Scope Amendments

We would like to thank the Public Sector Accounting Board for the opportunity to comment on the Exposure Draft (ED) and Basis for Conclusions "*Purchased Intangibles: Narrow Scope Amendments*".

The Province agrees with the narrow scope amendments proposed for PS 1000 Financial Statement Concepts, PS 1201 Financial Statement Presentation, and the consequential amendment to PS 1100 Financial Statement Objectives.

The Province agrees that PSAB should allow the recognition for purchased intangibles, acquired through an arm's length exchange transaction between knowledgeable, willing parties that are under no compulsion to act. The purchased intangibles should be recognized provided they meet the recognition criteria for assets under PS 3210 Assets.

The Province also agrees that intangibles that have been inherited by the government in the right of the Crown, and have not been purchased, should not be given recognition as assets in government financial statements.

We appreciate the opportunity to comment on this SOP. If you have any questions or concerns related to this comments please contact the undersigned.

Yours truly,

"Original signed by Andrea Saj"

Andrea Saj, CPA, CGA
A/Provincial Comptroller
On Behalf of the Province of Manitoba

February 5, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2
Canada

Subject: Exposure Draft and Basis for Conclusions – Purchased Intangibles: Narrow-Scope Amendments

Dear Mr. Puskaric,

We thank you for the opportunity to provide comments on the above-noted Exposure Draft and Basis for Conclusions regarding purchased intangibles.

Our response was developed with input from a number of practitioners from across the country that have knowledge across the public sector.

Please find attached our comments to the specific question raised in the Exposure Draft as well as other comments related to the subject. If you have any questions please contact Matt Colley (mcolley@deloitte.ca) at 416-643-8428.

Yours truly,



Albert Kokuryo
NPPD Audit Private
Deloitte LLP

Public Sector Accounting Board ("the Board"): Exposure Draft and Basis for Conclusions – Purchased Intangibles: Narrow-Scope Amendments

Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

Yes. Overall, we are supportive of the purchased intangibles being recognized as an asset under PSAS. However, we believe that additional guidance should be provided to clarify the following items:

Definition of Purchased intangibles

The proposed amendments to PS 1000.57 add "intangibles" to the list of purchased items that are recognized in the financial statements when they meet the asset definition and the recognition criteria. Paragraph .58 was also amended to remove the reference to excluding all intangibles from recognition including "developed intangibles".

The Basis for Conclusions, paragraph 5, states that "*Purchased intangibles are those acquired through an arm's length exchange transaction between knowledgeable, willing parties that are under no compulsion to act.*" We believe that this statement should be included within Section 1000 as opposed to the Basis for Conclusions as it provides additional guidance on what would meet the definition of purchased intangibles and will help distinguish purchased intangibles from developed intangibles.

Purchased intangibles with finite useful lives

Without a specific standard for intangibles, it is unclear to us whether it is the Board's intent that public sector entities will follow PS 3150, *Tangible capital assets* for guidance related to the following items:

- how to determine the "cost" of purchased intangibles
- whether amortization is determined on a basis consistent with PS 3150.22-40
- whether the write-down guidance in PS 3150.31-37 should apply to purchased intangibles
- whether disclosures required in PS 3150.41-43 apply to purchased intangibles and if not, what additional disclosures are required

Accordingly, we believe that the Board should clarify whether it would be appropriate for public sector entities to follow PS 3150 for these additional items. We believe that an absence of such guidance would result in diversity in practice.

Purchased intangibles with indefinite useful lives

Consistent with our comments above, it is unclear from the Exposure Draft as to how purchased intangibles with indefinite useful lives should be treated. In other frameworks, intangibles with indefinite useful lives are accompanied with a corresponding impairment model. In the absence of such guidance under PSAS, we believe that public sector entities may look to other frameworks (IPSAS, IFRS, and ASPE) and may result in diversity in practice. Therefore, we believe that the Board should provide additional guidance to clarify the treatment for purchased intangibles with indefinite useful lives.

Transition

We recognize that the Board has provided flexibility in the transition to the proposed amendments, allowing governments to choose either retrospective or prospective treatment in accordance with *Accounting changes*, PS 2120.13.

Prospective treatment is defined in PS 2120.06 as:

"The new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances."

We view prospective application of new accounting policies requires governments to identify the opening balances of previously purchased intangibles that still have a remaining useful life that would have been expensed, in order to apply the capitalization and amortization policies consistently on a prospective basis. Such interpretation requires that impairment considerations are included as part of the transition process.

We believe that the application of this standard could benefit from a modified transition where no cumulative catch-up adjustment is made and prospective treatment applies to intangibles that are purchased after the date of transition.

We believe that the allowing for options on transition will help with the cost/benefits to implementing the standard.



January 30, 2020

388314

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael:

RE: Purchased Intangibles: Narrow-Scope Amendments

Thank you for the opportunity to comment on the exposure draft and basis for conclusions *Purchased Intangibles: Narrow-Scope Amendments*. The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries, and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards.

We continue to be interested in PSAB's conceptual framework and reporting model review and the impact it may have on recognition prohibitions and financial performance concepts.

We are supportive of developing guidance in the area of intangible assets but are concerned that the narrow-scope amendments may have unintended consequences in the broader context of tangible and intangible assets used in the delivery of service. The short turn-around time of this narrow-scope amendment over the holiday period raises the risk that this approach has not allowed enough time for stakeholders to scrutinize, debate, and research the issue in full. A full discussion and analysis on appropriate accounting standards for intangible assets is required to ensure the recognition and accounting of intangible assets is conceptually consistent with other standards and based on sound principles. By simply removing the prohibition on the recognition of purchased intangible assets, the standards are left without clearly defined parameters to control or define what a purchased intangible asset is and how it is recognized. This could lead to significant variability in application and improper recognition.

.../2

Purchased intangible assets need to be first defined by PSAB prior to recognition. In reviewing the existing guidance referenced in the exposure draft, specifically, IFRS, ASPE and IPSAS, these standard setters demonstrate how intangibles are defined and how they can meet the definition of an asset. We encourage PSAB to perform a broader review for accounting of intangibles using its due process so that all stakeholder concerns can be identified and addressed. In following its due process and developing a complete standard, PSAB will ensure that any potential classification issues between assets and expenses can be mitigated. Accurate, complete and consistent recognition of all intangible assets is important for government accountability.

Responses to specific questions posed in the exposure draft are attached. Should PSAB have any comments or questions, please contact me at: 250-387-6692 or via e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.

On behalf of the Government of British Columbia,

Sincerely,



Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia

Encl.

cc: Russ Jones, FCPA, FCA, ICD.D
Acting Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Comments Requested

1. Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?

We do not agree with the proposal in this exposure draft because the narrow-scope amendment does not allow for a full discussion and analysis on appropriate accounting standards for intangible assets. While we agree conceptually that purchased intangible assets should be recognized in the Financial Statements, we encourage PSAB to follow due-process and undertake a broader project to understand the full implications of this change and ensure it is conceptually consistent with other PSAB standards. Through consultations with stakeholders, research of the issue, and study of other accounting standards, the task force can develop and define thorough guidance of purchased intangibles. Guidance should address the definition, measurement (initial measurement, amortization, impairment), disclosure, and derecognition of purchased intangible assets.

A broader project should include a review of the relationship between capitalized software costs and purchased intangibles and expand the current definition of tangible capital assets to support how purchased intangibles provide economic benefits in the future in the delivery of government services. Government organizations deal with information and data in increasing volumes which may or may not fit within the definition of a purchased intangible asset.

The proposed specific narrow-scope amendment does not include a definition of an intangible asset. Without a definition in the guidance, the standard is lacking adequate control over the accuracy and completeness of these assets. The lack of a definition could also lead to significant variability in application and classification issues between the statement of operations and statement of financial position. A definition will also assist users to determine what should or should not be capitalized as an intangible asset and the benefit to users of that treatment. In paragraph 57, the standard should continue to explain why an intangible asset is included or prohibited from recognition in the financial statements.

We agree that the standards should continue to prohibit recognition for developed intangible assets that do not provide economic benefits in the future. Allowing for the recognition of these intangible assets would represent an area of risk over the existence and valuation of the developed assets. We believe that this is what is contemplated in the narrow scope amendments as developed assets; however, clarity between this category and government-built assets such as software, as referred to in PS 3150, is required.

Intangible assets may be a material financial statement item for jurisdictions and adequate time for implementation of the new standard would be required. Implementation for fiscal years beginning on April 1, 2021 will not be achievable with consideration of the five other standards being implemented for the first time that year.

Comments Requested

Other Comments

We continue to be interested in PSAB's conceptual framework and reporting model review and the impact it may have on recognition prohibitions and financial performance concepts.

We are supportive of developing guidance in the area of intangible assets but are concerned that the narrow-scope amendments may have unintended consequences in the broader context of tangible and intangible assets used in the delivery of service. The short turn-around time of this narrow-scope amendment over the holiday period raises the risk that this approach has not allowed enough time for stakeholders to scrutinize, debate, and research the issue in full. A full discussion and analysis on appropriate accounting standards for intangible assets is required to ensure the recognition and accounting of intangible assets is conceptually consistent with other standards and based on sound principles. By simply removing the prohibition on the recognition of purchased intangible assets, the standards are left without clearly defined parameters to control or define what a purchased intangible asset is and how it is recognized. This could lead to significant variability in application and improper recognition.

Purchased intangible assets need to be first defined by PSAB prior to recognition. In reviewing the existing guidance referenced in the exposure draft, specifically, IFRS, ASPE and IPSAS, these standard setters demonstrate how intangibles are defined and how they can meet the definition of an asset. We encourage PSAB to perform a broader review for accounting of intangibles using its due process so that all stakeholder concerns can be identified and addressed. In following its due process and developing a complete standard, PSAB will ensure that any potential classification issues between assets and expenses can be mitigated. Accurate, complete and consistent recognition of all intangible assets is important for government accountability.



February 12, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear M. Puskaric:

Re: Purchased Intangibles: Narrow-Scope Amendments

The attachment sets out our responses to the specific questions listed in the exposure draft *Purchased Intangibles: Narrow-Scope Amendments*.

Yours truly,

A handwritten signature in black ink, appearing to read 'J. Ferguson', with a long horizontal line extending to the right.

Judy Ferguson, FCPA, FCA
Provincial Auditor

/dd
Attachment

	Question	Response
1	Do you agree that the PSA Handbook should allow recognition in public sector financial statements of intangibles purchased through an exchange transaction, as proposed in the specific narrow-scope amendments for Sections PS 1000 and PS 1201 in this Exposure Draft? Why or why not?	<p>While we agree the proposed amendment aligns with existing PSAS financial statement concepts in PS 1000—if an item meets the definition of an asset in PS 1000 and PS 3210 and meets the general recognition criteria (which includes having a reasonable basis of measurement, which is normally objectively verifiable in a true exchange transaction), we are surprised with the use of an narrow scope amendment to make this change, particularly given the Board would have had consultations on this matter in conjunction with consultations on the <i>Revised Conceptual Framework for the Canadian Public Sector</i>. The Framework continued to specifically exclude recognition of all intangibles within the PSA Handbook (9.04).</p>
	Other Comments	<p>If the proposed amendment proceeds, it might be useful to keep the example in paragraph .57 of what a purchased intangible might be. Therefore, reconsider the proposed removal of the following sentence in paragraph .057 "These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods" as it provides useful context as to why certain items continue to be excluded from recognition.</p> <p>The Board may also wish inclusion of measurement and disclosure guidance to assist financial statement preparers in accounting for the intangible after the initial recognition.</p>

17 February 2020

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric:

Re: Purchased Intangibles - Narrow Scope Amendments

We would like to extend our thanks to the Public Sector Accounting Board for providing us the opportunity to comment on the Exposure Draft (ED) and Basis for Conclusions "*Purchased Intangibles: Narrow Scope Amendments*".

At the outset, we agree and understand the need to recognize purchased intangibles when it meets definition of an asset and the general recognition criteria. However, we do have some concerns regarding the content and approach of PSAB in making such amendments. The changes proposed have the potential for significant implications and would be challenging to be captured under the narrow scope amendments.

1. Lack of definition of "*Intangible asset*"

Currently, the standard does not define *Intangible asset*. Adding this definition would provide more clarity to the stakeholders. The lack of definition may have the unintended consequence of inconsistent application of this amendment across public sector and subsequent inconsistency in presentation and disclosure of purchased intangibles. Given the broad range of intangible assets, a concise and clear definition is requested before proceeding further with recognizing intangible assets. For example, is it intended that data purchased for decision-making purposes to be considered an intangible asset in the context of the proposed amendments. While the amendments may be intended to address a relatively narrow concern that has been raised, the lack of clarity may allow such amendments to be applied to situations for which it was not intended or not fully scoped out when developing the amendments.

As well, it is unclear if there any implications on the recording of software. While software is a form of intangible asset, to date it has been recognized as a tangible capital asset. Without definition and specific direction, pertaining to intangibles there is the potential for the inconsistent treatment of intangible assets.

2. Insufficient guidance within the proposed amendments to consequential standards

- There is no guidance as to how to classify the purchased intangibles in the financial statements. There is still a need to assess whether such intangibles are part of tangible capital assets or non-financial assets or classified separately (non-financial asset).

- The direction provided is simply to follow the GAAP hierarchy. Such general direction will likely lead to inconsistent application as jurisdictions and entities make their own determinations as to which sources of GAAP are more applicable to their situation.
- PSAB is not following its own due process in developing or changing its own standard. Narrow scope amendments and discussion group meetings are not adequate to address the changes with substantial impact and potential of inconsistency both at provincial and national level.

3. Need for a separate standard on intangibles

Similar to tangible capital assets, PSAB should consider developing a separate standard on the intangible assets. A comprehensive standard would provide measurement, amortization, impairment, accounting, presentation and disclosure requirement.

Sincerely,

A handwritten signature in blue ink that reads "m. Jewer".

MICHELLE JEWER, CPA
Comptroller General
Department of Finance

January 31, 2020

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
TORONTO ON M5V 3H2

Dear Michael Puskaric:

I am writing in response to the Public Sector Accounting Board's Exposure Draft (ED) on Purchased Intangibles: Narrow-Scope Amendments.

We agree with the Board's proposal to no longer exclude purchased intangibles that meet the definition of an asset from recognition in public sector financial statements.

We note that PS 1201 is not applicable to governments and government entities that have not yet adopted Financial Instruments (PS 3450). We request that PSAB clarify that early adoption of this ED is available to governments and government entities continuing to apply PS 1200.

Please contact Tamara Stocker with any questions at (306-787-6704).

Sincerely,



Terry Paton, FCPA, FCA
Provincial Comptroller

cc: Chris Bayda, Provincial Comptroller's Office, Ministry of Finance
Jane Borland, Provincial Comptroller's Office, Ministry of Finance
Tamara Stocker, Provincial Comptroller's Office, Ministry of Finance