PSAB
Public Sector Accounting Board

Exposure Draft

Intangible Assets, Proposed Section PS 3155

February 2025

This Exposure Draft closes for comments on May 30, 2025.

The Public Sector Accounting Board (PSAB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to PSAB on the proposals in a variety of ways:

- Participate in the Connect.FRASCanada.ca survey.
- Connect directly with PSAB by attending a webinar and roundtable on this Exposure Draft. Session dates and registration information will be posted to the project page for the Intangible Assets project.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

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  Director, Public Sector Accounting
  Public Sector Accounting Board
  277 Wellington Street West
  Toronto ON M5V 3H2

Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in this Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- PSAB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

This Exposure Draft reflects proposals made by PSAB.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

INTRODUCTION

This Exposure Draft proposes foundational guidance for intangible assets in the CPA Canada Public Sector Accounting (PSA) Handbook. The proposed guidance will provide a definition of an intangible asset and address the recognition, measurement and disclosure of intangible assets.

The proposed guidance addresses accounting treatment of stand-alone controlled software (whether acquired or developed), or controlled software that is not considered integral to related computer hardware. Controlled software that is considered integral to computer hardware should be accounted for using principles of TANGIBLE CAPITAL ASSETS, Section PS 3150.

The Exposure Draft also provides guidance that continues to support recognition of purchased intangibles, as provided in Public Sector Guideline (PSG) 8, *Purchased Intangibles*. Furthermore, the Exposure Draft provides guidance related to developed intangibles and refers to them as internally generated intangibles.

HIGHLIGHTS

PSAB proposes, subject to comments received following exposure, to issue a new standard, INTANGIBLE ASSETS, Section PS 3155. This Section will replace PSG-8. The contents of PSG-8 are included in proposed Section PS 3155. Proposed Section PS 3155 would apply to public sector entities that base their accounting policies on the PSA Handbook.

This Exposure Draft uses the principles from International Public Sector Accounting Standard (IPSAS) 31, *Intangible Assets*. In developing this Exposure Draft, “Intangible Assets, Proposed Section PS 3155,” PSAB amended IPSAS 31 principles in accordance with the Criteria for Modifying and Reviewing IPSAS Principles that accompany PSAB’s International Strategy. The Criteria for Modification specify that principles of an IPSAS can be amended if they are considered contrary to the Board’s Conceptual Framework for Financial Reporting in the Public Sector or inappropriate for application in Canada based on the Canadian public interest. The Basis for Conclusions document accompanying this Exposure Draft describes instances where IPSAS 31 principles were amended based on the application of the Criteria for Modification or to integrate IPSAS principles into the PSA Handbook.

Main features of the Exposure Draft

The main features of the Exposure Draft include:

- a definition of “intangible asset” as “an identifiable non-monetary asset without physical substance”;
- recognition and measurement guidance for acquired intangible assets and internally generated intangible items that meet the definition and recognition criteria applicable to intangible assets;
- limited impairment guidance for intangible assets that includes indicators of impairment and measurement guidance for calculating impairment losses; and
- specific disclosure requirements for intangible assets.

Implications of the proposals

Proposed Section PS 3155 would apply to fiscal years beginning on or after April 1, 2030. Earlier adoption is permitted.

The proposals' intent is to:

- Fill a gap for a foundational standard related to intangible assets within the PSA Handbook.
- Provide guidance related to acquired and internally generated intangible assets under a single, comprehensive standard. As noted, with the introduction of the proposed Section 3155, the guideline for PSG-8 will be withdrawn.
- Allow the removal of the recognition exclusion related to developed intangibles as provided in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

Consequential amendments

The proposed consequential amendments are summarized on pages 30-36.

Plans for finalizing the proposals

PSAB will deliberate the proposals in light of comments received. Part of the deliberation process includes consulting with the Technical Advisory Group.

PSAB will provide updates about its deliberations in its decision summaries and on the Intangible Assets project page.

Comments requested

While PSAB welcomes comments on any or all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree with the proposals in the Exposure Draft? If not, which proposals do you disagree with and why?

2. Do you believe adopting the terminology of "binding arrangements" may result in broadening the scope of arrangements for your organization? If yes, please explain.

3. Do you agree with the consequential amendments to the recognition exclusions (i.e., with paragraph PS 1202.079)? If no, please explain.

4. Do you agree with all the other consequential amendments? If not, why?

5. Do you agree with the transitional provisions?

This Exposure Draft closes for comment on May 30, 2025.

INTANGIBLE ASSETS

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Purpose

.001 This Section prescribes the accounting treatment for intangible assets that are not dealt with specifically in another Section. This Section requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Section also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

Scope

.002 *This Section should be applied in accounting for intangible assets, except:*

(a) intangible assets that are within the scope of another Section (please refer to paragraph PS 3155.003);

(b) financial instrument assets, as defined in FINANCIAL INSTRUMENTS, Section PS 3450;

(c) the recognition and measurement of exploration and evaluation assets related to mineral resources;

(d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-renewable resources;

(e) the sovereign or equivalent powers and/or rights provided for in the Constitution or devolved or delegated through legislation or bylaws or provided for in accordance with Indigenous laws or rights;

(f) deferred acquisition costs, and intangible assets arising from an insurer's contractual rights under insurance contracts; and

(g) intangible assets held by an entity as inventory and/or for sale in the course of its operations.

.003 If another Section prescribes the accounting for a specific type of intangible asset, an entity applies that Section instead of this Section. For example, this Section does not apply to:

(a) recognition and initial measurement of intangible assets acquired as part of a public private partnership arrangement that are accounted for in accordance with PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160. However, this Section applies to the subsequent measurement and disclosure of such assets;

(b) purchase premiums arising on acquisition of a government organization (also known as goodwill) that are accounted for in accordance with:

(i) ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, when the entity acquired is a governmental unit; and

(ii) INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, when the entity acquired is a government business enterprise;

(c) assets that may arise from binding arrangements that are recognized in accordance with GOVERNMENT TRANSFERS, Section PS 3410; and

(d) assets arising from employee benefits (RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255).[1]

1 PSAB has an active technical project related to updating its guidance for employee benefits (i.e., the Employee Benefits project). Upon final approval of Proposed Section PS 3155, it is expected that Sections PS 3250 and PS 3255 will be withdrawn and replaced with the new Section PS 3251, *Employee Benefits*. At that time, references to Sections PS 3250 and PS 3255 will be updated to refer to Section PS 3251.

.004 Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent) or film. To determine whether an asset that incorporates both intangible and tangible components should be treated under TANGIBLE CAPITAL ASSETS, Section PS 3150 or as an intangible asset under this Section, professional judgment may be required to assess which element is more significant and how integral the components are relative to one another based on the purpose and use of the integrated asset. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as a tangible capital asset. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

.005 This Section applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component (i.e., the knowledge embodied in it).

.006 Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are within the scope of this Section and are excluded from the scope of PSG-2, *Leased Tangible Capital Assets*.

.007 Exclusions from the scope of a Section may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries, as well as in the case of insurance contracts. Therefore, this Section does not apply to expenditure on such activities and contracts. However, this Section applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

Intangible works of art, historical treasures and/or collections

.008 *Some intangible assets may be described as works of art and historical treasures because of their cultural, aesthetic or historical significance that is worth preserving perpetually. Some intangible assets may also be a collection. A collection is works of art, historical treasures or similar assets that meet certain criteria as per paragraph PS 3150.05(i).*[2] *Examples of intangible works of art and historical treasures include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins. Intangible works of art, historical treasures and/or collections would not be recognized in the financial statements because a reasonable estimate of the future benefits associated with such assets cannot be made. Nevertheless, the existence of such assets should be disclosed. For intangible works of art, historical treasures and/or collections, financial statements should disclose information similar to the disclosures required in Section PS 3150 for tangible works*

2 The updated version of Section PS 3150 (i.e., with the update paragraphs) will be released in the PSA Handbook in May 2025. Paragraph PS 3150.05(i) is proposed to say the following: “Collections are works of art, historical treasures or similar assets that are: (a) held for exhibition, education or research; (b) protected, cared for and preserved, and (c) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.”

of art, historical treasures and/or collections. Refer to the disclosure requirements in paragraphs PS 3150.42(e) and PS 3150.43-.45.[3]

Definitions

.009 The following terms are used in this Section with the meanings specified:

(a) **Amortization** is the systematic allocation of the depreciable amount of an asset over its useful life.

(b) **Carrying amount** of an intangible asset, for the purposes of this Section, is net of cost and any accumulated amortization and accumulated impairment losses.

(c) **Costs of disposal** are incremental costs directly attributable to the disposal of an intangible asset, excluding finance costs.

(d) **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

(e) **Fair value less costs to sell** is the amount obtainable from the sale of an intangible asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

(f) An **intangible asset** is an identifiable nonmonetary economic resource without physical substance.

(g) **Recoverable service amount** is the higher of an intangible asset's fair value less costs to sell and its value-in-use.

(h) **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

(i) **Residual value** is the estimated net realizable value of an asset at the end of its useful life to an entity.

(j) **Value in use** of an intangible asset is the present value of the intangible asset's remaining service potential.

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3 The updated version of Section PS 3150 (i.e., with the update disclosures paragraphs) will be released in the PSA Handbook in May 2025. Paragraph PS 3150.42(e) is proposed to require the disclosure of "a description of the works of art, historical treasures and/or collections in relation to the delivery of public sector services." Paragraphs PS 3150.43-.45 are proposed to say the following:

"If a public sector entity's primary mandate is to act as a steward or custodian for the public interest of works of art, historical treasures and/or collection(s), or if a public sector entity holds a collection(s), it should also disclose: (a) a description of the increases (e.g., acquisitions, donations or repatriations received) and decreases (e.g., disposals or repatriations made) related to its works of art, historical treasures and/or collection(s) in the period; (b) when works of art, historical treasures and/or collection items are acquired, the amount expensed in the current period; and (c) if works of art, historical treasures and/or collection items are sold in the current period, the proceeds of the sales.

The disclosure requirements specific to works of art, historical treasures and/or collections help provide an understanding of the importance of such assets held by a public sector entity. Factors a public sector entity may consider, in determining what information to disclose include, but are not limited to: (a) the qualitative value (e.g., cultural significance) and/or quantitative value (e.g., financial effect) of such assets; and (b) certain laws, acts or statutes for example, Article 11 contained in the schedule to the United Nations Declaration on the Rights of Indigenous Peoples Act.

Information about tangible capital assets measurement attributes other than historical cost helps provide an understanding of the organization's economic resources. This information would include the difficulties in obtaining the fair value of the contributed tangible capital asset, or the contributed portion of a tangible capital asset when purchased at substantially below fair value. Any details about the assets that would affect their usefulness to the organization: their ages, locations, present or potential uses and estimated remaining useful lives."

Intangible assets

.010 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licenses, intellectual property, and trademarks (including publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of users of a service, acquired fishing licenses, acquired import quotas, and relationships with users of a service.

Identifiability

.011 Not all the items described in paragraph PS 3155.010 meet the definition of an intangible asset (i.e., identifiability, control over a resource, existence of future economic benefits and is the result of a past transaction and/or other events). Refer to ASSETS, Section PS 3210. If an item within the scope of this Section does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an acquisition of a government business enterprise as defined in Section PS 3070 and is not identifiable, then it forms part of the goodwill recognized at the acquisition date.

.012 The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. In accordance with Section PS 3070, goodwill recognized is any excess of a government's purchase cost of an acquired organization over the government's interest in the amounts assigned to identifiable assets acquired, less liabilities assumed of the organization based on their values at the date of acquisition. It is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

.013 An asset is identifiable if it either:

(a) is separable (i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so); or

(b) arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

.014 For the purposes of this Section, a binding arrangement describes an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. An entity may receive or have the right to an intangible asset arising from a revenue transaction with a binding arrangement that is within the scope of RESTRICTED ASSETS AND REVENUES, Section PS 3100, or REVENUE, Section PS 3400. An entity would apply the guidance in those Sections to recognize the revenue and/or the liability, and recognize an intangible asset when the definition of, and the recognition criteria for, an intangible asset are met in accordance with this Section.

Control of an asset

.015 An entity controls an asset if the entity has the ability to obtain the future economic benefits flowing from the underlying resource, has the ability to restrict the access of others to those benefits and is exposed to the risks associated with the economic resource. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

.016 Scientific or technical knowledge may give rise to future economic benefits. An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.

.017 An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

.018 An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

Future economic benefits

.019 The future economic benefits (which include service potential) flowing from an intangible asset may include revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an online system that allows citizens to renew driving licenses more quickly online, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and Measurement

.020 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset (see paragraphs PS 3155.010-.019); and

(b) the recognition criteria (see paragraphs PS 3155.023-.025).

This requirement applies to the cost incurred at recognition and those incurred subsequently to increase its future economic benefit.

.021 Paragraphs PS 3155.027-.034 deal with the application of the recognition criteria to separately acquired intangible assets. Paragraphs PS 3155.037-.038 deal with the initial measurement of intangible assets acquired through non-exchange transactions; paragraphs PS 3155.039-.040 with exchanges of intangible assets; and paragraphs PS 3155.041-.043 with the treatment of internally generated goodwill. Paragraphs PS 3155.044-.060 deal with the initial recognition and measurement of internally generated intangible assets.

.022 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Section. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph PS 3155.056, subsequent expenditure on brands, mastheads, publishing titles, lists of users of a service and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

.023 *An intangible asset should be recognized in the financial statements if, and only if:*

(a) the intangible asset meets the definition of an asset; and

(b) the cost of the asset can be measured in a faithfully representative way.

.024 *An entity should assess the expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.*

.025 Professional judgment is used to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

.026 *An intangible asset acquired separately should be measured initially at cost in accordance with paragraphs PS 3155.027-.034. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition should be measured in accordance with paragraph PS 3155.038.*

Separate acquisition

.027 Normally, the price an entity pays to acquire separately an intangible asset will reflect the expected future economic benefits embodied in the asset that will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow.

.028 In addition, the cost of a separately acquired intangible asset can usually be measured in a faithfully representative way. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

.029 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

.030 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in Section PS 3250 and Section PS 3255) arising directly from bringing the asset to its working condition;[4]

(b) professional fees arising directly from bringing the asset to its working condition; and

(c) costs of testing whether the asset is functioning properly.

.031 Examples of expenditures that are not part of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

4 PSAB is developing a new Employee Benefits standard. If that standard is finalized before the Intangible Assets standard, references to Sections PS 3250 and PS 3255 will be updated with the new standard.

(b) costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and

(c) administration and other general overhead costs (other than overhead costs that are directly attributable).

.032 Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

(a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

(b) initial operating deficits, such as those incurred while demand for the asset's output builds up.

.033 Some operations occur in connection with the development of an intangible asset but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.

.034 If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized when the entity's policy is to capitalize interest costs.

Subsequent expenditure on an acquired in-process research and development project

.035 *Research or development expenditure that:*

(a) relates to an in-process research or development project acquired separately and recognized as an intangible asset, and

(b) is incurred after the acquisition of that project

should be accounted for in accordance with paragraphs PS 3155.047-.055.

.036 Applying the requirements in paragraphs PS 3155.047-.055 means that subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is:

(a) recognized as an expense when incurred if it is research expenditure;

(b) recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph PS 3155.050; and

(c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph PS 3155.050.

Intangible assets acquired through non-exchange transactions

.037 In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources.

A private citizen, for example a Nobel Prize winner, may bequeath their personal papers, including the copyright to their publications, to the national archives (a public sector entity) in a non-exchange transaction.

.038 Under these circumstances the cost of the item is its fair value at the date it is acquired unless measurement guidance for the non-exchange transaction is specified in another Section, such as in INTER-ENTITY TRANSACTIONS, Section PS 3420.

Exchanges of assets

.039 One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. When an intangible asset is acquired in an inter-entity transaction within the scope of Section PS 3420, refer to that Section for measurement guidance. Otherwise, the following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the first sentence. The cost of such an intangible asset is measured at fair value unless the fair value of neither the asset received nor the asset given up can be measured in a faithfully representative way. The acquired asset is measured at fair value even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

.040 Paragraph PS 3155.023(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured in a faithfully representative way. The fair value of an intangible asset can be measured in a faithfully representative way if the variability in the range of reasonable fair value measurements is not significant for that asset. If an entity is able to measure the fair value of either the asset received or the asset given up in a faithfully representative way, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally generated goodwill

.041 *Internally generated goodwill should not be recognized as an asset.*

.042 In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Section. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured in a faithfully representative way at cost.

.043 Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally generated intangible assets

.044 It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

(a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and

(b) determining the cost of the asset in a faithfully representative way. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs PS 3155.045-.060 to all internally generated intangible assets.

.045 To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase, and

(b) a development phase.

Although the terms “research” and “development” are defined, the terms “research phase” and “development phase” have a broader meaning for the purpose of this Section.

.046 If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research phase

.047 *No intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.*

.048 In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate future economic benefits. Therefore, this expenditure is recognized as an expense when it is incurred.

.049 Examples of research activities are:

(a) activities aimed at obtaining new knowledge;

(b) the search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

.050 *An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an entity can demonstrate all of the following:*

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) Its intention to complete the intangible asset and use or sell it.

(c) Its ability to use or sell the intangible asset.

(d) How the intangible asset will generate future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) Its ability to measure in a faithfully representative way the expenditure attributable to the intangible asset during its development.

.051 In the development phase of an internal project, an entity may, in some instances, identify an intangible asset and demonstrate that the asset will generate future economic benefits. This is because the development phase of a project is further advanced than the research phase.

.052 Examples of development activities are:

(a) the design, construction, and testing of pre-production or pre-use prototypes and models;

(b) the design of tools, jigs, moulds and dyes involving new technology;

(c) the design, construction and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services; and

(e) website and software development.

.053 To demonstrate how an intangible asset will generate future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles provided in this Section.

.054 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's or funder's indication of its willingness to fund the plan.

.055 An entity's costing systems can often measure in a faithfully representative way the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licenses, or developing computer software.

.056 *Internally generated brands, mastheads, publishing titles, lists of users of a service and items similar in substance should not be recognized as intangible assets.*

.057 Expenditure on internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance cannot be distinguished from the cost of developing the entity's operations as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an internally generated intangible asset

.058 The cost of an internally generated intangible asset for the purpose of paragraph PS 3155.026 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs PS 3155.023, PS 3155.024 and PS 3155.050. Paragraph PS 3155.065 prohibits reinstatement of expenditure previously recognized as an expense.

.059 The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

(a) costs of materials and services used or consumed in generating the intangible asset;

(b) costs of employee benefits (as defined in Section PS 3250 and Section PS 3255)[5] arising from the generation of the intangible asset;

(c) fees to register a legal right; and

(d) amortization of patents and licenses that are used to generate the intangible asset.

Paragraph PS 3155.034 specifies criteria for the recognition of interest as an element of the cost of an asset.

.060 The following are not components of the cost of an internally generated intangible asset:

(a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

(b) identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and

(c) expenditure on training staff to operate the asset.

5 PSAB is developing a new Employee Benefits standard. If that standard is finalized before the Intangible Assets standard, references to Sections PS 3250 and PS 3255 will be updated with the new standard.

Recognition of an Expense

.061 *Expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs PS 3155.020-.060).*

.062 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph PS 3155.047). Other examples of expenditure that is recognized as an expense when it is incurred include:

(a) expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of a tangible capital asset in accordance with Section PS 3150. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

(b) expenditure on training activities;

(c) expenditure on advertising and promotional activities; and

(d) expenditure on relocating or reorganizing part or all of an entity.

.063 An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service (e.g., to deliver information about a service to users of that service).

.064 If the prepayment meets the definition of an asset in accordance with Section PS 3210, paragraph PS 3155.061 does not preclude an entity from recognizing a prepayment as an asset when payment for goods and services has been made in advance of the entity obtaining a right to access those goods or receiving those services.

Past expenses not to be recognized as an asset

.065 *Expenditure on an intangible item that was initially recognized as an expense under this Section should not be recognized as part of the cost of an intangible asset at a later date.*

Subsequent Measurement – Historical Cost Attribute

.066 *After initial recognition, an intangible asset should be carried at its cost less any accumulated amortization and any accumulated impairment losses.*

Useful Life

.067 *An entity should assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset should be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate future economic benefits to the entity.*

.068 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs PS 3155.077-.089), and an intangible asset with an indefinite useful life is not (see paragraphs PS 3155.090-.093). The Illustrative Examples accompanying this Section illustrate the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.

.069 Many factors are considered in determining the useful life of an intangible asset, including:

(a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

(b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(c) technical, technological, commercial or other types of obsolescence;

(d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) expected actions by competitors or potential competitors;

(f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;

(g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

(h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.

.070 The term "indefinite" does not mean "infinite". The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.

.071 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

.072 The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

.073 *The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) should not exceed the period of the binding arrangement (including rights from contracts or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.*

.074 *The useful life of a license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and should not include renewal periods.*

.075 There may be economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political, or social factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits. The useful life is the shorter of the periods determined by these factors.

.076 Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:

(a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent.

(b) There is evidence that any conditions necessary to obtain renewal will be satisfied.

(c) The cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the "renewal" cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible Assets with Finite Useful Lives

Amortization period and amortization method

.077 *The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life. Amortization should begin when the asset is available for use – that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization should cease at the earlier of the date that the asset is classified as held for sale*[6] *and the date that the asset is derecognized. The amortization method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined in a faithfully representative way, the straight-line method should be used. The amortization charge for each period should be recognized in surplus or deficit unless this or another Section permits or requires it to be included in the carrying amount of another asset.*

.078 A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

.079 There is a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph PS 3155.081; or

(b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

.080 In choosing an appropriate amortization method in accordance with paragraph PS 3155.078, an entity could determine the predominant limiting factor that is inherent in the intangible asset.

6 Refer to paragraph PS 1202.64 for criteria related to an asset available for sale.

For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e., time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortization, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.

.081 In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortization. For example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged; for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches $100 million. In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortizing the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortization is to be determined.

.082 Amortization is usually recognized in surplus or deficit (i.e., as an expense in the statement of operations). However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying amount.

Residual value

.083 *The residual value of an intangible asset with a finite useful life should be assumed to be zero unless:*

(a) there is a commitment by a third party to acquire the asset at the end of its useful life; or

(b) there is an active market for the asset, and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

.084 The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

.085 An estimate of an asset's residual value is based on the amount recoverable from disposal, using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with ACCOUNTING CHANGES, Section PS 2120.

.086 The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortization charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of amortization period and amortization method

.087 *The amortization period and the amortization method for an intangible asset with a finite useful life should be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period should be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates in accordance with Section PS 2120.*

.088 During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.

.089 Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line method. Another example is if use of the rights represented by a license is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

.090 *An intangible asset with an indefinite useful life should not be amortized.*

.091 In accordance with the principles provided in this Section, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount with its carrying amount when there is an indication that the intangible asset may be impaired.

Review of useful life assessment

.092 *The useful life of an intangible asset that is not being amortized should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate in accordance with Section PS 2120.*

.093 In accordance with the principles provided in this Section, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount, determined in accordance with the principles provided in this Section, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount as an impairment loss.

Recoverability of the Carrying Amount – Impairment Losses

.094 To determine whether an intangible asset is impaired, an entity applies the principles provided within this Section. The principles provided within this Section explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount of an asset and when it recognizes an impairment loss.

.095 *When conditions indicate that an intangible asset no longer contributes to an entity's ability to provide goods and services, or that the value of future economic benefits associated with the intangible asset is less than its carrying value, the cost of the intangible asset should be reduced to reflect the decline in its value.*

.096 *The impairment loss of the intangible assets should be accounted for as expenses in the statement of operations.*

.097 *An impairment loss should not be reversed.*

.098 An intangible asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph PS 3155.099 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount.

.099 An entity would reduce the carrying amount of an intangible asset to its recoverable service amount when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with an intangible asset have been reduced and an impairment loss is appropriate include:

(a) a change in the extent to which the intangible asset is used;

(b) a change in the manner in which the intangible asset is used;

(c) evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected;

(d) significant technological developments (indicating obsolescence);

(e) removal of the intangible asset from service;

(f) a decline in, or cessation of, the need for the services provided by the intangible asset;

(g) a decision to halt development of the intangible asset before it is complete or in usable or saleable condition; and

(h) a change in the law or environment affecting the extent to which the intangible asset can be used.

.100 The persistence of such conditions over several successive years increases the probability that an impairment loss is required unless there is persuasive evidence to the contrary.

.101 When the intangible asset no longer contributes to the entity's ability to provide goods and services, it would be reduced to residual value, if any. This would be appropriate when the entity has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

.102 In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where an entity can objectively estimate a reduction in the value of the asset's service potential to the entity, and has persuasive evidence that the reduction is expected to be permanent in nature, the intangible asset's carrying amount would be reduced to its recoverable service amount, as its revised estimate of the value of the asset's remaining service potential to the entity.

Measuring recoverable service amounts

.103 This Section defines recoverable service amount as the higher of an asset's fair value, less costs to sell and its value in use. Paragraphs PS 3155.108-.112 set out the basis for measuring recoverable service amount.

.104 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

.105 It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. Paragraph PS 3155.110 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist. However, sometimes it will not be possible to determine fair value less costs to sell, because there is no basis for making a faithfully representative estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable service amount.

.106 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. However, for many public sector assets that are held on an ongoing basis to provide specialized services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

.107 In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations for determining fair value less costs to sell or value in use.

Fair value less costs to sell

.108 The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

.109 If there is no binding sale agreement, but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

.110 If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

.111 Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in Section PS 3255) and costs associated with reducing or reorganizing a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Value in use

.112 This Section defines the value in use of an asset as the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using the depreciated replacement cost approach.

Depreciated replacement cost approach

.113 Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

.114 The replacement cost and reproduction cost of an asset are determined on an optimized basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

.115 In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. Such surplus or standby capacity is part of the required service potential of the asset.

Retirements and Disposals

.116 *An intangible asset should be derecognized:*

- *(a) on disposal (including disposal through a non-exchange transaction); or*
- *(b) when no future economic benefits are expected from its use or disposal.*

.117 *The gain or loss arising from the derecognition of an intangible asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It should be recognized in surplus or deficit when the asset is derecognized.*

.118 The disposal of an intangible asset may occur in a variety of ways (e.g., by sale or through a non-exchange transaction). The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation in the binding arrangement is satisfied in Section PS 3400, or the obligation that arises in Section PS 3100 and Section PS 3410 is satisfied.

.119 The amount of consideration to be included in the surplus or deficit arising from the derecognition of an intangible asset is determined in accordance with the requirements for determining the transaction consideration in paragraphs PS 3400.58-.80 and PS 3400.A33-.A34, Section PS 3100 and Section PS 3410.

.120 Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale.

Disclosure

General

.121 *An entity should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:*

- *(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;*
- *(b) the amortization methods used for intangible assets with finite useful lives;*
- *(c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;*
- *(d) a reconciliation of the carrying amount at the beginning and end of the period showing:*
  - *(i) additions, indicating separately those from internal development, and those acquired separately;*
  - *(ii) disposals;*
  - *(iii) impairment losses recognized in surplus or deficit during the period in accordance with guidance included in this Section;*
  - *(iv) any amortization recognized during the period; and*
  - *(v) other changes in the carrying amount during the period;*
- *(e) the carrying value of intangible assets not being amortized because they are under development or have been removed from service;*
- *(f) the nature and amount of contributed intangible assets received in the period and recognized in the financial statements;*

(g) the nature and use of intangible assets recognized at nominal value;

(h) the nature of the intangible works of art and historical treasures held by the entity (refer to paragraph .008); and

(i) the amount of interest capitalized in the period.

.122 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

(a) mastheads and publishing titles;

(b) computer software;

(c) licenses;

(d) copyrights, patents and other industrial property rights, and service and operating rights;

(e) recipes, formulae, models, designs and prototypes; and

(f) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

.123 Section PS 2120 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) the assessment of an intangible asset's useful life;

(b) the amortization method; or

(c) residual values.

.124 *An entity should also disclose:*

(a) For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity should describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

(b) For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs PS 3155.037-.038):

(i) the fair value initially recognized for these assets, and

(ii) their carrying amount.

(c) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

(d) The amount of contractual commitments for the acquisition of intangible assets.

.125 When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph PS 3155.069.

Research and development expenditure

.126 *An entity should disclose the aggregate amount of research and development expenditure recognized as an expense during the period.*

.127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs PS 3155.059-060 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph PS 3155.126).

Other information

.128 *For major categories of intangible assets that meet the definition of an asset but are not recognized because they do not meet the recognition criteria in paragraph PS 3155.023(b) since a reasonable estimate of the amounts involved cannot be made, the reason(s) for why a reasonable estimate of the amount involved cannot be made should be disclosed.*

Presentation

.129 In accordance with guidance in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1202.068(d), intangible items recognized as assets are normally classified as non-financial assets.

Effective Date and Transitional Provisions

.130 This Section applies to fiscal years beginning on or after April 1, 2030. Earlier adoption is permitted. An entity may apply this Section:

(a) to new transactions and other events occurring on or after April 1, 2030; or

(b) through modified retroactive application in accordance with the transitional provisions described in paragraph PS 3155.131.

.131 For the purposes of this Section, modified retroactive application is retroactive application with restatement in accordance with paragraph PS 2120.06(c); however, the useful life is determined and any impairment may be measured using information and assumptions that are current at the beginning of the fiscal year in which this Section is first applied.

APPENDIX A – ILLUSTRATIVE EXAMPLES

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This material is illustrative only.

The examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of generally accepted accounting principles, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

Recognition and measurement of an internally generated intangible asset

Example – Applying paragraph PS 3155.058 of this Section

IE1. An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 31, 20X8, expenditure incurred for the development of the system was $1,000, of which $900 was incurred before March 1, 20X8, and $100 was incurred between March 1, 20X8, and March 31, 20X8. The entity is able to demonstrate that, at March 1, 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be $500.

IE2. At the end of the financial year, the developed system is recognized as an intangible asset at a cost of $100 (expenditure incurred since the date when the recognition criteria were met (i.e., March 1, 20X8)). The $900 expenditure incurred before March 1, 20X8, is recognized as an expense because the recognition criteria were not met until March 1, 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.

IE3. During the financial year ending March 31, 20X9, expenditure incurred is $2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be $1,900.

IE4. As at March 31, 20X9, the cost of the developed system is $2,100 ($100 expenditure recognized at the end of 20X8 plus $2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of $200 to adjust the carrying amount of the developed system before the impairment loss ($2,100) to its recoverable service amount ($1,900).

Example – Applying paragraphs PS 3155.050-.060 of this Section

IE5. An entity is developing a system that produces statistical reports for its internal use and for sale to third parties. The system is technically feasible. The entity is aware that there is a demand for this type of report and which third parties are willing to pay for the product and therefore will generate future economic benefits. The expenditure attributable to the development of this system can be identified and measured reliably.

Assessing the useful lives of intangible assets

IE6. The following guidance provides examples on determining the useful life of an intangible asset in accordance with this Section.

IE7. Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

An acquired patent with a finite useful life

IE8. Entity A acquires a patent over a formula for a vaccine from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years.

IE9. The patent would be amortized over its five-year useful life to Entity A, with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with the requirements in this Section.

An acquired patent with an indefinite useful life

IE10. Entity A acquires an asset – the patent over a formula for a vaccine – from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to Entity B when the improvements are made.

IE11. An analysis of product life cycle studies, as well as demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with the requirements in this Section.

An acquired copyright that has a remaining legal life of 50 years

IE12. Entity A acquires a copyright from Entity B to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

IE13. The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with the requirements in this Section.

An acquired broadcasting license that expires in five years – Part A

IE14. Entity A acquires a broadcasting license from Entity B. Entity A intends to provide free broadcasting services in the community. The broadcasting license is renewable every 10 years if Entity A provides at least an average level of service to its users of its service and complies with the relevant legislative requirements. The license may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. Entity A intends to renew the license indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the license renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the license is expected to contribute to Entity A's ability to provide free broadcasting services indefinitely.

IE15. Entity B does not recognize its power to grant broadcasting licenses as an intangible asset. The broadcasting license would be treated by Entity A as having an indefinite useful life because it is expected to contribute to the entity's ability to provide free broadcasting services indefinitely. Therefore, the license would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with the requirements in this Section.

An acquired broadcasting license that expires in five years – Part B

IE16. The licensing authority subsequently decides that it will no longer renew broadcasting licenses but rather will auction the licenses. At the time the licensing authority's decision is made, Entity A's broadcasting license has three years until it expires. Entity A expects that the license will continue to provide service potential until the license expires.

IE17. Because the broadcasting license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be amortized by Entity A over its remaining three-year useful life and immediately tested for impairment in accordance with the requirements in this Section.

An acquired right to operate a public transit route between two cities that expires in three years

IE18. Entity A acquires from Entity B a right to operate a public transit route between two cities, which generates revenues. The transit route may be renewed every five years, and Entity A intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity that holds the rights to the route has complied with the applicable rules and regulations. Entity A expects to provide transit services on the route indefinitely. An analysis of demand and cash flows supports those assumptions.

IE19. Because the facts and circumstances support the public transit route providing cash flows to Entity A for an indefinite period of time, the intangible asset related to the transit route is treated as having an indefinite useful life. Therefore, the intangible asset would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with the requirements in this Section whenever there is an indication that it may be impaired.

An acquired list of property owners

IE20. A local authority (Entity A) acquires a list of property owners from another public sector entity that is responsible for registering property deeds (Entity B). Entity B is at another level of government and is not part of Entity A's reporting entity. Entity A intends to use the list to generate tax revenues, and Entity A expects that it will be able to derive benefit from the information on the acquired list[7] for at least one year, but no more than three years.

IE21. The list of property owners would be amortized over Entity A's best estimate of its useful life, say 18 months. Although Entity B may intend to add property owner names and other information to the list in the future, the expected benefits to Entity A of the acquired list relate only to the property owners on that list at the date Entity A acquired the list. The list of property owners also would be reviewed for impairment in accordance with the requirements in this Section by assessing whenever there is any indication that it may be impaired.

Measurement of impairment loss – Depreciated replacement cost approach

Near cessation in demand for the services provided by a non-cash-generating asset – Underutilized mainframe software application

IE22. The illustrative example is provided to only assist with the mechanics of the depreciated replacement cost approach. The scenario described applies to acquired software and is not representative of a cloud computing arrangement.

IE23. In 1999, the City of Kermann acquired a software application for its new mainframe computer for $350,000. Kermann estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 per cent of its originally anticipated demand. A software application to replace the remaining service potential of the impaired software application costs $70,000.

Evaluation of impairment

IE24. The indication of impairment is technological change, brought about by the loss of mainframe computer capacity.

a	Acquisition cost, 1999	350,000
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	200,000
b	Carrying amount, 2003	150,000
c	Remplacement cost	70,000
	Accumulated amortization (c × 4 ÷ 7)	40,000
d	Recoverable Service Amount	30,000
	Impairment loss (b - d)	120,000

CONSEQUENTIAL AMENDMENTS

The PSA Handbook would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

FINANCIAL STATEMENT PRESENTATION, Section PS 1202

.068 In terms of classifying an asset as financial or non-financial, assets that meet the definition of a non-financial asset usually include:

---

7 Although the local authority may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired. Subsequent additions would be considered to be internally developed intangible assets and accounted for in accordance with this Section.

(a) tangible capital assets;

(b) inventories held for use;

(c) prepaid expenses;

(d) ~~purchased~~ intangibles;

(e) assets that would otherwise be classified as financial, but which cannot be used to discharge existing financial liabilities or spend on future operations because of external restrictions preventing access to the assets, as noted in paragraph PS 1202.066(a); and

(f) any other asset not available for sale.

…

.078 Natural resources, intangibles[5] and Crown lands that are purchased are recognized in financial statements when they meet the definition of an asset and the general recognition criteria. [Footnote 5: Recognition~~zing~~ of ~~purchased~~ acquired intangibles is addressed in ~~PUBLIC SECTOR GUIDELINE (PSG)-8~~ INTANGIBLE ASSETS, Section PS 3155~~Purchased Intangibles~~.]

.079 In contrast, the following are not recognized in financial statements:

(a) natural resources and Crown lands not purchased by the entity; 6 [Footnote 6 states the following: Examples of natural resources include water, forests and minerals.]

(b) ~~developed and~~ non-purchased intangibles arising from powers and/or rights provided for in the Constitution or devolved or delegated through legislation or bylaws or provided for in accordance with Indigenous rights or laws, such as ~~(e.g.,~~ the wireless spectrum rights, air rights, sea rights and forestry rights~~)~~;

(c) “human capital” that embodies the talent or intellectual capital of an entity’s employees; and

(d) all works of art and historical treasures.

.080 *Financial statements should disclose that works of art, ~~and~~ historical treasures, and/or collections, ~~developed or~~ certain non-purchased intangibles (as noted in paragraph PS 1202.079(b)), and non-purchased natural resources and Crown lands, are not recognized in a public sector entity’s financial statements. The disclosure requirements in TANGIBLE CAPITAL ASSETS, paragraphs PS 3150.42-43 and ASSETS, paragraph PS 3210.32, may apply. (April ~~2026~~ 2030)*

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.243 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended paragraphs PS 1202.068(d) and PS 1202.078-.080. The amendments are applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

TANGIBLE CAPITAL ASSETS, Section PS 3150

.02 Tangible capital assets are a significant economic resource managed by public sector entities and a key component in the delivery of many public sector programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware, ~~and software~~ dams, canals and bridges.

.05

…

(a) Tangible capital assets are non-financial assets [2] having physical substance that:

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

(ii) have useful economic lives extending beyond an accounting period;

(iii) are to be used on a continuing basis; and

(iv) are not for sale in the ordinary course of operations.

~~[Footnote 2: For the purposes of this Section, tangible capital assets are defined to include computer software.]~~

…

(e) **Residual value** is the estimated net realizable value of an ~~tangible capital~~ asset at the end of its useful life to a public sector entity.

…

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.43 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended paragraphs PS 3150.02 and PS 3150.05. The amendments are applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160

…

.02 Public private partnerships are an alternative finance and procurement model available to public sector entities to design, build, acquire or better infrastructure. The term “infrastructure” typically includes items such as tangible capital assets (i.e., complex network systems per TANGIBLE CAPITAL ASSETS, Section PS 3150) but may also include items that are intangible in nature as per INTANGIBLE ASSETS, Section PS 3155. ~~Intangible assets acquired as part of a private partnership arrangement are considered purchased intangibles as defined in PUBLIC SECTOR GUIDELINE, PSG-8, Purchased Intangibles.~~

…

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.75 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended paragraph PS 3160.02. The amendment is applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

GOVERNMENT TRANSFERS, Section PS 3410

.04 Government transfers are transfers of **monetary assets**, ~~or~~ tangible capital assets or intangible assets from a government to an individual, an organization or another government for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase / sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

.05 This Section does not deal with:

(a) transfers made through a tax system that are authorized through tax legislation;[1]

(b) grants in lieu of taxes;[2]

(c) settlements of lawsuits or other types of legal compensation provided by governments;

(d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments;[3] and

(e) transfers of **non-monetary** assets other than tangible capital assets and certain intangible assets. Examples of transfers of non-monetary assets that are excluded from the scope of the Section are: transfers of purchased natural resources ~~or purchased **intangibles**~~, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures.[4] [Footnote 4 - In accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1202, ~~all~~ certain **intangibles** that have ~~been developed or have~~ not been purchased, natural resources and Crown lands that have not been purchased, as well as works of art and historical treasures, are not recognized as assets in government financial statements.]

…

.11 The recognition requirements for transferring and recipient governments apply equally to operating transfers, capital transfers, a transfer for acquiring or developing intangible assets and transfers of tangible capital assets and/or intangible assets.

…

.14 The transfer of a tangible capital asset and/or intangible asset is recognized as an expense by a transferring government at the net book value of the tangible capital asset and/or intangible asset transferred.

…

.23 Obligations are not recognized as liabilities unless they meet the three characteristics of liabilities in LIABILITIES, Section PS 3200. Depending on the circumstances, an obligation may or may not arise in relation to:

(a) an operating transfer;

(b) a capital transfer for the purpose of acquiring or developing a tangible capital asset;

(c) a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years; ~~or~~

(d) a transfer of a tangible capital asset that is to be used to provide services for a defined number of years~~.~~;

(e) a transfer for the purpose of acquiring or developing an intangible asset;

(f) a transfer for the purpose of acquiring or developing an intangible asset for use in providing services for a defined number of years; or

(g) a transfer of an intangible asset that is to be used to provide services for a defined number of years.

In each case, a recipient government would examine the transfer stipulations and its own actions and communications related to the transfer as described in paragraphs PS 3410.20-.22 to determine if they create an obligation that meets the definition of a liability in LIABILITIES, Section PS 3200. If a liability is created, those same transfer stipulations and recipient government actions and communications, if any, would define the terms of the liability and thus would be examined to determine the timing of revenue recognition of the transfer for the purposes of paragraph PS 3410.26.

.23A If it is determined that receipt of the transfer gives rise to a liability, the liability arising from:

(a) an operating transfer would be presented as a financial liability;

(b) a capital transfer for the purpose of acquiring or developing a tangible capital asset would be presented as a financial liability;

(c) a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would:

(i) initially be presented as a financial liability, when the capital transfer is received; and

(ii) then be reclassified to a non-financial liability as the tangible capital asset is acquired or developed;

(d) a transfer of a tangible capital asset that is to be used to provide services for a defined number of years would be presented as a non-financial liability~~.~~;

(e) a transfer for the purpose of acquiring or developing an intangible asset would be presented as a financial liability;

(f) a transfer for the purpose of acquiring or developing an intangible asset for use in providing services for a defined number of years would:

(i) initially be presented as a financial liability, when the transfer is received; and

(ii) then be reclassified to a non-financial liability as the intangible asset is acquired or developed;

(g) a transfer of an intangible asset that is to be used to provide services for a defined number of years would be presented as a non-financial liability.

…

.26 Depending on the circumstances and evidence used to support the initial recognition of a transfer as a liability in paragraphs PS 3410.19-.22, the timing of the revenue recognition of the transfer would be as the related liability is settled. Thus revenue recognition may occur:

(a) as the transfer stipulations are met; or

(b) in accordance with the recipient government's actions and communications that determined the use of the transfer, which are consistent with the substance and intent of the transfer stipulations.

For a capital transfer and/or a transfer for acquiring or developing intangible assets, in either of case (a) or (b) revenue recognition may occur over the related asset's useful life or over a lesser period depending on the terms of the liability.

.27 A transfer of non-depreciable assets such as land and/or non-amortizable intangible assets would be recognized as revenue when received or receivable under the recognition principles of this Section.[8] A capital transfer relating to non-depreciable assets such as land would only meet the definition of a liability until the asset is acquired. At the date of acquisition the capital transfer would be recognized in revenue. A transfer for the purpose of acquiring or developing an intangible asset with an indefinite useful life would only meet the definition of a liability until the asset is acquired or developed. At that date the transfer would be recognized in revenue. [Footnote 8: TANGIBLE CAPITAL ASSETS, Section PS 3150, and INTANGIBLE ASSETS, [proposed] Section PS 3155, prescribes the value at which to recognize a contributed tangible capital asset and intangible asset, respectively.]

…

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.39 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended paragraphs PS 3410.04-.05, PS 3410.11, PS 3410.14, PS 3410.23-.23A, PS 3410.26-27 and the non-monetary assets definition in the GLOSSARY. The amendments are applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

GLOSSARY

….

Non-monetary assets are assets that are not monetary. Examples are inventories, investments in common stock, ~~and~~ tangible capital assets and intangible assets.

INTER-ENTITY TRANSACTIONS, Section PS 3420

…

.04 The following terms are used in this Section with the meanings specified:

(a) **Carrying amount** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the provider, after adjustments, if any, such as for amortization, impairment, or changes in the fair value. For a tangible capital asset, the carrying amount is the net of cost and accumulated amortization. For an intangible asset, carrying amount is the net of cost and any accumulated amortization and accumulated impairment losses. For other assets, the carrying amount may be the net of cost and valuation allowances or fair value, as appropriate.

…

.09 If inter-entity transactions involve the transfer of assets or liabilities, both entities would recognize the transactions. The provider would remove the assets or liabilities from its financial statements and any difference between the net proceeds received, if any, and the carrying amounts transferred would be accounted for as a revenue or expense in the statement of operations. The recipient would recognize assets or liabilities in its financial statements when the items satisfy the definition and recognition criteria for an asset and liability in Chapters 8 and 9 of the Conceptual Framework. ~~A transferred asset that has initially been recognized by a public sector entity as a purchased intangible in applying PUBLIC SECTOR GUIDELINE PSG-8, Purchased Intangibles, continues to be recognized as a purchased intangible by the recipient. [1] [Footnote 1: These inter-entity transactions do not give rise to a purchased intangible eligible for asset recognition in accordance with PSG-8:~~

~~(a) A non-purchased intangible of one entity in a reporting entity is transferred to another entity within the same reporting entity.~~

~~(b) A developed intangible of one entity in a reporting entity is transferred to another entity within the same reporting entity.~~

~~(c) A non-purchased or developed intangible of the reporting entity transferred to a party outside the reporting entity and subsequently purchased by an entity within the reporting entity.]~~

…

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.26 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended paragraphs PS 3420.04(a) and PS 3420.09. The amendments are applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

Section	General applicability	Applies to GNFPOs with relevant transaction or circumstances	Limited or no applicability to GNFPOs
PS 3150, TANGIBLE CAPITAL ASSETS			X[7]
PS 3155, INTANGIBLE ASSETS	X		

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

…

.06 INTANGIBLE ASSETS, [proposed] Section PS 3155, issued in [month, year], amended the table underneath paragraph .04. The amendment is applicable at the same time as [proposed] Section PS 3155, for fiscal years beginning on or after April 1, 2030.

Public Sector Guideline (PSG) 8, *Purchased Intangibles*

PSG-8 would be withdrawn from the PSA Handbook and replaced with INTANGIBLE ASSETS, proposed Section PS 3155.

BASIS FOR CONCLUSIONS

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Introduction

BC.01 This Basis for Conclusions summarizes the considerations PSAB made in reaching its conclusions on developing its Exposure Draft, “Intangible Assets, Proposed Section PS 3155.”

BC.02 Prior to approving a final standard, PSAB will review and deliberate responses to the Exposure Draft.

Background

BC.03 In 2022, PSAB conducted a Work Plan Consultation to gather feedback from interested and affected parties on potential projects PSAB should consider adding to its technical agenda. Respondents to the Work Plan Consultation voted for a major technical project on intangible assets as a top priority. Many respondents also indicated a need for accounting guidance for cloud computing arrangements (CCAs) within the preferred Intangible Assets project.

BC.04 In September 2023, PSAB approved the Intangible Assets project.

BC.05 The first output of the project is a new intangible assets standard for the PSA Handbook. This allows PSAB to fill a gap for foundational guidance on intangible assets in the PSA Handbook. The second output will be the development of accounting guidance for CCAs within the Canadian public sector. To assist with the development of the accounting guideline, PSAB has issued a survey to obtain information in relation to CCAs in the public sector. Some CCAs may include an intangible assets element while others may not.

BC.06 In developing the intangible assets standard, the principles of IPSAS 31 have been adapted in accordance with PSAB’s International Strategy and the “Criteria for Modifying and Reviewing IPSAS Principles,” which state that PSAB will make amendments to an IPSAS principle if:

(a) it is contrary to PSAB’s Conceptual Framework; and

(b) PSAB finds the principle is not appropriate for application in Canada based on the Canadian public interest.

BC.07 The bolded paragraphs in an IPSAS are considered to be IPSAS principles.

BC.08 This Basis for Conclusions focuses on where PSAB amended IPSAS 31 principles and provides the rationale for those amendments. Amendments were also made to non-bolded paragraphs to increase understandability and to be consistent with the principle it relates to.

BC.09 PSAB recognizes that the International Accounting Standards Board (IASB) has started a project that will update its intangible assets standard (IAS 38 *Intangible Assets*), which is the foundation for IPSAS 31. This may trigger the International Public Sector Accounting Standards Board (IPSASB) to update IPSAS 31 in the future. Further, IPSASB has signaled that it intends to do a limited-scope project related to IPSAS 31. When both of these projects are complete, PSAB may consider adding the updates to its intangible assets standard to its future technical agenda. For now, PSAB is concerned with developing an intangible assets standard that will fill a gap in the PSA Handbook and will provide foundational guidance for the accounting of intangible assets.

Using IPSAS 31 Principles

BC.10 In adapting the principles included in IPSAS 31, PSAB needed to make certain amendments in addition to those related to the Criteria for Modifying IPSAS Principles, in order to be consistent with the terminology used or the guidance available in the PSA Handbook. Appendix A includes some of the terminology differences and changes. Further, PSAB needed to remove references to other IPSAS within the intangible assets standard. These references were either replaced by equivalent standards in the PSA Handbook or with the required guidance. Refer to Appendix B.

Scope

BC.11 IPSAS 31 includes two principles related to scope. The first scope principle (i.e., paragraph 2 of IPSAS 31) signals that entities that apply accrual accounting need to apply the standard.

The second scope principle (i.e., paragraph 3 of IPSAS 31) notes the intangible assets that IPSAS 31 does not apply to.

BC.12 With respect to the first scope principle in IPSAS 31, PSAB decided not to include it in its Exposure Draft on intangible assets. IPSASB issues IPSAS dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. This necessitated the clarification in paragraph 2 of IPSAS 31. This clarity is not required in PSAB's intangible assets standard, as the standards in the PSA Handbook are prepared on the "accrual basis of accounting". This modification was made so that the guidance in PSAB's intangible assets standard is consistent with the guidance in the PSA Handbook.

BC.13 With respect to the second scope principle in IPSAS 31, PSAB decided to include it with a few modifications, as it was important to clarify which items PSAB's intangible assets standard would not apply to.

BC.14 PSAB decided not to include "deferred tax assets" as a scope exclusion since deferred tax assets are not relevant for the Canadian public sector entities applying the PSA Handbook. TAX REVENUE, Section PS 3510, does not provide guidance for deferred tax assets as defined in paragraph 5 of IAS 12 *Income Taxes* (i.e., "the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits"). In contrast, Section PS 3510 provides accounting guidance for the treatment of taxes received in advance of the past event that gives rise to the government's control of the asset (e.g., prepaid tax assets). This scenario is conceptually different than the circumstances that give rise to a deferred tax asset described in IAS 12. Hence, mentioning the scope exclusion for deferred tax assets was not considered relevant for the Canadian public sector entities applying the PSA Handbook. The modification is in line with the second criteria for modification (i.e., PSAB will amend a principle if PSAB finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest).

BC.15 On the other hand, PSAB decided to keep the scope exclusion related to "deferred acquisition costs, and intangible assets arising from an insurer's contractual rights under insurance contracts"[8], even though they are unique to the insurance industry, as it has come to PSAB's attention that a limited number of public sector entities that follow the PSA Handbook recognize such items. As a result, it was important to retain this scope exclusion.

BC.16 PSAB also decided to include "inventories" and "assets available for sale" to the paragraph. IPSAS 31 includes these items in paragraph 6, where it lists all the standards in the IPSASB Handbook that recognize intangibles and, as a result, are excluded from the Section. Since the PSA Handbook does not have a separate Section on inventories or assets available for sale, PSAB concluded that it was still important to exclude them from the intangible assets standard and therefore included an exclusion for "intangible assets held by an entity as inventory and/or for sale in the course of its operations". This is not necessarily a modification of an IPSAS principle, but rather a relocation of information from one paragraph to another.

BC.17 IPSAS 31 tells the reader to "see the relevant international or national accounting standard". This has been removed as Sections in the PSA Handbook do not refer to "relevant international or national standards", except for GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150. Section PS 1150 provides guidance as to what to do when the PSA Handbook is silent on the accounting for a particular transaction or other event. This modification allows the intangible assets standard to be consistent with the guidance in the PSA Handbook.

BC.18 Certain Sections of the PSA Handbook provide accounting guidance for certain purchased intangibles. These Sections were noted in PSG-8. These Sections have been reflected in PSAB's intangible assets standard as scope exclusions, as PSG-8 is being withdrawn. The only Section not included was CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230, as the Section will be withdrawn by the effective date of the intangible assets standard.

8 Paragraph 3(i) of IPSAS 31.

BC.19 IPSAS 31 does not address emissions trading schemes. The IPSASB will reconsider, if necessary, the applicability of IPSAS 31 to emission trading schemes. Similarly, PSAB's intangible assets standard does not address emissions trading schemes.

Assets with both tangible and intangible components

BC.20 Paragraph 7 of IPSAS 31 is a non-bolded, non-principle paragraph that provides guidance clarifying the scope of IPSAS 31 and the accounting treatment for assets that have both tangible and intangible components. Particularly this paragraph specifies when guidance included in IPSAS 45, *Property, Plant and Equipment*, is applicable and when IPSAS 31 applies. The paragraph appears to suggest that there are two factors that may be considered when determining the appropriate accounting standard applicable to assets that have both tangible and intangible components:

(a) the significance in value of one component over another; and

(b) how integral the components are relative to one another (as indicated by the examples provided in the paragraph).

BC.21 Amendments were made to this paragraph to confirm the existence of two separate applicable factors in making the determination of which Section and accounting guidance to apply. This does not change practice (from an international perspective). Rather, the amendments were made to only improve the overall understandability of the guidance, without altering any key principles. Also, consequential amendments are proposed to Section PS 3150, to remove references to software in footnote 2.

BC.22 PSAB decided to explain the modifications to this paragraph given its implication to other Sections of the PSA Handbook and to note that the intention is not to change the intended practice of the paragraph (from an international perspective).

Intangible Heritage Assets

BC.23 PSAB decided not to include guidance relating to heritage assets in its intangible assets standard. The description of heritage assets provided in IPSAS 31 appears to closely resemble the description of works of art, historical treasures and/or collections provided in Section PS 3150, except that the description of heritage assets includes assets with environmental significance. Based on this review it was determined that intangible heritage assets, as described in IPSAS 31, potentially include a broader category of assets when compared to the description of the more commonly understood terminology of works of art, historical treasures and/or collections within the PSA Handbook. Furthermore, it was challenging to determine the types of assets that would be classified as environmentally significant. The understanding of environmentally significant assets may also further develop as projects related to natural resources may be added to PSAB's technical agenda.

BC.24 The terminology related to works of art, historical treasures and/or collections is well understood among Canadian interested and affected parties; thus, PSAB did not see the need to amend its terminology within the PSA Handbook at this time.

BC.25 In its Government Not-For-Profit (GNFP) Capital Assets project, PSAB's decisions continued to support the disclosure rather than the recognition of tangible works of arts, historical treasures and/or collections. The guidance provided in IPSAS 31 requires the recognition of intangible heritage assets. Requiring the recognition of intangible works of art, historical treasures and/or collections in PSAB's intangible assets standard was seen as contrary to PSAB's decisions in its GNFP Capital Assets project related to tangible works of art, historical treasures and/or collections. As a result, for consistency, the same decision was made for intangible works of art, historical treasures and/or collections (i.e., intangible works of art, historical treasures and/or collections would only be disclosed and not recognized). Given the challenges associated with determining a reasonable estimate of the future economic benefits associated with such items, PSAB concluded that they should be disclosed in the notes rather than recognized. The modification is in line with the second criteria for modification (i.e., PSAB will amend a principle if PSAB finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest).

Identifiability

BC.26 The concept of "identifiability" is not included in the PSA Handbook. However, it is a necessary criterion to assess the existence of an intangible asset to distinguish it from goodwill. Accordingly, the concept was included in PSAB's intangible assets standard.

Binding Arrangements

BC.27 PSAB retained the concept of "binding arrangement" found in IPSAS 31 as it was in substance similar to the definitions and descriptions of contractual rights and obligations found throughout the PSA Handbook. The concept of enforceability was added for further consistency with the terminology in the PSA Handbook.

Recognition

BC.28 Chapter 9 of PSAB's *Conceptual Framework for Financial Reporting* provides general recognition criteria. To ensure a consistent alignment of PSAB's intangible assets standard to its *Conceptual Framework*, PSAB concluded that modifying the recognition criteria in paragraph 28 of IPSAS 31 was necessary.

BC.29 PSAB replaced the first point in IPSASB's recognition principle (i.e., "it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity") with "the intangible asset meets the definition of an asset". PSAB did this because in order to meet the definition of an asset, it is expected that the future economic benefits related to the asset will be obtained. This modification combines the first two recognition criteria in PSAB's *Conceptual Framework* (Chapter 9). The Basis for Conclusions accompanying PSAB's *Conceptual Framework* notes how there is a redundancy between the first two recognition criteria:

> BC9.08 There is a redundancy between (a) and (b) of the general recognition criteria. Criterion (b), which states "an item, transaction or other event is recognized in the financial statements when… it is expected that the future economic benefits… will be obtained or sacrificed," is considered in criterion (a), which is "the item meets the definition of an element." This is because the definition of an element considers the expectation of obtaining or sacrificing future economic benefits.

Although the redundancy was kept in the *Conceptual Framework*, for the purposes of the intangible assets standard and to reduce the amount of modifications, PSAB decided it was appropriate to replace the first point in IPSASB's recognition principle (i.e., "it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity") with only the first point of the general recognition criteria (i.e., "the intangible asset meets the definition of an asset").

BC.30 PSAB also decided to replace the second point in IPSASB's recognition principle (i.e., "the cost or fair value of the asset can be measured reliably") with "the cost of the asset can be faithfully represented." This is because as noted in Appendix A, in developing its *Conceptual Framework*, and consistent with IPSASB's Conceptual Framework, the term "reliability" has been removed from the *Conceptual Framework* and replaced with "faithful representation" as a qualitative characteristic of the information reported in the financial statements. PSAB's *Conceptual Framework* notes that to recognize an item in the financial statements, "the item, transaction or other event can be measured in a way that satisfies the qualitative characteristics of information and takes into account the related considerations as noted in Chapter 7." However, throughout IPSAS 31, IPSASB focuses on the qualitative characteristic of "reliability" with respect to measuring intangible assets. As a result, PSAB's intangible assets standard focuses on the qualitative characteristic of "faithful representation".

Public Sector Combinations

BC.31 Paragraphs 39A-39E of IPSAS 31 were removed on the basis that these paragraphs describe an acquisition accounting model that does not align with guidance in the PSA Handbook. To include the guidance in these paragraphs, substantial consequential amendments will be required to other sections of the PSA Handbook (i.e., Sections PS 2510 and PS 3070) and such amendments are out of scope for PSAB's Intangible Assets project. Further, as noted in the PSA Handbook, acquisitions are expected to be rare. The modification is in line with the second criteria for modification (i.e., PSAB will amend a principle if PSAB finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest.)

BC.32 As a result of deleting paragraphs 39A-39E of IPSAS 31, references to "acquisitions" in other paragraphs, including paragraphs that are principles, have also been removed where appropriate.

Subsequent Measurement and Current Value

BC.33 IPSAS 31 permits the use of the current value model[9] for the subsequent measurement of intangible assets. This measurement model does not exist in PSAB's *Conceptual Framework*. Accordingly, references to the current value model have been excluded from PSAB's intangible assets standard in line with the first criteria for modification (i.e., PSAB will amend a principle if it is inconsistent with its *Conceptual Framework*).

Impairment Guidance

BC.34 In IPSAS 31, the IPSASB refers to its two stand-alone impairment standards, IPSAS 21, *Impairment of Non-cash-generating Assets*, and IPSAS 26, *Impairment of Cash-generating Assets*, instead of providing impairment guidance within the standard itself. These standards have been effective since April 1, 2006, and April 1, 2009, respectively. These standards were developed for application to all assets, except in the case of select standards that already provided guidance (e.g., IPSAS 11, *Construction Contracts*, and IPSAS 12, *Inventories*). In developing its intangible assets standard, PSAB could not apply a similar strategy to IPSASB in IPSAS 31 in referencing other standards, as the PSA Handbook does not include equivalent guidance to the two stand-alone impairment standards found in IPSAS. Moreover, the PSA Handbook only contains limited guidance with respect to write-downs. Detailed guidance related to assessing if an asset is impaired (an impairment test) or measurement approaches for quantifying impairment losses needed to be provided.

BC.35 In its deliberations PSAB considered the following:

(a) Interested and affected parties have expressed the desire for detailed impairment guidance over the years.

(b) The lack of impairment guidance within the PSA Handbook has contributed to diversity in practice surrounding development of entity-developed accounting policies relating to asset impairment.

(c) Impairment guidance may be viewed as more essential for intangible assets given their non-physical nature or uniqueness. Based on these characteristics more judgment may be required in assessing whether carrying amounts of intangible assets are impaired at the reporting date. An example of such intangible assets in the public sector may include internally generated software assets.

BC.36 Acknowledging the gap in the PSA Handbook and the above factors, PSAB decided to provide interim impairment guidance for intangible assets. The Board decided that developing a new asset standard but not providing impairment guidance would result in incomplete guidance within the standard. Furthermore, the Board has provided interim guidance before, such as in the case

9 Under the current value model, after initial recognition, an asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses.

of developing PSG-8, until a comprehensive project to develop a standard for intangible assets could be undertaken.

BC.37 The impairment guidance being provided is anchored in the historical cost measurement attribute and is consistent with the guidance in the *Conceptual Framework* that indicates that “subsequent to initial measurement: (i) the historical cost of an asset may be adjusted (e.g., for amortization or impairment)”.[10]

BC.38 The guidance being provided is limited and only applicable to intangible assets. PSAB may address the need for any additional guidance related to measurement approaches for impairment losses related to tangible capital assets, additional impairment disclosures and guidance related to other special circumstances as part of a potential future project. The Board would assess adding such a project to its technical agenda as resources become available and if such guidance is identified as a priority by interested and affected parties.

BC.39 IPSAS 21 allows for impairment losses to be reversed as evidenced by certain external or internal factors. The impairment guidance being provided in the proposed Section, PS 3155 was modified to prohibit reversals of impairment loss. This modification ensures alignment of the treatment of impairment losses with the treatment of write-downs as provided in Section PS 3150.

Transitional Provisions

BC.40 PSAB noted that full retroactive application with restatement would create a reporting burden for entities since entities would be required to restate prior-year amounts and assumptions through significant efforts of identifying past data from past transactions, that may no longer be available, complete, or relevant. Further, full retroactive with restatement application would require the entity to assess whether the useful life of an intangible asset was indefinite at the end of each prior period before the effective date of the Section. This exercise requires an entity to make estimates of useful life that would have been made at a prior date introducing the role and risk of hindsight in developing prior-year estimates under the full retroactive application with restatement approach. To provide transitional relief and avoid these issues, PSAB decided that entities could elect to apply this Section to new transactions or other events occurring on fiscal years beginning on or after April 1, 2030, or elect to using a modified retroactive approach where retroactive application with restatement is applied in accordance with PS 2120.06(c), however amounts are measured using information and assumptions that are current at the beginning of the fiscal year in which this Section is first applied.

Consequential Amendments

BC.41 PSAB is proposing a series of consequential amendments including the following:

(a) withdrawing PSG-8 and references to it, as the proposed intangible assets standard replaces PSG-8;

(b) replacing “purchased intangibles” with “intangibles,” as the proposed intangible assets standard allows for the recognition of more than just purchased intangibles;

(c) amending the recognition exclusions (see paragraphs BC.041-.042);

(d) removing the footnote and references to software within Section PS 3150, *Tangible Capital Assets* (see paragraph BC.042); and

(e) incorporating intangible assets within Section PS 3410, as a public sector entity could receive an intangible asset or money to buy an intangible asset from a government in the same way that a public sector entity can receive a tangible capital asset or money to buy a tangible capital asset from a government.

10 Paragraph 9.33(a) of the Conceptual Framework.

BC.42 Although PSG-8 is withdrawn, its contents are included in proposed Section PS 3155. This means that entities that recognized purchased intangibles will continue to recognize these items as proposed Section PS 3155 is applied.

BC.43 The proposed consequential amendments to the recognition exclusions in paragraph PS 1202.079-.080 remove the reference to developed intangibles (that are referred to as internally generated intangibles in proposed Section PS 3155), as proposed Section PS 3155 provides guidance on the recognition of these types of intangible assets. In addition, the proposed consequential amendments include a reference to collections and the applicable disclosure requirements for works of art, historical treasures and/or collections resulting from the amendments to Section PS 3150, *Tangible Capital Assets*, which has the same effective date as the proposed Section PS 3155.

BC.44 PSAB concluded to retain the recognition exclusion related to certain non-purchased intangibles such as wireless spectrum rights, air rights, sea rights and forestry rights for issuers of such rights (refer to paragraph PS 1202.079). It was determined that these non-purchased intangibles relate to powers and rights which do not, in and of themselves, represent assets until an action is taken to invoke such powers and rights (i.e., licenses providing access to resources restricted by powers and rights are sold or transferred to another entity in a non-exchange transaction).

BC.45 Section PS 3150 refers to software and it notes that tangible capital assets include software. Software is included in PSAB's proposed intangible assets standard. As a result, consequential amendments are needed to Section PS 3150 to remove software from the scope of Section PS 3150.

Due Process Requirements

BC.46 As part of its due process procedures, PSAB is required to satisfy itself that the IPSASB followed its own due process in developing IPSAS 31. PSAB has satisfied itself of this.

Appendix A

BC A.01 PSAB's intangible assets standard is adapted from IPSAS 31. The main terminology differences between IPSAS 31 and PSAB's intangible assets standard include the following:

Terminology in IPSAS 31	Terminology in the PSA Handbook
shall	should
Standard	Section
power	ability
financial asset	financial instrument asset
Non-regenerative resources	Non-renewable resources
Powers and/or rights conferred by legislation, a constitution or by equivalent means	Sovereign or equivalent powers and/or rights provided for in the Constitution or devolved or delegated through legislation or bylaws or provided for in accordance with Indigenous laws or rights
Judgement	Professional judgment

Key Amendments to Terminology

BC A.02 There was certain terminology that was pervasive throughout IPSAS 31 that needed to be amended to be consistent with the PSA Handbook. These include the use of "service potential" when referenced with "future economic benefits", "probability" when referenced with "expectation of future economic benefits" and "reliability". The need to amend these terms is further discussed below.

Service potential

BC A.03 In IPSAS 1, *Presentation of Financial Statements*, IPSASB differentiates between "future economic benefits" as referring to assets that generate cash inflows, while "service potential" refers to assets that deliver goods and services in accordance with an entity's objectives but that do not generate cash inflows in guidance provided." The PSA Handbook does not make the same differentiation. Instead, Section PS 3210 notes that the "future economic benefits" embodied in an asset involves the capacity to provide goods or services, to generate future cash inflows or to reduce cash outflows. In this way, the terminology of "future economic benefits" already captures the concept of "service potential", and therefore the terminology of "service potential" does not need to be listed separately and apart from any reference to "future economic benefits". In continuing to uphold PSAB's past deliberation and decision that the terminology of "future economic benefits" already encompasses the concept of "service potential", PSAB decided to remove separate references to "service potential" when used alongside references to "future economic benefits". This allows the terminology in PSAB's intangible assets standard to be consistent with the terminology used in the PSA Handbook.

Probability

BC A.04 The term "probability" is not used in the general recognition criteria found in PSAB's *Conceptual Framework*. Paragraph 9.15 of PSAB's *Conceptual Framework* uses the term "expected" when used to describe "future economic benefits", and acknowledges "the realization threshold for recognition" and the "environment characterized by uncertainty". Furthermore, paragraph 9.16 states that "'expected' is used with its general meaning and refers to that which can reasonably be anticipated or believed based on available evidence or logic but is neither certain nor proved"; and "no numerical value quantifies what the expected threshold would be interpreted to mean" but rather that "qualitative and quantitative evidence is considered when deciding if the inflow or sacrifice of future economic benefits associated with an item is expected to be realized".

BC A.05 In this way, where "expected" is used preceding "future economic benefits," the further reference to the term "probability" is not required, as it is encompassed within the meaning of "expected" as it is used within the PSA Handbook. To be consistent with the terminology used in its *Conceptual Framework*, PSAB decided to remove the term "probability" if it precedes mention of "expected future economic benefits".

Reliability

BC A.06 In developing its *Conceptual Framework*, PSAB decided to replace "reliability" with "faithful representation" as a qualitative characteristic of the information reported in the financial statements. Paragraph BC7.08 of the Basis for Conclusions that accompanies PSAB's new *Conceptual Framework* provides the reasoning:

> The research of other standard setters, such as the IASB and IPSASB, indicates that faithful representation is easier to understand and apply than reliability. Reliability is sometimes confused with verifiability or narrowly interpreted to mean precision. The intent of the qualitative characteristic of faithful representation is to ensure that the information provided in financial statements reflects as faithfully, completely, neutrally and accurately as possible the economic substance of an economic resource, economic obligation, transaction or other event, because these attributes best contribute to the accountability value of the related information.

To be consistent with the terminology used in its *Conceptual Framework*, PSAB replaced the term "reliably" with "faithfully representative" in its intangible assets standard.

Appendix B

BC B.01 PSAB's intangible assets standard is adapted from IPSAS 31. References to other IPSAS were either replaced by equivalent standards in the PSA Handbook or with the required guidance where applicable.

References to Other IPSAS in IPSAS 31	Replacement in PSAB's Intangible Assets Standard
IPSAS 28, *Financial Instruments: Presentation*	FINANCIAL INSTRUMENTS, Section PS 3450
IPSAS 12, *Inventories*	"inventories"
IPSAS 43, *Leases*	-
IPSAS 39, *Employee Benefits*	RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255
IPSAS 34, *Separate Financial Statements*	-
IPSAS 35, *Consolidated Financial Statements*	ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510
IPSAS 36, *Investments in Associates and Joint Ventures*	-
IPSAS 32, *Service Concession Arrangements: Grantor*	PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160
IPSAS 40, *Public Sector Combinations*	INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070 (in only certain circumstances)
IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*	"assets held for sale"
IPSAS 47, *Revenue*	RESTRICTED ASSETS AND REVENUES, Section PS 3100, REVENUE, Section PS 3400, and GOVERNMENT TRANSFERS, Section PS 3410
IPSAS 45, *Property, Plant, and Equipment*	TANGIBLE CAPITAL ASSETS, Section PS 3150
IPSAS 5, *Borrowing Costs*	Replaced with guidance
IPSAS 21, *Impairment of Non-cash-generating Assets*	Replaced with guidance
IPSAS 46, *Measurement*	Replaced with guidance
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	ACCOUNTING CHANGES, Section PS 2120
IPSAS 26, *Impairment of Cash-generating Assets*	Replaced with guidance
IPSAS 50, *Exploration for and Evaluation of Mineral Resources*	-