Forget grandfathering intangibles – IASB chief

Sir David Tweedie, the chairman of the International Accounting Standards Board, has told the Australian business community, politicians and the domestic standard setter that there will be no change to requirements for the derecognition of certain intangible assets.

The IASB chairman went on the attack following recent correspondence from various organisations and individuals such as the Group of 100, a corporate lobby group, asking for changes to the international accounting standard on intangible assets.

Senator Ian Campbell, the secretary to the Federal Treasurer, also wrote a letter asking for some reconsideration of the transitional requirements in the intangibles standard, known as IAS 38, because some Australian companies would experience difficulties if those assets were to fall off the balance sheet in the process of adopting international accounting standards.

Sir David was adamant the requirement to drop internally generated intangible assets from balance sheets would not change. Nobody else was keeping them on, the IASB chief notes, and Australia and New Zealand were the outliers in this area.

This debate dates back to the mid-1990s when the Australian representatives sought to convince the international community that accounting for all assets in the same manner was appropriate.

"It was quite clear that Australia was pretty isolated. Representatives from the UK, Europe and Canada just didn't agree with you," Sir David explains.

He says two major points defeated the Australian view that capitalisation of internally generated intangible assets should be allowed.

The first major objection was that the recognition of the internally generated intangible was effectively booking a company's market capitalisation. A second argument was the reliability of measurement was virtually non-existent. Those two issues effectively sidelined the concept of capitalisation.

"You're capitalising goodwill and, in essence, the company. And the reliability is very bad. It failed the test. That's why the IASC abolished it and that's why the UK abolished it," says Sir David.

First-time adoption of international accounting standards requires companies with large internally-generated intangible asset balances to excise them from the financial statements.

During question time at the Group of 100 dinner held in Sir David's honour, a finance executive from Coca-Cola Amatil put the argument for grandfathering current asset balances pertaining to the intangible assets. Observers tell Chartac the CCA representative was told there was no likelihood of a change.

Sir David also caused a furore in the business community when he painted some Australian reporting practices as being inadequate. He points to the lack of an accounting standard on intangible assets, an absence of guidance on pension accounting and the fact there is no financial instruments standard in Australia as being signs of a weaker framework.

“These are gaps Australia will have filled when it adopts international accounting standards,” Sir David notes.

“I think the issue really is: are you getting a better deal by taking the global set or are you better hanging on to your own one?” Sir David asks.

“You’ve got holes as has the UK in its suite of standards. Financial instruments – you’ll say the standard is complicated but it’s there. You haven’t got one and neither has the UK.”