Intangibles lobbying continues

The Group of 100 is lobbying the Australian standard setter to provide companies with intangibles relief from international requirements to write off identifiable intangible assets.

This attempt to get the Australian Accounting Standards Board (AASB) to change its version of the first-time application criteria follows the unanimous rejection of the Australian board's plea to the International Accounting Standards Board (IASB) for an amendment to the standard on first-time application. AASB chairman David Boymal put the case for Australia via videoconference during the December IASB meeting.

It was during that meeting that the standard setter sought the inclusion of provisions in the first-time application that would have the effect of grandfathering intangible asset balances.

That, according to the corporate lobby group, would have assisted companies that have various tax issues to consider, most notably thin capitalisation.

A failure to secure concessions from the international standard setter has resulted in the Group of 100 recommending the AASB amend its version to permit intangible asset balances to stay on the balance sheet despite the fact that a strict application of international standards would result in financial statements that would not comply with international accounting standards.

'The G100 [Group of 100], in submissions on ED [extractive draft] 109 and IASB ED 3, proposed that the existing treatment of internally generated identifiable intangible assets be "grandfathered" until the outcome of the IASB's project on intangibles is known,' the letter says.

'We believe that the AASB should consider providing relief for those companies for whom the application of IAS [International Accounting Standard] 38 presents particular difficulties with potentially adverse consequences. This could be achieved by the Board permitting an alternative treatment in respect of first-time adoption of IFRSs.'

The Group of 100 sets down a specific proposal for the AASB to consider in its correspondence to the standard board's chairman.

'The Group of 100 proposes that the Board include an alternative treatment in the Australian equivalent of IFRS 1 [International Financial Reporting Standards] under which a company may elect to retain its existing approach to accounting for identifiable intangible assets at the time of adoption of Australian equivalents to IASB Standards,' the Group of 100 suggests.

'Where a company adopted this alternative the quantified financial effect of doing so should be disclosed in the financial report. A consequence of adopting this alternative would be that directors would make the decision to apply this alternative in the knowledge that the company would be complying with Australian Standards but would not then be able to make an unqualified statement of compliance with IFRSs.'

The same letter sets down some of the impacts of having to drop intangibles off balance sheets for at least three members of the Group of 100 in response to a AASB request. All of the examples cited have no name attached.

Company A

- No internally generated identifiable intangibles recognised.
- The revaluation component of purchased identifiable intangibles carried at deemed cost would be derecognised on adoption of IAS 38 with the result that total equity would decrease by approximately $500 million.
- Derecognition would directly impact profits with resultant reduced dividend capacity.

Company B

- Reversion to original cost would result in a write-down of the carrying amount of identifiable intangible assets of $1.68 billion from deemed cost recognised in accordance with AASB 1041.
- Debt–equity ratio would increase from 46% to 96%.
- Reduction in retained profits by $630 million to $500 million approximately would impact capacity to distribute dividends.
- Breaching thin capitalisation rules would impact annual after tax profit by approximately $12 million due to non-deductibility of interest expense.

Company C

- The reversal of previous revaluations and derecognition of internally generated intangible assets would result in a reduction in equity of approximately $1.2 billion and lead to a significant increase in debt–book equity ratios from 63 — 129%.
- Potential negative impacts on debt covenants which may require re-negotiation.
- Potential adverse impacts on credit rating and borrowing costs.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.