

Purpose

To provide guidance on the Accounting Management Manual, with respect to the Group's intangible assets processes.

Scope

This guidance applies to accounting for all intangible assets under control of SGSP (Australia) Assets Pty Ltd (SGSPAA) and/or its controlled entities (SGSPAA Group). This guidance does not apply for Regulatory or Taxation purposes.

Regulatory Framework

For the purposes of this document, the mandatory requirements relating to the accounting treatment of intangible assets in the GL and Financial Statements are established by Australian Accounting Standard **AASB 138 "Intangible Assets"**. Goodwill arising from business combinations is addressed by **AASB 3 "Business Combinations"**.

Guidance

Recognition

AASB138(13)

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.

Internally Generated Intangible Assets

AASB138(54), (55)

No intangible asset arising from the *research phase*¹ of an internal project shall be recognised. Expenditure on research shall be recognised as an expense when it is incurred. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

AASB138(57) (a) – (f)

However, assets arising from the *development phase*² of a project shall be recognised by the SGSPAA Group if **all** of the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;

¹ **Research** is defined as "...original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding..." per **AASB 138 "Intangible Assets"**, paragraph (8).

² **Development** is defined as "...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..." per **AASB 138 "Intangible Assets"**, paragraph (8).

- The Group's intention to complete the intangible asset and use or sell it;
- The Group's ability to use or sell the intangible asset;
- How the Group will use the intangible asset to generate probable future economic benefits (including whether there is a market for the output of the intangible asset);
- The availability of adequate technical, financial and other resources to complete the intangible asset and use or sell it; and
- The Group's ability to measure reliably the expenditure relating to the intangible asset.

AASB138(66) (a) –
(d)

The initial cost of an internally generated intangible asset may include:

- Materials or services used or consumed in generating the intangible asset;
- Employee benefits (per **AASB 119 “Employee Benefits”**) arising from the generation of the intangible asset;
- Fees to register a legal right; and
- Amortisation of patents and licences used to generate the intangible asset.

AASB138(67) (a) –
(c)

However, the following items do not form part of the cost of an internally generated intangible asset:

- Overhead expenditure that cannot be directly attributable to preparing the intangible asset for use (selling and administrative expenses, etc);
- Inefficiencies and initial operating losses incurred prior to the intangible asset reaching its planned level of performance; and
- The cost of training employees to operate the asset.

AASB138(68) (a)

Unless expenditure on an intangible item forms part of the cost of that item that meets the recognition criteria, the expenditure shall be recognised as an expense when it is incurred.

AASB138(71)

Note also, the Standard prohibits the Group from including in the cost of an intangible asset any amount that has previously been recognised as an expense. Amounts capitalised as part of the cost of an intangible asset can, however, be expensed to the profit or loss should the asset no longer meet the recognition criteria discussed above. This indicates that Management should take due care in assessing the potential of a project to generate an intangible asset at the project's inception.

Useful life

AASB138(88)

The SGSPAA Group shall assess whether the useful life of an intangible asset is finite or indefinite. Where finite, the Fixed Asset Accountant along with Management and Financial Reporting shall determine the asset's useful life.

An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

AASB138(94)

Where the intangible asset arises from contractual or other legal rights, the useful life of the intangible shall not exceed the contract period.

Software

The SGSPAA Group owns software licences for a number of products including: SAP; BPC; BI; Microsoft Windows; Quantum and so on. Software is recorded at cost and amortised on a straight-line basis over its useful life.

The useful life to be used for software across the SGSPAA Group is:

- SAP related assets – 7 years, as determined by management
- AMI/ Smart meters – 7 years, in accordance with the Cost Recovery Order in Council (CROIC)
- All other software – 5 years, or as determined by management

Software-as-a-Service (SaaS) Arrangements

In April 2021, the IFRS Interpretation Committee ("IFRIC") published its final agenda decision '*Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)*' which addresses whether configuration or customisation costs relating to Software-as-a-Service ("SaaS") arrangements can be recognised as an intangible asset and if not, over what time period the costs are expensed. The Group's accounting policy has historically been to capitalise certain costs related to cloud computing arrangements as an intangible asset. The adoption of the above agenda decision has resulted in the Group changing its accounting policy and a reclassification of these intangible assets in the Balance Sheet to an expense in the Income Statement.

Under the updated accounting policy, SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets and amortised over the useful life of the software on a straight line basis. Judgement is required to determine whether the additional code meets the definition of an intangible asset. Where the SaaS arrangement supplier provides both the configuration and customisation services, and the SaaS access over the contract term, judgement is required to determine whether these services are distinct or not from each other. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the SaaS contract term (i.e. as a prepayment).

Non-distinct customisation activities significantly enhance or modify a SaaS cloud-based application. Judgement is required in determining whether the degree of customisation and modification of the SaaS cloud-based application is significant or not.

Review

This Guidance will be monitored by the Business Performance team on a regular basis and revised if changes in circumstances indicate that an update is necessary. The review shall include, but is not limited to, cross checking compliance with the Notes to the Financial Statements; and the accounting and regulatory sources referred to in the left hand margin.

Revisions to this Guidance must be approved by the GM Commercial Finance, in accordance with **Approval** below.

GUIDANCE - INTANGIBLE ASSETS

JAA FIN GU 0013



Contacts

Depending on the nature of the enquiry the following personnel will be able to assist:

- Relevant Commercial Finance Team;
- Business Performance Team;
- Financial Accounting Team, Fixed Asset Accountants

Authorisation

Reviewed by

Name	Job Title	Signature	Date
[REDACTED]	Group Business Performance Manager	Reviewed via Email	29 Aug 2022

Approved by

Name	Job Title	Signature	Date
[REDACTED]	GM Commercial Finance	Approved via Email	29 Aug 2022