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BULLETIN

Subject: Capital Treatment of Computer Software Intangibles

Date: March 2010

Pursuant to S. 17 (2) of the Regulation, credit unions are required to deduct identified intangible assets from tier 1 capital. This requirement applies to identified intangible assets purchased directly or acquired in conjunction with or arising from the acquisition of a business. These include, but are not limited to, trademarks, core deposit intangibles, mortgage servicing rights, and purchased credit card relationships.

As a result of recent changes to Section 3064 of the CICA Handbook, *Goodwill and Intangible Assets*, computer software that is an integral part of the related hardware (such as the operating system) is to be treated as property, plant and equipment, while software that is not an integral part of the related hardware is to be treated as an intangible asset effective with fiscal years starting on or after October 1, 2008.

The Office of the Superintendent of Financial Institutions (OSFI) recently issued an advisory for federally regulated financial institutions on the capital treatment of computer software pending future review of the treatment of intangible assets. This was based on OSFI's understanding that computer software intangible assets under Section 3064 are similar to property, plant and equipment (as they are tools used to operate the business and are not capitalized future revenues) and that the treatment of all intangibles for capital purposes is being reviewed by the Basel Committee on Banking Supervision. Future changes to the capital treatment of computer software intangibles may result from this review.

This bulletin confirms that, pending a future review of the treatment of intangible assets:

Computer software now classified as an intangible asset solely due to the requirements of CICA Handbook Section 3064 is not included in the definition of identified intangible assets for DICO reporting purposes and should continue to be included as a capital asset under property, plant and equipment for all monthly and annual filings.

Institutions are asked to contact their Risk Analyst for further information if necessary.