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Better Information on Intangible Assets

Recent Projects on Intangibles

Issues Paper

Objective

- 1 The objective of this session is to provide EFRAG TEG members with an overview of recent projects on intangibles carried out by other organisations.

Other research projects on better information on intangibles assets

- 2 Several other organisations are doing work on intangibles in relation to financial/corporate reporting. The **Korea Accounting Standards Board (KASB)**, in its project *Financial Reporting for Intangibles: Statement of Key Intangibles*, is investigating what would be the ideal way to report on intangible assets.
- 3 Their research focuses on a separate statement showing monetary values for 'key' intangibles (statement of key intangibles - SKI) where the measurement of intangibles would be at market value. The KASB is considering both mandatory and voluntary requirements and that the disclosures will be verified by professionals (but outside the scope of the statutory audit).
- 4 In February 2019, the **UK FRC** published its discussion paper *Business Reporting of Intangibles: Realistic Proposals*. Their research focused on how business reporting might realistically be improved in the near future. The report addresses how narrative reporting outside of the financial statement (including the reporting of metrics) might improve the information provided to investors. Further details are available in Agenda Papers 11-01 – 11-03 for the EFRAG TEG-CFSS July 2019 meeting.
- 5 In December 2018, the **French Autorité des normes comptables (ANC)** presented a sponsored paper *A Fresh Look at Intellectual Capital in the Post-industrial Era*. The report presents an intangible-capital classification based on an empirical approach using text analysis of firms' communication practices.
- 6 In 2019, the **ACCA and Deloitte** published their report *The Capitalisation Debate: R&D Expenditure, Disclosure, Content and Quantity, and Stakeholder Views* focusing at the extent to which companies using IFRS Standards recognise development costs as assets in different countries and in different industries. It investigated the factors that may lie behind the recognition level of internally generated intangibles assets or expensing all the development costs in profit or loss. The report also provided some recommendations on how reporting on R&D might be improved.
- 7 The majority of the companies in the sample in the study did not capitalise R&D at all. The paper indicates that while maintaining the principles-based approach that supports capitalisation, the current criteria in IAS 38 militate against capitalisation. It was suggested that relaxing the criteria for capitalisation could be a way forward.

Recent Projects on Intangibles - Issues Paper

- 8 The research team reached out interviews with stakeholders which confirmed a clear demand for more disclosure, especially when development costs are capitalised. From a user perspective, there was demand for greater, more focused, disclosure balanced against the voluminous nature of corporate reporting. Concern was also raised about the difficulty of meeting the conditions for recognising intangible assets.
- 9 The **Institute of Chartered Accountants of Scotland (ICAS)** has recently started working on a project on intangibles. No further information has been published.
- 10 The **Financial Accounting Standard Board (FASB)** is undertaking a research project on *Disclosure Review—Intangibles*. The objective of the FASB's project is to review current disclosure requirements to improve the financial information in the notes to the financial statements about intangibles.
- 11 Finally, **EFFAS** and its Commission on Intellectual Capital published the *Principles for Effective Communication of Intellectual Capital* in 2008 with the following aims:
 - (a) promote the measurement and disclosure of intangibles assets highlighting the needs of financial professionals, users and investors;
 - (b) promote standardisation of the disclosure format to keep costs to the minimum and facilitate benchmarking; and
 - (c) foster the valuation of the information on intangibles by financial analysts.
- 12 EFFAS also advocated the preparation of a separate intellectual capital report as well as including information on intellectual capital in the management commentary.

Collaboration with other organisations

- 13 The EFRAG Secretariat has contacted the staff of the Australian Accounting Standards Board (AASB), FASB, KASB, and ICAS to discuss the progress in their research projects and to consider possible ways to collaborate.

Question to EFRAG TEG members

- 14 Do EFRAG TEG members have comments on the above initiatives identified by EFRAG Secretariat and how they could provide input for EFRAG's own project?
- 15 Do EFRAG TEG members identify other recent researches on intangibles?

Appendix: Summary of other initiatives

Introduction

1 This appendix summarises the recent researches mentioned in the paper.

Summary

Organisation	Topic	Focus of the research	Timeline
KASB	<i>Financial Reporting for Intangibles: Statement of Key Intangibles</i>	<ul style="list-style-type: none"> Separate statement showing monetary values for key intangibles. Valuation of Intangibles in monetary unit and market value. Options considered: voluntary or mandatory requirement. Verified by professionals (but outside scope of audit). <p><i>Current streams of work</i></p> <ul style="list-style-type: none"> Identification of key intangibles for selected Industries. Preparation of statement of key intangibles 	Actual
UK FRC	<i>Business Reporting of Intangibles: Realistic Proposals</i>	<ul style="list-style-type: none"> Develop 'realistic' proposals using the Conceptual Framework. Build on economic literature concerning the nature of intangibles and address narrative reporting, as well as financial statements. How narrative reporting, outside of the financial statement (including the reporting of metrics), might improve the information provided to investors. 	2019
ANC	<i>A Fresh Look at Intellectual Capital in the Post-industrial Era</i>	<ul style="list-style-type: none"> The report presents an analysis of the selected CEOs letters to shareholders on the main groups of intellectual-capital-related disclosures. It identified the following groups: human, digital, customer, and environmental. 	2018
ACCA	<i>R&D expenditure, disclosure, content and quantity, and stakeholder views</i>	Investigate the factors that may lie behind that asset recognition and suggested some indications as to how reporting of R&D might be improved.	2019
ICAS	<i>Not yet specified – broad area of IAS 38 Intangible Assets</i>	<i>Not yet published</i>	Actual
FASB	<i>Disclosure Review - Intangibles</i>	Review current disclosure requirements to improve the financial information in notes to financial statements about intangibles.	Actual

Recent Projects on Intangibles - Issues Paper

Organisation	Topic	Focus of the research	Timeline
EFFAS and its Commission on Intellectual Capital	<i>Principles for Effective Communication of Intellectual Capital</i>	<ul style="list-style-type: none">• Promote the measurement and disclosure of intangibles assets highlighting the needs of financial professionals, users and investors.• Promote standardisation of the disclosure format to keep costs to the minimum and facilitate benchmarking.• Foster the valuation of the information on intangibles by financial analysts.	2008