

Better information on intangibles

Feedback in response to the public consultation on
EFRAG's Discussion Paper

Joint EFRAG FR TEG and EFRAG SR TEG meeting on 17
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OVERVIEW

Issues with current information

Which way to go?

- Recognition and measurement
- Information relating to specific intangibles
- Information on future-oriented expenses
- Information on risk/opportunity factors affecting intangibles

Issues to be considered

Placement of information

Other suggestions on future steps



Issues with current information

Discussion Paper

- Financial statements do not reflect the underpinning drivers of value for intangible intensive businesses.
- Comparability between internally generated assets and acquired assets.
- Distorted performance measures
 - Return on assets ratios do not provide useful information;
 - Expenses not correctly matched;
 - Statement of performance is hit twice when acquired intangibles are replaced by internally generated intangibles.

Input received

Comments on issues identified

- Many thought the issues identified in the Discussion Paper were relevant and valid. However, some disagreed on some aspects and noted that (see Paper 03-04):
 - Users have generally sufficient information on intangibles (often received from other sources than the financial statements)
 - Financial statements are not losing value relevance because of how intangibles are accounted for
 - IFRS performance figures are not important
 - Acquired assets are different from internally generated
- Some additional issues were mentioned (see Paper 03-04):
 - Problems with the application of current requirements
 - Current requirements are complex
 - IFRIC decision on software does not make sense
 - Insufficient disclosures for intangibles that are not recognised
 - Consequences of the issues
 - Relationship with sustainability



Which way to go?

Which way to go?

Which approach(es)?

Most respondents thought a combination of the approaches should be the way forward. But some favoured only one or two of the approaches.

Types of intangibles

Respondents mentioned a list of factors that distinguish intangibles (and how they should be reported). Including:

- Investment like versus non-investment like
- Complexity related to measurement
- Distinctly observable
- Possibility to disclose expected future performance
- Extent of control
- Part of value creation or a result of the value creation
- Uncertainty regarding product development
- Function in the entity's business model

Phased approach

Some respondents suggested a phased approach. For example, first try to improve disclosures about (unrecognised) intangibles and then consider recognition and measurement at a later stage.

Which way to go?

Recognition and measurement

- Only intangibles that would meet the definition of an asset in the Conceptual Framework for Financial Reporting should be recognised.
- Recognition requirements should be principles based (instead of explicit prohibitions).
- Some types of internally generated intangibles that are currently not recognised should be recognised. For example: software and R&D (that do not meet the current criteria for capitalisation). However, still need for recognition criteria (particularly some users were reluctant to recognise many additional types of intangibles).
- Some support for further exploring conditional recognition under which costs recognised as expenses would be capitalised when criteria for recognition would be met.
- Some support for considering how to better align recognition of intangibles recognised in a business combination with the recognition of internally generated intangibles.
- A majority of respondents preferred measurement at cost.

Which way to go?

Information on specific intangibles

- Most respondents providing a view on the issue agreed with the DP to limit the disclosure to intangibles key to an entity's business model.
- Many supported that the fair values of intangibles should generally not be provided.
- More respondents agreed than disagreed with identified advantages/disadvantages.
- Input on which disclosure would be useful was provided.

Information on specific intangibles

- Most respondents providing a view on the issue agreed that the information was useful – but also some reservations.
- No clear directions on whether information should reflect management's assessment or provide more granular information on expenses to enable users providing their own estimates – or a combination. In polls at outreach events, a combination was preferred.
- Most respondents providing a view on the issue agreed with the identified advantages and disadvantages.

Which way to go?

Information on risks/opportunity factors affecting intangibles

Many agreed with the proposals (including):

- Limiting disclosures to information that is material and specific to the entity.
- Limiting disclosures to information material for the primary users of financial reports.
- Include a description of the risk/opportunity factors that could affect (the contribution of) both recognised and unrecognised intangibles, how it affects the entity (would also require the entity to describe its business model) relevant measures if relevant and how the risk/opportunity is managed and mitigated or taken advantage of.
- Possible location: management commentary.
- Anchor point to the sustainability reporting.

But some noted that:

- Information on risks and opportunities related to intangibles should not be considered separately from other risk and opportunity factors.
- The information should reflect what risks and opportunities the management is managing (the DP proposed risk and opportunity factors that could affect (the contribution of) both recognised and unrecognised intangibles that are material and specific to the entity).
- The information should also reflect risks/opportunities that are general for the industry?



Issues to be considered

Input received

Common terminology

A majority of respondents agreed that it would be useful to introduce a common terminology. Standardisation over different frameworks should enhance comparability.

Sensitive information

A majority of respondents agreed that the preparers should not be required to disclose commercially sensitive information.

Additional issues

The existing process of drafting new European Sustainability Reporting Standards, the work of ISSB and IFRS Sustainability Disclosure Standards, and sustainability reporting in general, should be considered when improving information on intangibles.

Asymmetric treatment of intangible assets between IFRS framework and the prudential framework should be considered.



Placement of the information

Input received

Placement of the information

Some respondents agreed with the DP that information on intangibles that meet the definition of an asset should be placed in the notes, whereas information on other intangibles should be part of the management report.

However, various modifications and/or alternatives to the model were proposed, for example, to only provide information on recognised intangible assets in the notes to the financial statements.



Suggestions – Matters to consider

Input received

Some respondents provided additional suggestions and comments. These included:

- Consider the connectivity with sustainability reporting.
- Further research of the cost/benefit balance of the suggestions is needed together with field tests of the proposals.
- Further research of the application of measurement at cost of internally generated intangibles (including determining the amortisation period, the impairment test and how to account for subsequent expenditures).
- The criteria for when something is 'development' should be reviewed as the criteria included in IAS 38 do not reflect current development processes.
- Requirements for internally generated software should be reviewed.
- The role of prudence/conservatism in accounting should be discussed.
- The concept of 'control' in the IASB's Conceptual Framework' should be reviewed – in particular when applied to intangibles.
- The concept of 'economic benefits' in the definition of an asset should be clarified.
- Consider challenges in relation to auditing the information.
- Consider need for amending IFRS 6 and SIC 32.
- Consider how to account for intangibles acquired in exchange for variable consideration.
- There is a need for cooperation between standard setters and with other professionals such as auditors.



EFRAG FR/SR TEG discussion

Questions for EFRAG FR/SR TEG

Do you have any questions and comments on the summary of input received?



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