Placement of information on intangibles

Issues Paper

Objective

1 The objective of this paper is to ask EFRAG FRB and EFRAG SR TEG members for their views on what information relating to intangibles that should be placed in the financial statements (including the notes to the financial statements) and what information should be placed in the management report (or elsewhere).

2 Placement of information is relevant, from a financial reporting perspective, in relation to the IASB's project *Intangible Assets* which it started earlier this year. The issue on placement of information is also relevant for many other projects such as:

(a) EFRAG's project on connectivity between financial and sustainability reporting;

(b) the IASB's project on climate-related and other uncertainties in the Financial Statements;

(c) the IASB's project on Business Combinations—Disclosure, Goodwill and Impairment; and

(d) the IASB's project on the management commentary.

Background

3 In August 2021, EFRAG issued the Discussion Paper Better Information on Intangibles – Which is the best way to go? (the 'DP'). The DP considered four approaches to achieve better information on intangibles in relation to financial reporting:

(a) **recognition and measurement**. EFRAG presented the view that only intangibles that would meet the definition of an asset should be recognised.

(b) **information on (future oriented) expenses**. For internally generated intangibles that are not recognised, information on future-oriented expenses could be provided to support users' understanding of the value of the entity's unrecognised internally generated intangibles. The information could be provided by either:

(i) requiring further disaggregated information about expenses recognised in a period;

(ii) requiring entity's to specify which expenses recognised in a period that relate to the future;

(iii) a combination of the two approaches described above (which was supported by most).

(c) **information on specific intangibles**. Information on specific intangibles should be provided for both recognised and unrecognised intangibles—including intangibles that do not meet the definition of an asset. Information on specific intangibles would be limited to those intangibles that are key to an entity's business.

(d) **information on risk/opportunity factors affecting intangibles**. The description would be limited to the risks/opportunities that are specific to the entity. The disclosure would include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity and how the risk is managed and mitigated.

General input received

4 Most respondents to the DP supported a combination of the four approaches listed above in paragraph 3 for achieving better information on intangibles. Intangibles are different and accordingly, the best approach for one type of intangibles may not be the best for another type. Considering all the approaches would mean that additional internally generated intangibles should be recognised (and measured) in the statement of financial position. The responses, however, indicated that the number of additional internally generated intangibles that should be recognised should be limited and should in all cases only apply to intangibles that would meet the definition of an asset in the Conceptual Framework. Respondents also indicated that intangible assets used in the entity's operation should generally be measured at cost.

Input on the placement of information on intangibles

5 In its recommendations and feedback statement (in which EFRAG considered the comments received in response to the DP), EFRAG recommended information on risk/opportunity factors being placed in the management report. For the other disclosures considered in the DP, EFRAG received mixed feedback on where they should be located. A few respondents have suggested that the different level of audit requirements may be a

differential factor, as well as the forward-looking nature of some of the disclosures and their interconnection with the information about strategy and business model, which is normally placed in the management commentary. A summary of the feedback received on the location of the information is provided in the Appendix to this paper.

6 At its 25 November 2024 meeting, the EFRAG Academic Panel discussed the placement of information more generally. Several members of the EFRAG Academic Panel considered that the information included in the financial statements should be limited to information on recognised items (and related items such as contingent liabilities (which are liabilities that are not recognised because it is not probable that they will result in a transfer of economic resources or because it cannot be measured with sufficient reliability)).

Question for EFRAG FRB and EFRAG SRB members

7 What information on intangibles do EFRAG FRB and EFRAG SRB members consider should be placed in the financial statements (including the notes) on intangibles, and what information should be placed elsewhere (e.g., should the financial statements only include information on recognised intangible assets)?

8 More generally, which information should be included in the financial statements (including the notes to the financial statements) and what information should be placed in the management report?

Appendix 1: Comments received on the placement of information on intangibles

1 EFRAG received 30 comment letters and completed surveys in response to its DP.

2 In their comment letters to EFRAG DP, two preparer organisations, three standard setters, two user organisations, and one preparer, thought that information on recognised intangibles should be placed in the notes, whereas information on unrecognised intangibles should be part of the management commentary. They also explained that:

(a) The location of such information is important because different auditing requirements apply.

(b) The disclosures on unrecognised intangibles should be placed close to the sustainability report.

(c) One standard setter explained that the placement should depend on the nature of the information and function of the notes and management commentary respectively.

(d) More important than accumulating the information in one place is linking the information on intangible assets in the balance sheet, P&L/statement of financial performance, notes, and management commentary from a holistic perspective; new challenges arise in this respect in the context of emerging sustainability reporting.

3 On the other hand, an association of accountants commented that dividing the disclosures between recognised assets and other intangibles did not seem the right approach. Furthermore, their suggestions were as follows:

(a) The accounting policy, judgements and analysis of intangible assets, their amortisation etc. should be in the notes to the financial statements.

(b) The further largely non-financial information about all or specific intangibles should be in the management commentary together with the risks and opportunities related to them. This seems more likely to lead to a more coherent discussion of intangibles in the context of other requirements for the management commentary such as the business model, the overall discussion of risks, strategy, and performance measures.

(c) Disclosure of future-oriented expenses would seem to naturally fit in the financial statements, the degree of management judgement applying to them would mean their being better disclosed in the management commentary.

4 Other presented alternative views:

(a) One preparer thought that information on specific intangibles should be provided in conjunction with the explanation of the entity's business model in the management commentary (as the description of the business model is not related to a specific asset). Information about future-oriented expenses should be placed in the management commentary because it is information about the future.

(b) One standard setter recommended disclosing on a specific section with cross reference to other sections of the financial report because it is easy to access.

(c) Another standard setter thought that although some intangible resources are intrinsic to sustainability matters and will be part of sustainability reporting (for example employees' loyalty and motivation or the quality of the relationship with the customers), it would be more useful for the users of the financial statements to find the complete information of intangibles inside the notes.

(d) One association of academics, one business reporting network, and an organisation of preparers explained that ideally, all information regarding intangibles should be usefully positioned in one place or at least in well determined places of the corporate annual report.

(e) A user organisation explained that different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed mainly in the notes to the financial statements. Nevertheless, some pieces of information related to the business model and the liaison with the intangibles could be placed into the management commentary as part of a further explanation by managers.

(f) Respondents commented that in the European Union, sustainability standards and legislation may settle some of the placement issues.

(g) One standard setter preferred, for financial valuations and the supporting metrics to create the valuations, to have the information in a specific intangibles section of the management commentary.

(h) One user believed that placement is less important than disclosure itself.

(i) An individual was indifferent regarding placing this information provided that the information is accurate and transparent.

(j) One standard setter, noted that its stakeholders commented that having the information in the financial statements (including the notes) as opposed to in management commentary gives the information greater prominence, and because it will then have to be audited it will give users greater confidence in the information reported.

5 Other proposed models include:

(a) Depending on the nature of the intangible disclosures should be placed in the notes of the financial statement if they are related to:

(i) intangible assets recognised in the statement of financial position; and

(ii) intangibles not recognised but that are controlled by an entity; for which ownership rights are relatively clear and for which markets exist (generally they can be bought and sold) or resulting of potential business combinations between group entities for which there is a reliable fair value.

For other intangibles, the information should be placed in the management commentary.

(b) Splitting disclosures should be based on the following approach:

(i) Historical financial information should be in the financial statements.

(ii) Future-oriented information and value creation should in principle be in the management commentary.

(c) One standard setter thought that the placement of the information should depend on the characteristics and nature of the information. If the information would be related to the financial information, it should be disclosed in the notes to the financial statements. If it would relate to the business plan or future development, it should be disclosed in the management commentary or sustainability reporting.

(d) Some members of the EFRAG IAWG considered that additional disclosures should be in the notes (rather than the management commentary) as it obliges management to tie this information with the financial statement figures and provides more robustness.

6 An association of academics believed that a possible overall solution will likely be provided by the digitisation of IFRS (and sustainability) annual reports, which will allow users to assemble intangibles-related data in the way they consider most useful for their analyses and decision-making processes. In this respect, the placement of this category of information can be seen as a second-order issue owing to the widespread use of XHTML digital format together with the XBRL as mark-up language.

7 Furthermore, seven respondents provided no specific response to the question.

8 The academic study supported by EFRAG, EFFAS and ICAS concluded that there is a preference for including information in only one document. Most users also preferred the information to be placed in supplementary notes to the financial statements, followed by integrated reports and non-financial reporting statements.

9 The view was expressed that the scope of the information provided should be considered when determining where the information should be placed. A bit more information on intangibles could be included in the notes to the financial statements (and required by a revised IAS 38) whereas some narrative information could be provided in the management commentary (and regulated by guidance on this).

10 A concern expressed on including all information on intangibles and sustainability in the management commentary was that it would make the management commentary very long. Similarly, the view was expressed that if everything would be included into any report to satisfy all external requirements, it would overwhelm both users and preparers.

11 Like the preliminary view expressed in the DP it was also argued that the financial report should only include information on assets and liabilities that would meet the definitions of elements in the primary financial statements included in the Conceptual Framework – and the various risks and opportunities that could have a direct impact on these assets and liabilities. Other types of intangibles should be presented elsewhere.