



Discussion Paper

Better Information on Intangibles Which is the best way to go?

RECOMMENDATIONS AND FEEDBACK STATEMENT

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DISCUSSION PAPER

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Introduction

In August 2021, EFRAG issued the Discussion Paper [Better Information on Intangibles – Which is the best way to go?](#) (the ‘DP’). EFRAG requested comments by 30 June 2022.

This ‘Recommendations and Feedback Statement’ includes EFRAG’s tentative recommendations for the forthcoming IASB project and future developments of IFRS requirements, together with a summary of the feedback received from the DP consultation.

[A comprehensive summary](#) is provided as a supplement to this Recommendations and Feedback Statement.

Why EFRAG issued a Discussion Paper on intangibles

In 2018, following the input received from the EFRAG research agenda consultation, EFRAG decided to add a research project to its agenda on better information on intangibles. The DP was the result of this project. The DP analysed different approaches to obtain better information on intangibles, based on input from members of the EFRAG Advisory Panel on Intangibles, without providing recommendations on the selection of any particular approach. The scope of the research addressed ‘intangibles’ which are defined broadly as intangible sources of possible economic benefits. This included items that would not meet the definition of an asset in the IFRS literature. The DP only considered information to be included in the financial statements (including the notes) and the management commentary (in a European context the management report). The approaches presented, focused on how to provide better information on intangibles used in the entity’s operations. The scope was limited to cover information that serves the needs of the primary users of financial reports.

EFRAG recommendations for future IFRS developments

In its [response](#) to the IASB’s [Request for information: Third Agenda Consultation](#), EFRAG recommended that the IASB should undertake a comprehensive assessment of IAS 38 *Intangible Assets*, including the recognition and measurement requirements, with the aim to:

- better reflect the ever-increasing importance of intangibles in today’s business models;
- improve comparability between companies that grow organically with those that do so through acquisitions; and
- address emerging types of transactions and assets, including emissions trading rights and crypto-assets.

In the subsections below, EFRAG has included tentative recommendations based on input received in response to its DP. The tentative recommendations are intended as an input the IASB can consider in the forthcoming standard-setting project on intangibles when considering recognition, measurement and disclosure requirements related to intangibles used in the entity’s operation. EFRAG’s tentative recommendations are meant to stimulate the international standard-setting debate on a priority topic and, as such, can also be considered by any other national standard setter that is addressing the issue in its agenda in the near term.

As noted above, the recommendations are tentative positions and do not necessarily reflect EFRAG's future positions; they reflect the outcome of the public consultation on the DP and subsequent deliberations but have not been exposed for comments.

Consistent with the DP, the term 'intangibles' refers to intangible sources of possible economic benefits. This includes items that would not meet the definition of an asset in the IFRS literature. In addition, following the scope of the DP, the tentative recommendations consider information to be provided in the primary financial statements, including the notes, and a management report similar to the type currently required in the European Union by implementation of Directive 2013/34/EU of the European Parliament and of the Council (in this statement referred to as a management commentary).

As the DP focuses on how to provide better information for intangibles used in the entity's operations, the tentative recommendations do not (necessarily) apply to intangibles used for other purposes, such as trading or investment. In addition, the tentative recommendations focus on the needs of the primary users of financial reports.

Summary of tentative recommendations

In summary, based on the outcome of the public consultation, EFRAG tentatively recommends to:

Scope of IAS 38

- Consider and clarify the scope of IAS 38 (including what types of intangibles IAS 38 should include; when something is an intangible asset; and how to distinguish between assets covered by IAS 38 and other IFRS Standards).

Approaches for different types of intangibles

- Consider a combination of all the different approaches described in the DP to obtain better information on intangibles. Intangibles differ. The most suitable approach to obtaining better information on one type of intangibles could therefore be very different from the best approach to obtaining better information on another.

Application guidance

- Consider providing application guidance on, for example, recognition requirements and when capitalisation of costs should end for intangible assets that are being continuously developed.

Interconnection with sustainability reporting

- Take into account the developments in sustainability reporting – including taking into account the borders between financial reporting and sustainability reporting and the interconnection between the two dimensions.

Phased approach

- Apply a phased approach so that some improvements can be introduced in the short term.

Recognition

- Allow to recognise in the statement of financial position only those intangibles that meet the definition of an asset in the *Conceptual Framework for Financial Reporting* (the 'Conceptual Framework'), and certain recognition criteria. The application of the definition of an asset in the Conceptual Framework and revised recognition criteria might allow for recognition of a broader but still selective scope of internally generated intangibles.
- Review the recognition criteria of IAS 38, including whether or not the rationales for prohibiting certain intangible assets being recognised still apply. If the prohibitions for recognising certain intangible asset were to be removed, the IASB could reflect on whether guidance could be developed on how the concept of control could be applied to internally generated intangibles.
- Consider applying a conditional recognition approach. This approach, associated with the use of a cost-based measurement, would result in intangible assets being initially measured at their total cost and not only the cost incurred after the recognition criteria are met.

Measurement

- Consider whether the revaluation model in IAS 38 should be kept or whether an intangible asset that would not be measured at cost should be accounted for using another approach. For intangibles that are used in the entity's operation, EFRAG assesses that the guidance on measurement included in the Conceptual Framework would generally result in measurement at cost – but EFRAG acknowledges that there could be exceptions to this.

Enhanced disclosures

- Require information on intangibles that are key to an entity's business model to be provided even for intangibles that are not recognised in the statement of financial position. The information should be linked with the entity's performance and be useful for both assessing the amount, timing and uncertainty of future net cash inflows to the entity and the management's stewardship of the intangible asset.
- Developing disclosure requirements on (future-oriented) expenses. This would entail determining the appropriate type of disclosure. Primarily, whether the information should include the management's assessment of which expenses are future-oriented, or whether the information should solely be based on more disaggregated information on expenses recognised in a period, or a combination of these approaches.

Commercial sensitivity

- Consider providing an exemption to the disclosures requirements in specific circumstances to ensure that entities will not be required to provide information that is commercially sensitive.

These tentative recommendations are further explained below.

Scope of IAS 38

Currently, issues arise when reporting under IFRS as in some cases it appears unclear what is covered by the scope of IAS 38. Accordingly, as part of a revision of IAS 38, EFRAG recommends the IASB

clarify the scope of the Standard. This would include clarifying, and perhaps reconsidering, what types of intangibles it should include (e.g., whether it should include crypto assets); when something is an intangible asset; and how to distinguish between assets covered by IAS 38 and other IFRS Standards such as IFRS 16 (e.g., how to distinguish between a ‘right-to-use’ and other types of rights for some type of performance).

Approaches for different types of intangibles

As intangibles (including both intangible assets and other intangibles that do not meet the definition of an asset) are different, EFRAG recommends that all the three main approaches considered in the DP are used to achieve better information on intangibles. The various approaches are listed below. Which types of intangibles would be covered by the approaches is explained as are examples of information that would be provided.

Recognition and measurement: EFRAG is of the view that recognition and measurement should only be applied to intangibles that would meet the definition of an asset in the IASB’s Conceptual Framework and would also meet certain recognition criteria. The subsection on recognition below, further outlines the directions for recognition of certain internally generated intangibles.

For intangibles used in the entity’s operations, EFRAG considers that the guidance on measurement included in the Conceptual Framework would generally result in these being measured based on their cost. Recognition and measurement based on cost provides information on:

- amounts invested;
- margins – by matching income with an approximation of related expenses through amortisation; and
- impairment losses.

For recognised intangibles, disclosures in the notes to the financial statements similar to those currently required under IAS 38 should also be provided.

Information on expenses: For internally generated intangibles that are not recognised, information on future-oriented expenses could provide information to support users’ understanding of the value of the entity’s unrecognised internally generated intangibles. The term ‘future-oriented expenses’ is used for expenses that could be considered to relate to benefits that will be recorded in future periods (e.g., in some cases this could be marketing expenses related to increasing an entity’s market share). According to the DP, information on ‘future-oriented expenses’ can either be provided by disclosing the recognised expenses the management considers relate to benefits of future periods or by providing further specifications and breakdown of the expenses of a period to help users perform their own assessment on the recognised expenses that relate to benefits of future periods. A combination of the two approaches would also be possible. The information provides insights on the amount invested in the growth of the entity. This insight is not only useful as an indication of the entity’s future development. The insight can also be used to estimate ‘no growth’ profit margins – that is how the margins would have been had there been no expenses related to growth. These margins, when compared to the margins of similar entities, can provide an indication of the value of all the intangibles of an entity. The information would not necessarily provide information that can be linked to a particular intangible. In addition, unlike recognition and measurement, the disclosure will also not result in future income being matched with an approximation of related expenses, and the information would not provide information

on the effectiveness of the investment in the current period. The information can, however, provide an understanding of e.g., the entity's business model when the information is provided on a disaggregated level (see below). EFRAG acknowledges that there would be operational complexities and costs with the approach. For example, it could be challenging to provide guidance on – or for an entity to operationalise – which expenses would be future-oriented, should the approach under which the management would have to provide its assessment be introduced. Similarly, EFRAG acknowledges that disaggregated disclosures about current expenses may result in extra operational costs. However, as it appears from the summary of the feedback EFRAG received on Question 6 of the DP, the majority of the respondents expressing a view on the matter, considered the information to be useful.

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 should be used to supplement recognition and measurement and information on expenses. The disclosure would provide information to understand the entity's business model; for assessing the amount, timing and uncertainty of future net cash inflows to the entity linked to the specific intangible; and for assessing the management's stewardship of the intangible.

Information on specific intangibles would be limited to those intangibles that are key to an entity's business. The threshold 'key to an entity's business model' is higher than the materiality threshold (used for recognition and measurement and information on expenses). Identification of the intangibles that would be key to an entity's business model could be carried out by applying the concept of the six capitals used in integrated reporting.

The information that should be provided for the intangibles that are key to the entity's business model should be provided applying a materiality threshold (following the description in paragraph 2.11 of the Conceptual Framework). The information can be quantitative (including KPI's), qualitative or both. Accordingly, if quantitative information cannot be provided, qualitative information should be provided.

Based on the input received in response to the DP, EFRAG is currently not providing a view on whether information on specific intangibles should be placed in the notes to the financial statements or in the management commentary (see 'Placement of disclosures' below).

Application guidance

As mentioned above, current issues arise because of uncertainty on, for example, which items would be considered intangible assets and hence be covered by IAS 38. To deal with this issue and other application issues (including recognition requirements and when capitalisation of costs should end for

intangible assets that are continuously developed), EFRAG recommends that the IASB consider whether it could be useful to develop application guidance in relation to a revised IAS 38.

Interconnection with sustainability reporting

The DP proposed that information on risk/opportunity factors affecting intangibles should be provided. In the DP it was noted that these intangibles may or may not be recognised and/or it may, or it may not, be possible to specify which intangible(s) the information is related to. The disclosure would require the entity to describe its business model. 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. An assessment would be provided on the materiality of the risk/opportunity based on the probability of its occurrence and the expected magnitude of the impact. A majority of the respondents expressing a view on the issue, supported these disclosures.

The DP noted that there could be risks and opportunities related to sustainability that could also become useful for the primary users of the financial reports.

In this regard, EFRAG notes that information on intangibles will not only be found in the financial statements but also in relation to sustainability information, for intangibles that are linked to sustainability matters. Much is currently taking place in this area. To improve information on intangibles in a broader corporate reporting perspective, the efforts in the standard setting of both financial reporting and sustainability reporting should be coordinated to ensure the information required under the two regimes would be complementary and not overlapping.

To consider the interconnection between financial reporting and sustainability reporting, EFRAG has initiated a project on the connectivity between these regimes. The findings, suggestions and recommendations of this project will be relevant for the IASB.

EFRAG considers that the information on risk and opportunity factors could be relevant in relation to the IASB's project on the management commentary. EFRAG is looking forward to working with the IASB on this project.

Phased approach

In order to improve the information on intangibles in the medium term rather than in the very long term, EFRAG recommends the IASB apply a phased approach under which the IASB can introduce stepwise improvements. Under a stepwise approach either:

- disclosure requirements; or
- recognition and measurement requirements

could be considered before considering other requirements. In the paragraphs below, EFRAG therefore provides its recommendations for these main areas.

Recognition

Based on the feedback received, EFRAG considers that a comprehensive review of the scope (see above) and recognition principles in IAS 38 is likely to be more effective than an asset-by-asset approach for emerging new assets which did not exist and were not considered when IAS 38 was developed. EFRAG considers that it is important to appropriately scope the project in order to address new (and future) technological developments given the emergence of new technologies and business processing solutions.

Firstly, based on the feedback received, EFRAG recommends that only intangibles that meet the current definition of an asset in the Conceptual Framework should be considered for recognition (referring in particular to the existence of a resource/right controlled by the entity with the ability to generate future economic benefits). In that regard, EFRAG also recommends that, as part of its project, the IASB addresses the inconsistency resulting from IAS 38 referring to a definition of an asset included in a replaced version of the Conceptual Framework. The definition of an asset in IAS 38 does thus not correspond to the definition included in the current Conceptual Framework.

Based on the feedback received, EFRAG recommends the IASB consider whether the rationale for including some explicit prohibitions in IAS 38 to recognise a number of internally generated intangibles would still be relevant. The prohibitions that should be re-considered are:

- a) the prohibition in paragraph 63 of IAS 38 of recognising internally developed intangibles such as brands, mastheads, publishing titles, customer lists and items similar; and
- b) the prohibition of recognising expenditure on training staff, selling and administration (paragraph 69 of IAS 38).

The IASB's reconsideration of these prohibitions does not mean that they would be removed.

It was noted that the recognition of items in a) is prohibited on account of the fact that the cost of generating an intangible asset internally is "*often difficult to distinguish from the cost of maintaining or enhancing the entity's operations*". Recognition of items in b) is prohibited on account of the difficulty to demonstrate control. In both instances, if the explicit prohibitions were to be removed, the IASB could consider whether guidance could be developed on:

- How the notion of control as defined in IFRS could apply to internally generated economic resources, in particular for intangibles whose ownership rights are relatively clear, that are not currently recognised; and
- How to provide guidance to identify and distinguish the cost of such intangibles from the cost of maintaining or enhancing the entity's operations. EFRAG acknowledges, however, that developing such guidance could be challenging.

Independently of whether the explicit prohibitions for recognising certain intangibles are kept or not, EFRAG recommends that the IASB develop recognition criteria for the recognition of intangibles that would meet the definition of an asset, considering the guidance included in the Conceptual Framework. In doing so, the following factors, suggested in the feedback received, that could affect the relevance and/or the faithful representation resulting from recognising a particular intangible asset, could be considered:

- whether an internally generated intangible is created by means of an identified investment (so that the cost of the intangible can be determined);
- whether cost can be linked to a specific asset and the complexity and reliability of measurement;
- the level of uncertainty regarding future cash flows; and
- how separately identifiable the intangible is.

Following these recommendations, it is likely that additional intangible assets would be recognised compared to what can currently be recognised. EFRAG, however, does not expect that there would be a significant change in the amount of internally generated intangibles that can be recognised. EFRAG is, accordingly, aware that its recommendations will not substantially address the issues mentioned in the DP related to the current distorted IFRS performance figures. Feedback from the consultation has, however, indicated that disclosure about unrecognised intangibles (of the type suggested in the DP) can reduce the resulting issues.

When it comes to recognising the same assets regardless of whether these have been acquired as part of a business combination or developed internally, EFRAG recommends the IASB to consider this matter as part of its project on intangibles.

For assets that should be recognised, EFRAG encourages the IASB to consider whether measurement at cost should reflect the total cost of creating an intangible asset instead of only the cost incurred after the asset is recognised. In the DP, such an approach is referred to as a 'conditional recognition approach'. Under the approach, costs are first expensed and then subsequently capitalised when/if certain recognition criteria are met. The IASB could look by analogy to the examples, presented in EFRAG's DP (paragraphs 3.51 and following), used in the pharmaceutical and oil and gas industries for respectively the expenditures to develop new drugs and the expenditures associated with the location of new oil and gas reserves.

Although, as explained above, EFRAG considers that a principle-based approach based on the current definition of assets should be retained, a number of areas for shorter term improvements have been identified and include the timely consideration of the following:

- Review the guidance in IAS 38 relating to **research and development**. The current guidance may not provide appropriate guidance in the light of evolving development processes since IAS 38 was issued. EFRAG heard that the current requirements in IAS 38 are more suited for traditional R&D linear process with definable milestones and less suited to modern research and development processes, such as iterative development approaches. A review of the distinction between research and developments phases as well as a revision of the recognition criteria could enable an increased recognition of R&D.

- Review the accounting for **software and IT – and intellectual property more generally** to address concerns expressed that substantial investments fail to meet the current recognition criteria. Recent agenda decision of the IFRS Interpretation Committee ('IFRS IC') concerning cloud computing arrangements highlighted the shortcomings of current accounting as there are many issues emerging in this area as evidenced by the number of interpretations the IFRS IC has had to consider since the IASB was formed.
- A review of accounting for **emerging types of transactions and assets such as crypto assets and emissions rights** and whether there is currently sufficient guidance on how these transactions and assets should be accounted for.

Regarding the latter EFRAG notes that the IASB decided in April 2022:

- not to include in its research pipeline separate project on cryptocurrencies and related transactions; and
- to include a project on pollutant pricing mechanisms but only in its 'reserve list' (subject to availability of resources and with a not yet defined timeline).

EFRAG sees merits, in the context of a review of IAS 38, in the timely review of whether some recognised intangible assets, including intangible assets held for investment purposes or traded (such as cryptocurrencies or emission rights) should remain within the scope of IAS 38 or be included in the scope of another IFRS Standard. In relation to the accounting for crypto assets, EFRAG published its preliminary recommendations following its discussion paper on accounting for crypto-assets (liabilities) in the resulting [Recommendations and Feedback Statement](#).

Measurement

Chapter 6 of the Conceptual Framework includes guidance on measurement to be considered by the IASB when setting Standards. In the view of EFRAG this guidance would generally result in intangible assets covered by the scope of the DP – those used entity's operation – being measured at historical cost.

EFRAG considers that measurement at cost for internally generated intangible assets used in the entity's operation may generally result in the most useful information – both for assessing future cash flows and for assessing management's stewardship. While fair value measurement may be appropriate for other types of transactions that also involve intangibles, based on the feedback received (in particular from users), EFRAG sees little benefits in a pure revaluation or fair value model for internally generated intangibles used in the entity's operation. In cases – and also for intangible assets not covered by the scope of the DP – under which intangible assets would not be measured at cost, EFRAG recommends the IASB to consider whether the revaluation model or another approach (e.g., a fair value through profit or loss approach) should be applied.

Enhanced disclosures

Disclosures for recognised intangible assets

As stated above, information on expenses is not relevant for recognised intangible assets. EFRAG, however, recommends that for recognised intangible assets, additional information on specific intangibles should be provided to the extent the intangible asset is key to the entity's business model.

The information should be linked with the entity's performance and be useful for both assessing the amount, timing and uncertainty of future net cash inflows to the entity and the management's stewardship of the intangible asset. For intangible assets that are recognised, disclosures similar to those required for recognised intangible assets in IAS 38, should also be provided.

Examples of information that could be provided on specific intangibles are included in Appendix 1.

Disclosures for intangible assets that are not recognised

For intangible assets that are not recognised, information on (future-oriented) expenses is generally considered useful. Developing requirements on (future-oriented) expenses would entail determining the appropriate type of disclosure. Primarily, whether the information should include the management's assessment of which expenses are future-oriented, or whether the information should solely be based on more disaggregated information on expenses recognised in a period, or a combination of these approaches. EFRAG acknowledges that these disclosures require efforts to be implemented, nevertheless the feedback obtained in this project confirms that these disclosures would help solve the current issue of lack of information about internally generated intangibles.

Disclosures for intangible assets that are not recognised would also include additional information on those specific intangible assets that are not recognised, to the extent these are key to an entity's business model. As information on expenses does not provide an understanding about the invested amounts' future income generating capacities and the development in those capacities, information on specific intangibles that are key to an entity's business model will supplement information on expenses.

Disclosures for intangibles that do not meet the definition of an asset

Similar to disclosures for intangible assets that are not recognised, disclosures for intangibles that do not meet the definition of an asset should be made up of disclosures of (future-oriented) expenses and information on specific intangibles that are key to an entity's business model.

Placement of disclosures

EFRAG recommends placing the information on risk and opportunity factors in the management commentary. 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.

Commercial sensitivity

When considering whether the benefits of new requirements would exceed the costs, the IASB should consider the potential commercial sensitivity of the information. It should thus be considered providing an exemption to the disclosures requirements in specific circumstances and proposing a principle defining when to apply this exemption. Application guidance on the issue (see the section on application guidance above) could be considered on this issue.

Responses from stakeholders

Stakeholders have provided responses to the DP at outreach events, by submitting a comment letter and/or by completing an online survey.

EFRAG has arranged, co-arranged or participated in, 11 public outreach events and 19 closed outreach events.

EFRAG has received and considered 26 comment letters from a wide range of stakeholders and 4 completed surveys. These comment letters and completed surveys are available on the [EFRAG website](#).

The comment letters received came from standard setters, listed companies, user organisations, professional organisations, academics, individual users and other individuals.

When the terms: ‘most’, ‘many’, ‘some’ and ‘a few’ are used to describe the number of respondents to EFRAG’s DP, the terms have the following meaning:

Most	80% - 100%
Many	50% - 80%
Some	25% - 50%
A few	More than one but less than 25% of respondents

High-level Summary of the responses received

Many respondents providing written input considered the issues with the current information that were listed in the DP to be relevant and valid. However, some disagreed on some of the aspects listed. Some additional issues that were not covered by the DP were also noted. Respondents agreed that the DP listed the relevant approaches to achieve better information on intangibles. A combination of the approaches listed in the DP was the proposed ‘way to go’ that received most support. Under this approach, additional internally generated intangibles should be recognised (and measured). 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.

As only a limited number of additional internally generated intangibles should be recognised, better information on intangibles should therefore, to a large extent, also be achieved by information on specific intangibles and future-oriented expenses. A majority of respondents commenting on the issue, agreed with the suggestion in the DP that information on specific intangibles should be limited to those intangibles that would be key to the entity's business model. On the other hand, more mixed input was received on whether information on future-oriented expenses should provide the management's assessment on which expenses would be future-oriented; should enable the users to make their own assessments by providing more granular information on the expenses recognised in a period; or should be a combination of those two approaches.

Finally, it was noted that better information on intangibles should not only be considered from a financial reporting perspective, but also from a sustainability reporting perspective. It was considered important that efforts in the area of financial reporting and sustainability reporting on better information on intangibles would be co-ordinated to ensure the information to be provided under the two regimes would be complementary.

Analysis of responses

This section includes a more detailed analysis of feedback related to in each of the questions included in the DP.

Question 1 – Issues with the current information

Chapter 2 summarises issues put forward with the current information on intangibles. Do you think the issues listed are relevant and valid? Are there additional issues with the current information on intangibles that are not listed? If so, what are these issues?

Overview of feedback received

Many respondents providing written input considered the issues with the current information that were listed in the DP to be relevant and valid. This was also confirmed at several outreach events.

It was noted that useful information on intangibles is missing from today's financial reporting. While two associations of accountants thought that the problems resulted from the current accounting standards not being designed to recognise and measure intangibles, another association of accountants and members of a user group noted that the qualitative information about intangibles should be improved. A standard setter also reported that its stakeholders had noted that there is insufficient information on unrecognised intangibles and expenses on intangibles¹.

Although many respondents (i.e., the majority) agreed with the issues identified in the DP, some respondents disagreed with some of the aspects:

- While some members of a user network were missing information on intangibles, other members thought that there is **already sufficient information** in company reports and elsewhere, to carry out company valuations. Similarly, two organisations of preparers thought that IAS 38 overall reflects an acceptable balance between needs of users, the operational/cost implications for

¹ One standard setter submitting a comment letter to EFRAG had not developed its own view but referred to input it had received from interviews with 33 of its stakeholders (including 13 users, six preparers, two auditors, two standard setters, 6 academics and 4 'other's').

reporting entities, and the need to ensure robust accounting outcomes, but some target improvements could be made.

- It was noted by a couple of academics that **financial statements have not become less value relevant**.
- It was noted by a standard setter, an academic, a preparer and an association of academics that IFRS performance figures are not particularly important. **Distorted IFRS performance figures** are therefore **not a major issue**.
- An association of accountants, a valuation company, some members of a user network, a preparer and an academic did not consider it to be an issue that **acquired intangibles would be accounted for differently than internally generated**. These respondents considered “make” or “buy” decisions to be different in nature, which could warrant a different accounting treatment.

Finally, some respondents had identified issues with the current reporting that were not listed in the DP. These additional issues included:

- Current requirements are interpreted/applied differently.
- Capitalising development costs is considered ‘a red flag’ by some users for companies in some industries.
- Current requirements are complex to apply; not always clear; and require a lot of judgement. Part of the complexity results from IAS 38 not reflecting how research and development is carried out today.
- IAS 38 does not reflect the thinking underlying the revised Conceptual Framework.
- There is asymmetry in requirements regarding the disclosures about unrecognised intangibles and unrecognised present obligations (contingent liabilities).
- It appears inconsistent that some IFRS Standards require recognition of assets that are similar in nature to internally generated intangible assets (e.g., insurance acquisition cash flow paid before the related insurance contract is recognised).
- Increases in the value of acquired intangibles cannot be depicted in financial statements.

In addition to the effects of insufficient information on intangibles listed in the DP, an association of valuation experts noted the following additional consequences of the issues with current information on intangibles:

- Failure to recognise internally generated intangibles means that such investments are largely excluded from the governance, financial reporting and audit ecosystems.
- Failure to recognise internally generated intangibles permeates through impairment testing.
- Failure to recognise internally generated intangibles impacts broader investment strategies (value versus growth).

Question 2 – Which way to go?

Chapters 3, 4 and 5 present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles.

These different approaches represent different trade-offs between benefits and costs when considering the different needs of users of financial reports for better information on intangibles.

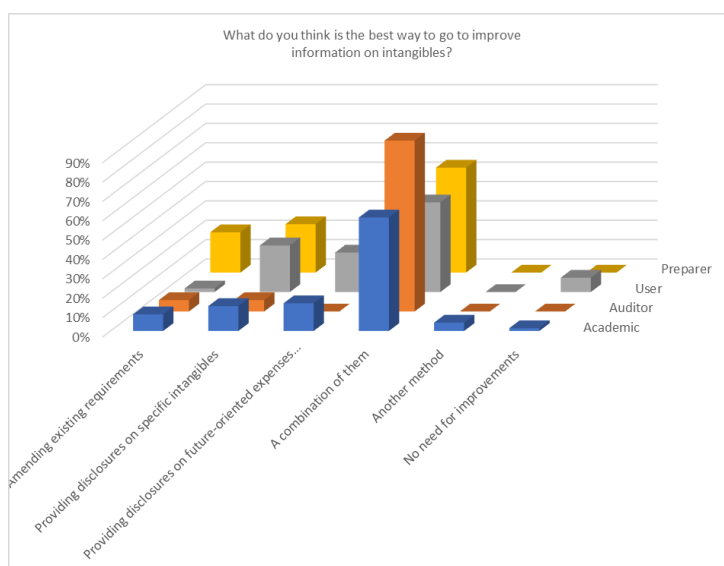
Do you think there is room for improvement regarding information on intangibles in financial reporting?
If so:

- a) Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs? If so, please describe such a combination.
- b) If you do not think the different approaches described in the Discussion Paper could be combined in a manner that would meet (most of) the needs of users, which (if any) of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles:
 - i) Amending existing recognition and measurement requirements for intangibles (see Chapter 3);
 - ii) Providing disclosures on specific intangibles (see Chapter 4);
 - iii) Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance (see Chapter 5); or
 - iv) An approach other than those described in the Discussion Paper (please explain this approach)?

Which approaches should be considered?

Most respondents preferred a combination of the approaches included in the DP. At outreach events, at which participants were consulted on the preferred approach by means of a poll, the distribution of answers were as shown below.

Amending existing recognition and measurement requirements for intangibles	8 %
Providing disclosures on specific intangibles	16 %
Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance	13 %
A combination of the approaches	59 %
Another method	1 %
No need for improvements	3 %



Arguments provided by respondents for considering a combination of the approaches included:

- The three approaches are scalable, mutually compatible, and interdependent. A combination of the approaches may provide users better information on intangibles. For example, certain assets may be more suitable for recognition but would still require complementing non-financial quantitative and qualitative disclosures.
- Narratives can support the understanding of recognised figures.
- Intangibles cover a great range and not all approaches will be appropriate/possible in each case.
- It would be most cost/benefit efficient. One standard setter thus noted that recognising and measuring the intangibles in the primary financial statements would provide the most relevant, useful and quantitative information, but the preparation cost and uncertainty would be relatively high. Only making disclosure in the notes to the financial statements or management commentary would be less costly, but the relevance and usefulness of the information would be reduced and estimates and judgments would also be involved in deciding what information to disclose or how to disclose this information.
- Although providing more relevant information on future-oriented expenses would seem to be the most relevant manner for entities in the insurance industry, to provide better information on intangibles, highly innovative industries might need to recognise more intangibles and/or provide more information on specific intangibles.

It also appeared from the polls and from comment letters received that respondents did not consider that the DP had missed any relevant approach for achieving better information on intangibles.

Although most respondents thought that all of the approaches should be considered, there were a few respondents who thought that particularly one or two of the approaches should be considered.

Arguments for considering that better information on intangibles should mainly take place by revising **recognition and measurement** requirements included:

- The information suggested in the DP is relevant, but it is not the real solution to the problem – that intangibles are not recognised in the financial statements. Demanding more and more disclosures could be a distraction.
- There is a need to improve existing recognition and measurement requirements in some targeted areas and the approaches for disclosures presented in the DP would not provide a basis for meaningful comparisons between different entities.

An argument for considering that better information on intangibles should mainly take place by revising **recognition and measurement** requirements **and** providing **information about future-oriented expenses** was that deficiencies in recognition and measurement should not be addressed via extensive disclosure requirements which could result in information overload. However, information on future-oriented expenses could be useful.

A few respondents (a standard setter and a preparer) favoured an approach under which additional intangibles would be **recognised and measured** and under which **information on specific intangibles** (key to an entity's business model) would be provided. Information on specific intangibles should be provided for both recognised and unrecognised intangibles.

A few respondents (two standard setters, a user, a user organisation and an auditor) thought that **information on specific intangibles** would be the best solution. An argument provided for this approach was that the alternative approaches were related to past costs which did not provide much information on future cash flows from the intangible.

Two preparers considered that providing disclosures on **future-oriented expenses** was the best way to go. One of these preparers noted that it should be in a manner that would not be limited to expenses on intangibles.

A few respondents supported **information relating to specific intangibles** and **information on future-oriented expenses**. These respondents did not have much appetite for additional intangibles being recognised. Arguments included:

- The measurement of internally generated intangibles would be too uncertain as there is no transaction.
- No measurement would result in useful information.
- The value of internally generated intangibles would appear from the statement of financial performance (as the value of an entity’s intangibles would be reflected in its financial performance).
- Qualitative information would not be constrained by the requirements for recognition (i.e., that there should be a past transaction and control).
- Disclosures would be less complex than recognition and measurement.

Finally, one standard setter and a preparer expressed concern that changing recognition requirements and/or the information about intangibles could risk destabilising the current, well understood, platform for financial reporting (i.e., **no changes should be made**).

Intangibles are different

Several comment letters and comments made at several outreach events reflected the idea that intangibles are different and different solutions could therefore apply to different types of intangibles.

Apart from cases that would follow from the various approaches considered in the DP, suggestions of characteristics that could be considered when assessing how information about a group of intangibles could be best provided included:

Is an internally generated intangible created by means of an identified investment (tangible intangible)?	If an intangible results from a direct investment (tangible intangible) then information about its cost – to be included in the invested capital calculation (and considered as a ‘future-oriented’ expense) - would be useful. If the intangible is not a result of a direct investment (an ‘intangible intangible’) it would be difficult to link cost information to the intangible.
Can cost be linked to a specific asset?	If costs can be linked to a specific asset, these costs could be capitalised. If they cannot be linked to a specific asset, they can be disclosed or included in specific lines in the statement of financial performance (e.g., research cost).
How complex is measurement?	If an intangible is relatively simply to measure this would be a factor in favour of recognising the intangible in the statement of financial position.

How distinctly observable is the intangible?	If an intangible is distinctly observable this would be a factor in favour of recognising the intangible in the statement of financial position.
Can expected future performance of the intangible asset be disclosed?	An internally generated intangible should only be recognised if the entity can provide a clear disclosure on the future performance of the intangible asset.
Is the intangible a right?	If the intangible is associated with rights (in particular IP rights) it could be a factor in favour of recognising the intangible (at cost).
Uncertainty regarding product development	Whether or not to recognise a (potential) asset could depend on the uncertainty related to the potential of future net cash flows.
Function in the entity's business model	Internally generated assets that are used in a less transformational way by the entity, for example internally used software, could be useful to recognise (and recognise as cost) as they could be considered similar to PPE.

A user noted that not only were intangibles different, different types of users had also different information needs. Another user however noted that it would be difficult to develop different accounting frameworks for different types of users. A third user thought that basing the financial information on the information needs of those users who needed most information would normally result in information that would satisfy all types of users.

Phased approach

Eight standard setters, two associations of accountants, a user organisation, a consultant, an association of academics, a business reporting network, and a business reporting organisation and some participants at outreach events supported a phased approach to better information on intangibles.

Some standard setters and participants at outreach events thus supported first to focus on improving disclosures. Some of these standard setters thought the first disclosures to be considered should be those related to unrecognised internally generated intangible assets as defined in, and within the scope of, IAS 38. Then the next phase of the project could identify the useful disclosures about resources (other than intangible assets) or consider the definition of an intangible asset. A participant at an outreach event thought that in addition to starting with disclosures and then consider recognition, it could also be envisaged that at first only disclosures on intangibles resulting from an investment (tangible intangibles) are considered – and after this, disclosures on other intangibles (intangible intangibles) are to be considered. An organisation of users, a consultant, two associations of accountants, an association of academics and a participant at an outreach event thought that improved disclosures could be the first step, but in the longer run, recognition and measurement of additional internally generated intangibles should be considered. A participant at an outreach event, thought that first providing the disclosures could help to establish knowledge about what information users want. While a user organisation considered that in the longer run, more internally generated intangibles should be recognised, an association of academics was less certain. It noted on the one hand the argument that the reported earnings are currently irrelevant due to the indiscriminate expensing of practically all internally generated intangibles. On the other hand, it noted that conservative treatment of investments in intangibles is relevant for assessing risk – that is deferring revenue and earnings

recognition until the uncertainty has been resolved and expensing the investment related to those earnings when the uncertainty related to it is particularly risky. This view was also presented by a business reporting network and a business reporting organisation. They noted that more detailed disclosures (on both recognised and unrecognised intangibles) and additional information in the statement of financial performance could have a positive impact on the quality of assessments of company-related risks and cash flows and would be the most effective means of reducing the intangibles information gap and asymmetries.

A standard setter, who favoured the information on specific intangibles approach, thought that in a first phase, the nature of the entity's (key) intangibles should be provided, and additional information should be provided on how they are created. For example, for an IT company operating various platforms the different types of platforms could be described. For a biotech, the different major biotech products could be shown. Information on how the intangible is created should describe whether the intangible is acquired, been created from R&D or the development could have been outsourced. In the second phase, information about the cash flows resulting from each of the identified intangibles for the past, for example, three to five years, should be provided. In the third phase information about the expected future cash flows should be provided.

Question 3 – Recognition

Chapter 3 considers whether and how internally generated intangibles could be recognised and measured in the financial statements and the benefits and limitations of the proposed approaches. In doing so, consideration is being given to the asset recognition in the statement of financial position but also to the effects in the statement of financial performance.

Do you consider that IAS 38 Intangible Assets should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)? (Please explain your answer). If your answer to this question is 'yes', please also answer sub-questions 1 to 3 below.

- 1 *Paragraph 3.26 of the Discussion Paper explains that IAS 38 currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing. Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed? (Please explain your answer).*
- 2 *Paragraphs 3.10 to 3.71 of the Discussion Paper explore four possible approaches regarding the recognition of internally generated intangibles. Which of the following approaches would you support?*
 - a) *Recognise (as an asset) all defined intangibles; with no specified conditions or thresholds (see paragraphs 3.15 - 3.35 of the Discussion Paper);*
 - b) *Threshold for recognition of an asset (see paragraphs 3.36 - 3.48 of the Discussion Paper);*
 - c) *Conditional recognition of an asset (see paragraphs 3.49 - 3.59 of the Discussion Paper); if you prefer this approach, would you prefer an approach under which:*
 - (i) *Costs are expensed in profit and loss until the condition is met;*
 - (ii) *Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed;*

- (iii) Costs are expensed in other comprehensive income until the condition is met, at which point in time the expenses are 'recycled' and capitalised.*
- d) No recognition (that is, expensing all internally generated intangibles) (see paragraphs 3.60 - 3.67 of the Discussion Paper); and*
- e) None of the above or other suggestions (please explain).*

Please explain the reasons for your preferences.

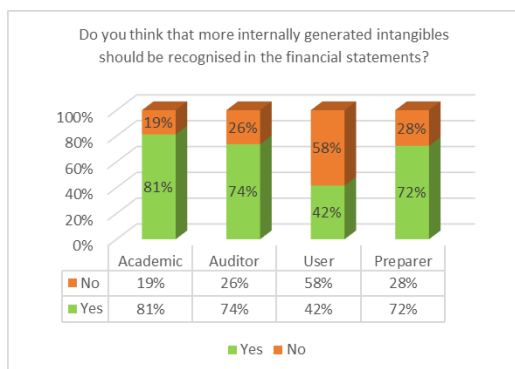
- 3 *If you support 'Conditional recognition of an asset' or 'Threshold for recognition of an asset' in the previous sub-question, which criteria would you consider for recognition:*
- a) Criteria based on the level of (un)certainty about the outcome of the intangibles (that is, the probability of expected benefit and the pattern of consumption of these future benefits);*
 - b) Criteria based on the identifiability of the expenditure related to the intangibles;*
 - c) Criteria based on the technical or commercial feasibility of the intangibles considered at inception of the development;*
 - d) Criteria based on separability of the assets, that is, the existence of a legal right and/or the ability to sell, transfer, licence or pledge the asset;*
 - e) All or a combination of the above depending on the nature of the intangibles (please explain);*
 - f) Other suggestions (please specify).*

Recognition of additional internally generated intangibles and removal of explicit prohibitions of IAS 38

A large majority of the respondents who addressed the questions were in favour of removing the explicit prohibitions to recognise some internally generated intangibles; and recognising more internally generated intangibles than currently allowed. Respondents noted that the prohibition was rule-based and add to the lack of comparability between companies that grow organically and those that acquire intangibles individually or through a business combination. It also resulted in excluding items that otherwise could meet the Conceptual Framework definition of an asset. Instead, the recognition should be based on general principles criteria applicable to internally generated intangibles.

Only a few respondents disagreed with removing the prohibition. One of these respondents assessed that the prohibition should not be removed because the separation of these kind of intangibles from internally generated goodwill is highly judgmental and often not possible. One participant noted that IAS 38 provides a robust definition of intangibles, based on well-defined financial criteria, which avoid an overly extensive capitalisation of intangibles. Changing the requirements would result in many questions on when to capitalise and when not to capitalise.

A survey conducted among participants during EFRAG's outreach events on the DP, resulted in the following views expressed:



Several respondents and participants considered that if recognition and measurement were to be extended, it would, however, still need to be consistent with the definition of assets in the Conceptual Framework; referring in particular to the existence of a resource/right controlled by the entity with the ability to generate future economic economics.

One preparer considered that the general recognition requirements in IAS 38 ('reliable measurement' and 'probable economic benefits') should not be weakened as this would decrease the fundamental qualitative characteristics of faithful representation and relevance in the reporting of information on intangibles. It could, however, be appropriate to update the additional, cumulative requirements in IAS 38 to recognise expenses during development phase. High emphasis for recognition should be put on the probability criterion, as this criterion is highly judgmental, but also of high importance for communicating useful information.

One of these respondents noted the inconsistency between the definition of an asset referred to in IAS 38 (which is based on the former Conceptual Framework), and the new definition introduced in the revision of the Conceptual Framework in 2018.

A standard setter reporting on the input it received from interviewed stakeholders, indicated that most of them considered that IAS 38 should be revised to allow capitalisation of a greater range of expenditures, potentially including research, training, and certain marketing expenditure in some circumstances. It was noted that the existing provisions resulted in preventing the capitalisation of expenditure that would meet the definition of an asset in the Conceptual Framework. Therefore, they failed to capture useful information about many intangible items.

In the academic study supported by EFRAG, EFFAS and ICAS, respondents were asked which internally generated intangibles should be recognised on the statement of financial position. More than 50% of the users replying to the questionnaire thought that internally generated brands should be recognised on the statement of financial performance. Among the intangibles listed, there was some support (between 30% and 40%) for recognising: intellectual property and know-how, intangibles related risks (e.g., reputational risks) (a negative intangible resource/intangible liability), human capital and R&D. There was less support (less than 30%) of the users for recognising: customer lists, organisational capital, training, corporate reputation and image and software and information systems.

Approaches for recognition

Of the respondents providing written comments to EFRAG, 24 responded directly to the questions on recognition and measurement.

Keep current requirements in IAS 38 with some targeted improvements

Some respondents considered that no fundamental changes were required to the current requirements in IAS 38 and only targeted changes should be considered. These respondents generally noted that the current model has its drawbacks but remains the most reasonable approach in terms of applicability and comparability. Conditional recognition was an interesting alternative but may be administratively burdensome and costly to apply in practice and could increase volatility in earnings. The current pre-conditions stemming from the definition of an intangible asset (including the recognition conditions applied to R&D) could be maintained with targeted improvement.

Proponents of targeted changes identified the following potential for improvements:

- Requirements related to IT/software were brought up in several comment letters by preparers (including organisation of preparers), standard setters and an association of accountants. The same concerns were also expressed at an outreach event. Some commented that the IFRS IC Agenda decision on how to account for costs of configuring or customising a supplier's application software in a cloud computing or software as a service (SaaS) arrangement did not result in useful information. Concerns were expressed that substantial investments in software fails to meet the current recognition criteria. Recent agenda decision of the IFRS IC, concerning cloud computing arrangements had according to some respondents highlighted the shortcomings of current accounting.
- Updating research and development costs recognition criteria. It was noted that the existing requirements in IAS 38 were more suited to 'traditional linear process' with definable milestones and less suited to modern research and development processes, such as agile software development. A revision of these criteria could lead to an increased recognition of research respectively development costs. One standard setter, reporting on input received from interviewed stakeholders indicated that the stakeholders considered that the limitation of the recognition to the 'development phase' and the criteria currently stipulated in IAS 38 could be considered somewhat arbitrary and open to significant interpretation leading to substantially different accounting outcomes for different entities, even in the same industry.
- A few proponents of targeted changes considered indispensable that any changes are first assessed from the cost-benefit perspective, explicitly considering the operational perspective of reporting entities in different sectors, including the insurance industry. Such consideration needs to also address the question of the subsequent measurement.

Some of these respondents considered that the issue of the different accounting between internally generated and acquired intangibles would be better addressed by reviewing the accounting for business combination and in particular: (a) review requirements to reduce separately recognised intangibles from goodwill in business combinations (which was not always considered to result in useful information) and re-introduce goodwill amortisation. One of these respondents noted that, from an operational/cost perspective it might be more cost-effective to allow not to recognise separately all the assets purchased in a business combination (IFRS 3) if the goodwill would be amortised over the useful life of those assets.

Conversely one valuation company considered that any changes in accounting to recognise internally generated intangibles should not come at the expense of the types of intangibles currently being recognised in a business combination. It noted that purchase accounting is a unique circumstance in which greater visibility is afforded into intangible assets that are often critical to the success of a business. Subsuming intangibles, or a subset of currently recognised intangibles, into goodwill will eliminate significant value-relevant information. This respondent also suggested a distinction to be made between intangibles that are the result of the value creation process in the company and intangibles that create such value.

Conditional recognition

Six respondents to the consultation and some participants to outreach events supported the conditional recognition approach. A majority of these respondents supported capitalising and fully impairing costs until the condition is met, at which point in time the impairment losses are reversed. Conversely, two respondents supported capitalising expenses from the date the conditions are met.

One organisation of users noted that several of its members expressed a preference for the conditional recognition approach but there was no consensus among the members. This organisation noted that the nature of intangibles varied hugely from sector to sector and the conditional recognition approach could become too complex and costly to implement.

In the view of respondents supporting the conditional recognition approach with recognition and impairment of costs until the condition is met, the approach better aligns internally generated intangible assets with tangible assets. These respondents noted that a threshold recognition leads to the recognition of only a small proportion of the total development costs, which is not very informative.

One of these respondents also noted the need to bring the recognition requirements in IAS 38 more closely to the requirements in IFRS 3 and considered that the IAS 38 provisions were too narrow, while the requirements of IFRS 3 were too broad.

Three respondents providing a comment letter and several participants to outreach events assessed the proposed alternative to recognise cost in OCI as not conceptually justified. They opposed the use of OCI. One of these respondents considered that an approach that expenses costs in OCI instead of P&L would not completely resolve the problem of volatility in earnings and would require a revision to the Conceptual Framework and further discussions about the OCI concept itself. The approach could thus open a box of issues related to the content of OCI and it would result in it becoming more difficult to explain what financial statements show. A concern expressed against this approach was that it could disturb performance figures as costs would be double counted in P&L – the first time when the impairment loss would be recognised, the second time when the amortisation of the reversed impairment loss would be recognised.

Participants at an outreach event noted a number of difficulties in implementing a conditional recognition approach, in particular: (a) the assessment of when a condition is met as a threshold or condition for recognition, may be hard to agree on since companies and industries are very different and (b) it is often hard to distinguish the development phase and maintenance phase, especially when comparing different industries and different business models. It might be hard to measure the cost of internally generated intangibles, including allocating costs to specific intangibles.

Recognise all intangibles meeting the definition without thresholds or conditions

Four respondents considered that no recognition threshold or condition should be applied. Instead, all intangibles meeting the definition of an asset and can be measured reliably should be recognised. One of these respondents (an association of users) considered it inappropriate to recognise intangibles that an entity does not 'own'. However, it was noted that recognising more intangibles individually might not be a practical solution as entities frequently do not separate all the intangibles from goodwill acquired through an acquisition. Intangibles might be significantly different between companies and comparability will be very difficult between companies growing organically and growing through an acquisition and recognising a goodwill.

Other comments on recognition criteria (for either threshold or conditional recognition approach)

Respondents generally agreed that only intangibles meeting the definition of an asset under the Conceptual Framework should be recognised. In particular the identifiability and the ability to generate cash flow (or create value) and a level of control (or ownership) were pinpointed as important factors by many of these respondents.

Some respondents considered that all or a combination of the factors proposed in the DP for either the conditional recognition or the threshold approach were relevant depending on the nature of the intangibles.

Two respondents considered that the identifiability of the asset and its capacity to generate cash flows were important criteria for recognition.

Two respondents referred to current criteria for development cost as appropriate: identifiable expenses, and the project being technically, commercially, and economically successful and profitable.

One standard setter, reporting on the input it has received from interviews with a number of stakeholders, indicated that any stakeholders were generally comfortable with capitalisation of many types of costs associated with intangibles, particularly where there were clearly identifiable rights attached to the associated intangible item. Some of these stakeholders had identified the following recognition thresholds beyond those already in the Conceptual Framework: (a) The probability of economic inflow greater than 50%; and (b) the existence of a legal or equivalent rights over benefits.

One respondent considered that only intangibles 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) (Category A in paragraph 3.1 of the DP) should qualify for capitalisation. And of these only the subsets that are separately identifiable and that fulfil the recognition criteria in IAS 38.

One respondent noted that any new model will also need to address the issue that intangible assets need to be identifiable. Internal projects in many cases, may not initially aim to create an intangible – for example they may be more focused on brand awareness etc. – but in the end create one. Defining exactly what is an identifiable intangible may well be a challenge. Defining the unit of account will be necessary for the conditional recognition approach.

One respondent expressed a preference for internally generated intangibles that are more distinctly observable, subject to greater control and easier to measure, such as software, patents and databases to be eligible for recognition. Conversely there were less support for the recognition of intangibles that are more challenging to demonstrate an entity's control over and subject to significant measurement uncertainty.

Question 4 – Possible measurement bases

Paragraphs 3.72 to 3.100 of the Discussion Paper consider possible measurement bases for internally generated intangibles without suggesting a preferred approach. If you think that IAS 38 should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs), which of the following suggested measurement approaches would you support:

- a) *Initial and subsequent measurement at amortised cost with impairment ('Cost model');*
- b) *Initial measurement at cost and subsequent measurement at fair value ('Revaluation model');*
- c) *Initial and subsequent measurement at fair value ('Fair value model');*
- d) *Initial measurement at fair value (as deemed cost) and subsequent measurement at amortised cost with impairment ('IFRS 3 model');*

A cost model

A majority of respondents who addressed the question supported a cost model for both initial and subsequent measurement.

This view was generally shared by participants at outreach events.

Proponents of a cost model generally referred to the following arguments:

- Initial and subsequent measurement at amortised cost with impairment would be consistent with the measurement of internally generated tangible assets and with current requirements in IAS 38 for purchased intangibles. Cost measurement for internally generated intangibles makes it possible to compare the costs entities use on acquiring assets externally with the costs of generating its own intellectual capital.
- The use of the cost basis also provides greater insights into the capital invested in internally generated intangibles, resulting in better information for assessing an entity's return on investment and management stewardship. Users would rather know how much an entity has spent in the capital base rather than how much their intangibles are worth. If intangibles were measured at fair value, it would be difficult for entities to separate the value and the cash flows of an intangible from other parts of the business and it could be very time consuming and expensive for preparers to go through this exercise.

- A cost basis would provide more relevant and useful information because of the estimation uncertainty associated and level of subjectivity involved with the fair value measurement. Attaching a value to internally generated intangibles would often be subjective and costly for preparers. Measurement at cost is considered less costly than measurement at fair value. Furthermore, it would be challenging to isolate the fair value of the internally generated intangibles from complementary assets and the rest of the business as intangibles often do not create value in isolation.

Two standard setters noted that current IAS 38 allows an option between the cost model and a revaluation model, whereby the latter is restricted to intangibles for which an active market exists (IAS 38.75). However, it was believed that the revaluation model is rarely used in practice for the measurement of intangibles due to the lack of active markets.

Identified challenges with measurement at cost included:

- Cost identification and allocation can be a challenge:
 - There is a difference between cost in an acquisition and internally incurred cost. It is difficult to determine what cost is for intangibles such as brands, customer lists and market possession.
 - To the extent a significant part of cost is related to internal time spent on a project, it requires comprehensive registration and an assessment of whether the hours spent have generated value.
 - Some intangibles have no identifiable cost: it would not be possible to capitalise humans in the statement of financial position – although they would be the heart of the business.
- The measurement of the asset at cost would not have any predictive value for how much cash flow the asset could generate (as long as the cash flows that it could generate would be higher than the cost). Cost does not reflect the value of the asset, e.g., training costs are not reflecting the value of staff.

One standard setter had received mix views on the measurement method. It noted that if unrecognised internally generated assets were to be recognised, its stakeholders expressed slightly more support for initial measurement at cost with an accounting choice to measure thereafter the asset at fair value than having the subsequent measure at cost.

Measurement at fair value

Only two respondents suggested a fair value approach for both initial and subsequent measurements. One of the respondents (commenting essentially on the capitalisation of marketing expenses) pushed back on the idea that cost-based measurement is necessarily cheaper and less subjective. Lastly it believed that well-managed firms should be creating valuations for their intangibles in order to run their firms effectively. For instance, ISO (the International Organization for Standardization) advice on brand monitoring (ISO 20671) recommends brands be regularly valued for management purposes.

To the extent intangibles should be measured at fair value, one participant at an outreach event considered sensitivity analyses of the assumptions should also be provided. Sensitivity analysis would indicate to users how sensitive the values would be to small changes in the assumptions.

In favour of measuring at fair value, the following arguments were provided:

- The assumptions used could provide a basis for discussions with management.
- Subjectivity of cost allocation for some intangibles: One respondent considered that one of the challenges with cost-based approaches are allocations between short-term and long-term aims. For marketing cost, for example, such allocations can be challenging and subjective. Determining whether advertising activity was run to create a long-term brand asset or to drive immediate sales can have significant subjectivity.

Identified problems with measurement at fair value included:

- Concerns about the reliability of the numbers. This was expressed by a number of standard setters. One noted that fair value measurement would provide useful information for investors but estimating it for internally generated intangible assets would be too judgmental. This is because in some circumstances it could involve estimating the fair value of the entire company. This would not be the role of the preparers of financial statements.
- There would be a lot of subjectivity/judgement involved and the approach would often be forward-looking as the fair values would have to be estimated.
- There is not a market for most of the intangibles, each is unique, so determining the fair value would be a guess and when estimated by the company, it would be similar to value in use. Fair value information would be ignored by users and is very costly for preparers to calculate. An auditor thought that measurement at fair value of a single asset was not worth the effort as analysts wanted the value of the entire company and not of single intangible assets.
- Impairment testing assets showed that even small changes in assumptions could significantly change the value. Because of the uncertainty, measurement at fair value would also result in issues with auditing. Auditors would have to spend many hours on it, and it was hard to assess whether small changes, which could have a significant impact, could be supported or not. To the extent that the values would be calculated based on management's plans, as would often be the case for the impairment test, there would be a risk that the assumptions could be biased. For many of the assumptions it would be difficult to get supporting documentation.
- Accounting systems are built around transactions, doing it differently would be costly.
- If entities are assessed based on their return on invested capital, and the fair value of intangibles are higher than the cost, the management would have to perform against a higher invested capital although that capital is not economically invested.

An auditor questioned what the unit of account (following IFRS 13 *Fair Value Measurement*) would be if intangibles assets were measured at fair value. The respondent also noted that measuring internally generated intangibles at fair value would be challenging as it will not be easy to identify what the value of the intangible is for a third party.

A valuation expert noted that reputation is very difficult to quantify. The valuations would be contingent on what the entities could/would have done.

In the academic study supported by EFRAG, EFFAS and ICAS, most users preferred changes in fair value to be included in OCI, should intangible assets be measured at fair value. It was noted that a value change has little to do with the performance of the entity and its management.

A combination of cost and fair value

A few participants noted that there were intangibles where approach d) in the DP (i.e., initial recognition at fair value and subsequent at cost the IFRS 3 model) may be more appropriate – for example where the costs are difficult to identify; the intangible is acquired in a business combination; the intangible is acquired for no consideration (as a present); or perhaps on the initial application of any new standards. Updated market values in these cases may be difficult to find. It may be that another current value measure such as value in use may be a more relevant and feasible measure. However, these respondents would generally not support the fair value model, except if there were intangible assets held as investments or for trading and there were active markets for them.

One organisation of users noted that several of its members expressed a preference for the cost model as this would provide the most reliable measure. However, where there is an active market, other members considered that fair value would also provide useful information.

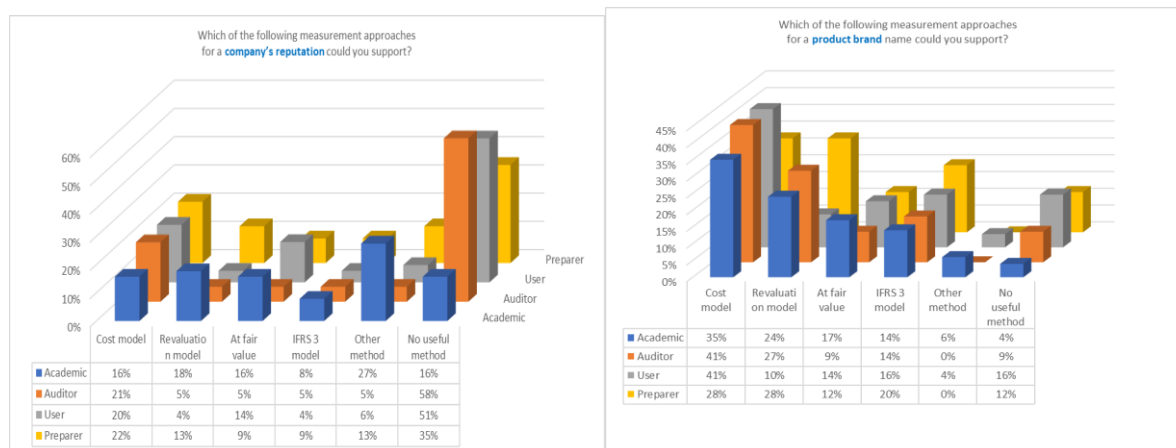
One standard setter noted that for some intangibles a cost measure could provide useful information. However, this would not apply to all intangibles. At the same time, as noted in the DP, fair value was currently infeasible to use for many assets in many peoples' view.

In the academic study supported by EFRAG, EFFAS and ICAS, most users supported the following measurements for the stated type of intangibles (to the extent that these intangibles should be recognised – as noted above it was only brands that more than half of the users thought should be recognised):

- Value in use: intangibles related risks, human capital and corporate reputation and image.
- Fair value: customer lists, organisational capital, intellectual property and know-how, brands.
- Cost: training, software and information systems, R&D.

A survey addressed to the participants at some of EFRAG's outreach events on the DP, asked specifically how 'brands' and 'reputation' should be measured if they were allowed to be recognised. The illustrations below summaries the responses received:

For product brands For Reputation:



Question 5 – Information relating to specific intangibles

Chapter 4 discusses an approach under which information on specific intangibles, that are key to an entity's business model, is provided to help users assess the contribution of the intangible to the value of the entity.

- 1 *To the extent that information relating to specific intangibles should be provided, do you agree that the information should be limited to the intangibles that are key to an entity's business model? If not, why?*
- 2 *Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information. Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?*
- 3 *Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 compared to recognition and measurement (see Chapter 3) and information on future-oriented expenses (see Chapter 5)? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?*

Limiting information on specific intangibles to those that are key to the entity's business model

The majority of respondents providing a view on the issue, agreed with the DP that information on specific intangibles should be limited to intangibles that are key to an entity's business model. Arguments for limiting the information to the intangibles key to the entity's business model included:

- it would balance costs and benefits;
- it would be consistent with the general principle of IFRS which requires entities to only disclose material information;
- users will not receive an overload of unimportant and/or excessive information; and
- it would allow users to understand the intangibles in relation to the entity's value creation process.

An association of accountants noted that the selection of intangibles would be a matter of judgement and not easily prescribed.

Although they supported considering the business model when providing information on intangibles, a few respondents considered that what is 'key to an entity's business model' appeared insufficiently defined.

A preparer thought that for most entities, it would be clear what the 'key intangibles' would be. However, for some entities, it could be very judgemental and less clear how to provide information on specific key intangibles given that intangibles sometimes work on an interrelated basis.

A few respondents (two standard setters (one of which was a marketing accountability standard setter), a think tank, an individual and a participant at an outreach event) did not think the information should be limited to intangibles key to the business model. An argument provided by one standard setter for not limiting the information to intangibles that are key to an entity's business model was that this would introduce a new terminology because it requires a definition of the business model and what is 'key' to the business model. The standard setter instead thought the materiality concept used in other IFRS Standards should be applied. It noted that materiality for disclosures about intangibles could be applied for each intangible and for all intangibles together.

Instead of referring to intangibles that are key to an entity's business model, a standard setter and a participant at an outreach event suggested that the scope of the disclosures should be determined by concepts already used in IFRS: the 'management approach' in IFRS 7 and IFRS 8 (the intangibles that are internally reported to the chief operating decision maker) and thus the information used internally.

An organisation of preparers thought that information on specific intangibles should be limited to intangibles that are recognised.

Fair value information

The majority of respondents providing a view on the issue, agreed with the DP that disclosure of the fair value of specific intangibles was generally less useful to users than information that can assist users in making their own assessments. Arguments for not providing the fair value information included:

- Other qualitative and quantitative disclosures are more useful as it can be used to normalise cash flow statements and help users form their own views on the value of specific intangibles of an entity.
- The cost would not outweigh the benefits as users want the value of the entire company and not of single intangible assets and it is costly for preparers to provide the information and have it audited.
- Would not be useful to understand how an entity is making profit.
- In general, ongoing assessments of the fair value of individual intangibles is highly judgmental, difficult to separate from other 'interconnected' intangibles, and therefore less reliable and relevant.
- No analyst would use management's estimate of fair value.
- Fair values are generally not verifiable due to the high uncertainty inherent in most intangibles.
- Would be contrary to the current account measurement model (at cost).
- The values could be biased.

On the other hand, three standard setters (one of which was a marketing accountability standard setter), some members of a user network² and an individual, considered that fair value information of some specific intangibles would be useful for users. The members of the user network noted that the information would be useful as a starting point for discussions with management rather than presenting some values users would necessarily agree with. Also, the information could be useful for assessing future cash flows and the amount needed to be spent on maintaining the intellectual property, according to one user.

An association of accountants, an association of academics, a think tank and a standard setter and stakeholders of a standard setter, thought that it could sometimes be useful to disclose fair values of

² A user network did not provide one view to the questions included in the DP but summarised the various views of its members.

intangibles. The association of accountant noted that this would be the case when it is possible to have reliable fair values of individual intangibles. Then users could use these values as a comparison with their own estimations. A few respondents noted that in the last two decades the possibility of determining a fair value had improved considerably.

Advantages and disadvantages

The identified advantages and disadvantages identified in the DP on information on specific intangibles were considered relevant and valid by several respondents and participants (four standard setters, an organisation of users, a user, an association of academics, a business reporting organisation, a business reporting network, an individual and a preparer).

In addition, two standard setters broadly agreed with the identified advantages and disadvantages. However, one of these thought that it was important to distinguish between information on recognised and unrecognised intangibles. The other standard setter noted that an additional advantage of the approach would be that it would be in line with the development emerging in the CSRD. That standard setter also noted that how costly the approach would be compared to the alternative approaches would depend on the specific circumstances.

In relation to the disadvantage identified in the DP, that providing disclosures would not solve the issue of distorted IFRS performance figures, an association of academics noted that some research indicated that disclosed items were not processed differently from recognised items when certain circumstances were met. An individual academic noted that whether or not intangibles were better suited for disclosures depended on the type of the intangible and the type of entity.

A standard setter and a preparer thought that a disadvantage, that was not mentioned in the DP, was that there would be challenges around verifiability and auditability of certain information. Two associations of accountants noted any proposed disclosures should meet the qualitative characteristic of 'verifiability' and be capable of being independently assured by an external auditor.

Information to be provided

Some respondents provided input on the information on specific intangibles to be provided. Many of these suggestions have been included in Appendix 1 on EFRAG's tentative recommendations on disclosures that could be provided.

It is also noted in Appendix 1, that the level at which the information would be provided should be considered (for example, whether certain information should be provided on segment level, per function or something else).

In addition, some respondents noted that the unit of account on which the information should be provided, should also be considered. A few respondents thus noted that disclosures could be provided by groups of intangibles if deemed resulting in a true and fair view, to reflect that revenue and risks are usually attached to an activity rather than a separate intangible.

Some respondents to the DP provided views on the guidelines and harmonisation of information on specific intangibles. A few respondents thought it was important that the information should be provided

using a common format and definitions. On the other hand, a few respondents were not in favour of too specific requirements as it would be contradictory to the reporting of entities' own narrative.

Question 6 – Information on future-oriented expenses

Chapter 5 proposes various elements of information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses').

- 1 Do you consider that requiring such information could be useful? If so:
 - a) Should the information mainly complement information on specific intangibles (see Chapter 4) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?
 - b) Should the information mainly:
 - (i) Reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods)? Or
 - (ii) Help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period?
- 2 Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

Would the information be useful?

The number of respondents who thought the information would be useful was higher than the number of respondents who thought the information would not be useful or should not be provided for other reasons.

Some of the arguments provided for why the information was considered useful included:

- The information could potentially provide users with an enhanced basis for assessments of future performance and endurance, the business model, management approach and strategy.
- Specification of expenses has been a request from users. It could be useful when trying to value companies based on free cash flows.
- The information could be useful to keep the financial statements conservative, but to provide information to enable users to make estimates of 'as recognised' intangible assets.
- The approach could provide information on intangibles without resulting in conflicts with the existing definition of an asset.
- The approach could provide information on how an entity is maintaining its ability to generate revenues.

Some of the arguments provided for why the information should not be provided included:

- The amount of expenditure says nothing about the effectiveness of the activities/asset associated with it and the information does not have predictive value.
- The information may be hard to compare across entities as the assessments of what expenses that are future-oriented may be highly subjective. Subjectivity would be avoided if users would be able

to make their own assessments. However, it would likely require an extensive amount of information for users to do so.

- The identified disadvantages in the DP seem to outnumber the identified advantages.
- The expected implementation costs of disclosing future-oriented expenses are anticipated to be (too) high.
- Separability of future-oriented expenditure from expenditure that relates to the maintenance of the business can be a challenge and auditing the information could accordingly also be challenging.
- Management may be reluctant to disclose commercially sensitive information relating to future-oriented expenditure and be concerned about the liability risks.
- If internally generated intangibles are recognised there would be little benefits and high costs of the disclosures.
- The nature/function disclosure is not trivial to generate and has already been criticised in the Financial Statement Presentation project.

Supplement or replace information on specific intangibles

Only a few respondents replied directly – many replied indirectly when answering Question 2 (see above) – to the question included in the DP on whether the information should supplement or replace information on specific intangibles. A few respondents considered that the information should be supplementary to information on specific intangibles. A few other respondents hinted that the information could not supplement – but only replace – recognition of additional internally generated intangibles.

Management's assessment or enabling users to make their own assessments?

At some outreach events, participants were asked whether the information on future-oriented expenses should:

- reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods? or
- help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period?

When presented with these two choices, most respondents thought that the information should help users in making their own assessments. However, when a combined option was introduced, at some of the outreach events, most respondents thought that the information should both present the management's assessment as well as providing information for users to make their own assessments.

A preference for a combination was also expressed in one of the comment letters received.

In a few comment letters, support was expressed for disclosing the recognised expenses the management considers relate to the benefits of future periods. Arguments provided included:

- Providing information to enable users making their own assessments would require an extensive amount of information.
- It is difficult to see how users can identify future-oriented expenses even from a further analysis of costs. For example, marketing expenses may relate to the current year or to future ones.
- It is in line with the value in use for an impairment test.

On the other hand, a few respondents argued against basing the information relating to future periods, as defined by management. Arguments included:

- It is complex and bears the risk that current period earnings of the entity might be presented in too favourable a way.
- Management's estimate of future-oriented expenses can be complex, highly judgmental and costly.
- The management could not always know whether, for example, a research project would result in something that could generate revenue in the future.

A few respondents argued in favour of providing information enabling users to make their own assessments. Arguments included:

- Subjectivity when preparing the information would be avoided.
- Users have stated that they want more disaggregation of expenses.
- It would be relatively uncostly to present e.g., information on marketing costs, if it would be agreed that these costs could generally be seen as future-oriented costs.
- It would decrease subjectivity of the information reported and, therefore, increase comparability of information between different entities.

Arguments provided by a few respondents against providing information enabling users to make their own assessments included:

- It will most likely lead to information overload.
- The information can be misinterpreted by stakeholders who will make subjective conclusions which cannot be controlled by the entity.

Identified advantages and disadvantages of the information

The respondents commenting on the identified advantages and disadvantages agreed with the assessment included in the DP. One standard setter, however, disagreed with the assessment of costs if management has to disclose its estimate of future-oriented expenses. In these circumstances, the respondent expected the approach to be more costly than providing information on specific intangibles.

Question 7 – Information on risk/opportunity factors affecting intangibles

Chapter 5 proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPIs used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.

Do you agree with this proposal? If not, what information on risk/opportunity factors affecting intangibles should be provided?

Feedback on proposals in DP

The number of respondents who agreed with the proposals in the DP was higher than the number of respondents who disagreed. Arguments in favour of the disclosure included:

- The information provides a picture of how an entity is run.
- Current disclosure of risk factors is insufficient.

Arguments against providing the disclosure included:

- As IFRS 7 *Financial Instruments: Disclosures*, according to the respondent providing this argument, only considers risks, it should not be required to also provide information on opportunities.
- Disclosures should not be linked to 'key intangibles' but should follow the management approach in IFRS 7 and IFRS 8 *Operating Segments* as the term 'key intangibles' was difficult to interpret.
- In addition to key marketing metrics, valuations of marketing-related intangibles should be provided to reveal risks to the firm regarding marketing activities.
- Information on risk/opportunities in connection to intangibles should not be separated as this could distract the overall description of the business model.

Question 8 – Issues to be considered

Chapter 6 discusses challenges and issues to be considered when finding a manner to provide better information on intangibles. It mentions that it could be beneficial to introduce a common terminology on intangibles and that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive.

- 1 *Do you consider that it would be useful to introduce a common terminology on intangibles?*
- 2 *Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?*
- 3 *Are there additional issues than those listed in Chapter 6 you think should be taken into account when considering how to provide better information on intangibles?*

Common terminology

In their comment letters or in the submitted surveys, the majority of respondents providing a view on the issue agreed that it would be useful to introduce a common terminology. These respondents provided the following comments:

- It is useful to consider providing a non-binding guidance for categories of intangibles – an example for such guidance is the list in IFRS 3.IE16-44.
- From a users' perspective, using different terminology to disclose similar assets may not be helpful.
- Common terminology should be used as long it assists with understanding and comparability. If it proves to be inflexible, then it should also be adaptable, i.e., there should be a facility to add further terms and definitions over time.

One preparer organisation and one preparer did not see the need for common terminology. They provided the following comments:

- Requiring common terminology, may lead to forced distinctions that an entity would not have done otherwise, and it is important that entities use their own narration.
- It is not necessary under the approach to disclose future-oriented expenses.

Furthermore, eight respondents provided no response to that question in their comment letters.

It should also be noted that one user expressed the view that there was inflation in the terms used.

A very similar and consistent input was provided during meetings and outreach events. At these events and meetings, two standard setters agreed that a common terminology on intangible assets would be desirable. However, they noted:

- that it could be challenging considering the specificity of intangible assets; and
- that it should be generalisable terminology and take into consideration potential intangibles of the future. It was noted that without clear definitions, the application of the disclosure requirements will cause diversity in practice which would affect the comparability of information.

Moreover, a few members of EFRAG IAWG considered that it is essential to find a common terminology for intangibles.

Number of frameworks

In the study supported by EFRAG, EFFAS and ICAS, the view was expressed that for users it would be preferable just to have one universal global language on the issue, as there were limits on how many different frameworks users could grasp. Moreover, standardisation would enhance comparability.

Commercial sensitivity

In their comment letters and responses to EFRAG's electronic survey, the majority of respondents that provided a view on the issue agreed that preparers should not be required to disclose commercially sensitive information. They also explained that:

- It is necessary to have sufficient guidance on determining what is a (very) commercially sensitive information. Moreover, guidance is needed on whether the disclosure exception relates to all information related to an intangible or only to an element of information about the intangible.
- The exclusion for very commercially sensitive information should be restricted to the information about specific intangibles (including the risks and opportunities they present) and would not be needed in relation to recognition and measurement disclosures or to future-oriented expenses.
- The EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups, has a corresponding clause allowing members states to omit information when: "the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity." (Art. 19a par. 1) However, it should be also clarified that this should be a well-motivated exception rather than an easy exit.
- The right to ultimately decide what is commercially sensitive and what is not, should be with the auditor and not with the management. Also the fact of, and reason for, the omission should be recorded in the accounts.

On the other hand, one individual, and two standard setters disagreed. They explained that:

- Not disclosing information may lead to running away from being transparent which leads to lack of professionalism.
- Such objections can undermine the role of any form of reporting.

Furthermore, nine respondents provided no response to that question in their comment letters.

During the meetings and outreach events, EFRAG received the following further comments:

- One standard setter considered that consistent with the sentiment in paragraph 92 of IAS 37, it should be possible not to disclose due to commercial sensitivity. However, it should be allowed only in extremely rare cases and more research should be undertaken in this area.
- One standard setter thought that if intangibles were considered under a phased approach under which disclosures were considered before recognition and measurement, it could assuage preparers on the notion of commercial sensitivity. They may be able to explain intangibles without it resulting in commercially sensitive information considered as being provided.
- One user noted that commercial sensitivity should not be a constraint as by definition intangibles are commercially sensitive.
- An auditor noted that according to the Integrated Reporting Framework, if something was material to value, then it needed some level of disclosure for the information provided to be complete.

From the study supported by EFRAG, EFFAS and ICAS different views were expressed on the issue of commercial sensitivity:

- To the extent that the information provided would be considered important by management, commercial sensitivity was considered to be the main cost for preparers (and not the cost of preparing the information).
- It was noted that information under IFRS 3 was required without considering commercial sensitivity, and it would be inconsistent to consider commercial sensitivity for internally generated intangibles.
- There would be a lot of information that could be provided that would not be commercially sensitive.
- Whether information could be commercially sensitive would depend on the level of detail required. Providing information on individual R&D projects could be commercially sensitive information.

Other comments and issues to consider

Providing better information on intangibles in the context of developed sustainability reporting

In their comment letters, some respondents considered the existing process of drafting new European Sustainability Reporting Standards, the work of ISSB and IFRS Sustainability Disclosure Standards, and sustainability reporting in general. They provided the following comments:

- Connectivity between financial reporting and sustainability reporting will have to be considered when proposing changes to financial reporting requirements under IFRS.
- There is a need to consider further disclosure requirements in the light of those that (will) arise from sustainability reporting requirements.
- Connectivity is an essential element of the future considerations.

- The future reporting on intangibles and value creation is a key area for connecting financial and sustainability reporting.
- The link to sustainability reporting should be provided because future reporting on intangibles and value creation is a key area for connecting financial and sustainability reporting.
- When considering where information should be placed, it is important to have some anchor points on which information that should be presented as sustainability information and which information should be presented as financial information in order to avoid overlap. Or indeed that some information would not be provided.

Similar input was received during the meetings and outreach events. Two standard setters and a consultant noted that intangibles should be considered under a joint umbrella with sustainability reporting. An auditor warned about overloading. As there are also the issues on connectivity between ESG and financial reporting, the respondent considered that the connectivity should be sorted out first and then it could be assessed whether there was a fundamental issue on intangibles.

Similarly, the academic study supported by EFRAG, EFFAS and ICAS concluded, based on the evidence collected, that it seems crucial to clarify the role of information on intangibles in relation to ESG information. Despite no general consensus among participants in the study, many users considered the two sets of disclosures to be overlapping. This could reduce and confuse the autonomous role and relevance of intangibles in the company value creation process. A better understanding of the respective roles and the connectivity between intangibles and ESG could thus be beneficial. In this respect the view was expressed that it should be important to distinguish between the impact to the business and the impact of the business and that it should be clearer what is meant by ESG. Another view was, however, that trying to differentiate between ESG and intangibles was unnecessary as all information on the business, how assets are safeguarded, how staff are looked after and so on, should be included in the management commentary.

Cost/benefits

In the academic study supported by EFRAG, EFFAS and ICAS, around 67% of the users thought the benefits of additional information on intangibles would outweigh the cost. Around 49% of the preparers thought that the benefits would not necessarily outweigh the cost.

As noted above, the argument was made that if the information required were to be information that would be considered important by management, there would not be a significant cost to providing the information. On the other hand, recognising and measuring internally generated intangibles on the balance sheet was an effort for which the benefits might not exceed the cost.

An organisation of preparers noted that the objective of removing any differences between entities growing organically and those growing via acquisitions should not lead to favouring accounting approaches and outcomes which might be conceptually very appealing but difficult to be operationalised and audited in day-to-day practice.

Cost/benefit in financial sector

One auditor noted that the importance of cost-benefit considerations should be kept in mind as most intangibles are not an asset under regulatory considerations.

An association of preparers thought that the asymmetric treatment of intangible assets between the IFRS framework and the prudential framework (e.g., Solvency II) should be part of a more comprehensive consideration. The organisation noted that the current misalignment of the approaches might be seen as being justified in terms of the different objectives of the IFRS framework and prudential frameworks. Nevertheless, in the current situation, the capitalisation of self-generated intangible assets leads to additional operational costs while providing no relief regarding capital requirements for insurers. Moreover, some experience that rating agencies treat intangibles very conservatively. In this regard there is a view that no real benefits can be achieved by the costly reporting of self-generated intangibles in IFRS financial statements. Consequently, a robust holistic approach needs to be followed when any significant changes to IAS 38 are envisaged. The aim should be to increase the robustness of the information provided in the primary financial statements, hence, to create a valid basis on which the prudential regulators accept the intangibles recognised in IFRS balance sheet to the extent possible.

Removal/amendments of some of the current requirements

The view was expressed by an association of preparers and a standard setter that the obligation to separately recognise intangible assets in purchase price allocations should be relieved. The aim should be to develop a model resulting in fewer intangible assets being recognised when accounting for a business combination and that amortisation of goodwill should be reintroduced as a requirement. The view was expressed that in combination, these amendments of the current standards would, at least partly, counteract some of the issues highlighted in the DP.

Other areas of consideration

One standard setter suggested that the following areas might be considered as part of the project:

- transitional issues;
- comparative information (including trend analyses and outcomes against expectation);
- auditing standards; and
- implications for disclosures currently required about recognised items (for example, is the volume and quality of information for unrecognised assets greater than for recognised assets).

Need for a comprehensive review of IAS 38

Several standard setters thought that the IASB should perform a comprehensive review of IAS 38.

Two standard setters mentioned the current accounting standard IAS 38 has not kept pace with the consequential changing business models of many entities or with intangibles that did not exist when the standard was developed, such as digital technologies, emissions trading rights, cryptocurrencies and cloud storage.

One standard setter mentioned that in this regard, the consistency with the revised Conceptual Framework should be considered since the Conceptual Framework has been substantially revised since IAS 38 was issued. The revisions have included the objective of financial reporting, identification of primary users of financial statements, the definition of an asset and the asset recognition criteria.

One standard setter mentioned that in this regard, the IASB needs to determine the extent to which emerging financial reporting issues (e.g., emission rights, cloud-based computing arrangements and cryptocurrencies) should be addressed by an IFRS Standard on intangible assets.

Other comments

A regulator thought that the circular dependency that would arise if internal intangibles were to be capitalised and impaired based on their 'value in use' should be considered. The regulator thought that this could result in an entity's own profitability would impact the book value, which again would impact the entity's profitability.

A valuator thought that having some discussion on when human capital could be an asset could be useful.

During an outreach, a participant suggested that the purpose of the financial statements should be discussed to determine e.g., whether measurement should be at cost or fair value.

During another outreach event, a participant believed that in specific cases, it could be difficult to distinguish between tangible and intangible assets. For instance, a plot of land with a waterfall – should it be considered as a plot of the land that is more worth because of the waterfall, or rather a separate (intangible) right to use the waterfall should be recognised.

Question 9 – Placement of the information

Chapter 6 presents an approach under which information discussed in Chapter 4 and Chapter 5 would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed? Should they be placed all in the same section or in different sections of the financial report and why?

Placement of the information

In their comment letters, 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:

- The location of such information is important because different auditing requirements apply.
- The disclosures on unrecognised intangibles should be placed close to the sustainability report.
- One standard setter explained that the placement should depend on the nature of the information and function of the notes and management commentary respectively.
- 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.

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:

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

Other presented alternative views:

- One preparer thought that Information on specific intangibles (according to the proposal set out in Chapter 4) 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.
- One standard setter recommended disclosing on a specific section with cross reference to other sections of the financial report because it is easier to access.
- 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 on intangibles inside the notes.
- 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.
- 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 in the management commentary as part of a further explanation by managers.
- Respondents commented that in the European Union, sustainability standards and legislation may settle some of the placement issues.
- 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.
- One user believed that placement is less important than disclosure itself.
- An individual was indifferent to the placing of this information provided that the information is accurate and transparent.

- 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.

Other proposed models include:

- Depending on the nature of the intangible disclosures should be placed in the notes of the financial statement if they are related to:
 - intangible assets recognised in the statement of financial position; and
 - 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.

- Splitting disclosures should be based on the following approach:
 - Historical financial information should be in the financial statements.
 - Future-oriented information and value creation should in principle be in the management commentary.
- 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.
- 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.

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.

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

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.

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).

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 were to be included into any report to satisfy all external requirements, it would overwhelm both users and preparers.

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.

APPENDIX 1 – Suggested disclosures on specific intangibles

In addition to the disclosures on specific intangibles listed in the DP, the following information could be suggested based on the input received in response to the DP.

General	A description of intangibles
	<p>A description of the type of intangibles recognised and the related amount. Among other things, this information would be useful for assessing whether an asset would be replaced automatically (and thus result in a double charge to profit or loss). A description of (unrecognised) intangibles would also enable users to understand the business and the activities conducted.</p> <p>Internally generated or acquired</p> <p>For those intangibles that are recognised, information on those that are internally generated; those for which the entity has outsourced the development; and those that are acquired should be provided. The information could also be provided on the face of the statement of financial position by splitting internally generated intangibles and acquired intangibles. The information would help users to better understand and compare entities that grow organically with those growing by acquisitions.</p> <p>Value potential</p> <p>Information to estimate the value potential of intangibles (e.g., expected strategy and preservation management).</p> <p>Linkage to financial performance</p> <p>An explanation on how an intangible is related to the entity's value creation should be provided. The information should also be linked with financial performance.</p>
Human capital	<p>For human capital the following information/KPIs could be provided: Employee competence level, employee turnover per function and geography and employee satisfaction and engagement. Also, information on whether particular activities were done by the entity's employees or e.g., consultants, in which country it was done and how much was paid to employees and attrition at different levels of the organisation could be useful.</p>
Training	<p>For human capital the following information/KPIs could be provided: training costs on annual revenues, level of employee participation in training courses and number of training courses completed by employees. Also, KPIs expressing impact of training-related activities (including impact of training on the development of employees' career and impact evidence of a positive return on investment of the training) could be useful. The information on training hours should be complemented by information on employee turnover. The employee turnover would say something about how much value the entity would receive from its training.</p>
Customer database/customer relationships (broader than	<p>Information on how the customer database is maintained could be useful. It might also be considered to disclose the value of customer relationships.</p>

customer database)

Customer satisfaction/loyalty and corporate reputation/image For customer satisfaction/loyalty and corporate reputation/image the following information/KPIs could be provided: customer attrition rate, customer retention metrics (such as average customer retention period) and revenues from new customers.

Relationships with suppliers For relationships with suppliers, the following information/KPIs could be provided: degree of value chain integration, types of suppliers' product quality certifications and types of suppliers' environmental certifications.

Information on the degree of dependency on individual suppliers, by regions, volume and by recital components could also be provided as well as information on timely payment of suppliers (by size) and the net promoter score from suppliers.

Brands For brands, the following information/KPIs could be provided: brand strength, brand contribution to EBITDA and marketing expenses per brand. The International Standards Organization's work on e.g., brand evaluation could also be used a reference for the disclosure.

Research and development For research and development, the following information/KPIs could be provided: revenues from products generated by internal R&D, R&D expenses per segment of business and detailed amounts of R&D expenditure. Also, for new products (e.g., drugs) being developed, a description of the product, which development stage it was at, and the market size could be useful information.

Intellectual property and know-how For intellectual property and know-how, the following information/KPIs could be provided: revenues from the last five years' patents and number of active patents.

This could be supplemented by a description of the patents, the time to expiration for the major IPRs, the description and number of patent submissions and the associated degree of success.

Strategy and planning For strategy and planning, information on market share could be provided.

Business model For a business model, the following information/KPIs could be provided: illustration of value proposition, description of business activities/lines and description of input/output/outcome. Also, information on the quality of relationships with stakeholders could be provided.

Organisational culture/climate For organisational culture/climate, the following information/KPIs were considered useful by users in the study supported by EFRAG, EFFAS and ICAS: employee turnover/absences and salary and promotion packages.

Information on expenses for types of employees on corporate welfare and the efficiency of the organisational structure was also proposed.

For the use of KPIs it would be important to include the definition of these figures.

The level at which the information should be provided, should also be considered. Sometimes it would, for example, be important to disaggregate the information. Information related to customers could thus be provided by groups of customers. Information on brands could be provided for each brand and information on employees could be provided by function as, for example, a high employee turnover at some levels may be less critical than at other levels. Also, providing some types of disclosures at segment level would add significant value.

APPENDIX 2 – List of respondents and outreach activities

List of Respondents (comment letters)

<i>Respondent</i>	<i>Country</i>	<i>Type</i>
SEAG	Sweden	Preparer organisation
AcSB staff	Canada	Standard setter
SFRB	Sweden	Standard setter
AFRAC	Austria	Standard setter
EFFAS	European	Association of users
GDV	Germany	Preparer organisation
ACCA	International	Association of accountants
CA ANZ CPA	Australia and New Zealand	Associations of accountants
Vural, Nimet	Türkiye	Individual
BMW Group	Germany	Preparer
ASCG	Germany	Standard setter
Insurance Europe	European	Preparer organisation
Caixabank	Spain	Preparer
Kroll	International	Valuation/consulting
CRUF	United Kingdom	Network of users
CNC	Portugal	Standard setter
ICAC	Spain	Standard setter
IEAF	Spain	Association of users
DASB	The Netherlands	Standard setter
NASB	Norway	Standard setter
EAA	International	Association of academics
WICI	International	Business reporting network

OIBR	Italy	Business reporting organisation
OIC	Italy	Standard setter
Observatoire de l'Immatériel	France	Think tank
UKEB	United Kingdom	Standard setter

List of Respondents (completed surveys)

Marketing Accountability Standards Board (MASB)	United States	Marketing accountability standard setter
Assuralia	Belgium	Preparer organisation
Wrigley, Jed	Italy	User
IEAF	Spain	Association of users

Public outreach events

Organiser(s)	Date	Place
EFRAG and EFFAS	29 March 2022	Online
EFRAG and ASCG	4 May 2022	Online
EFRAG and the NASB	24 May 2022	Oslo
EFRAG	30 May 2022	Brussels/online
EFRAG, Organismo Italiano di Business Reporting (the O.I.B.R.) and the OIC	15 June 2022	Online
EFRAG, DI, FSR – Danske Revisorer	22 August 2022	Copenhagen/online

Closed outreach events

Organiser(s)	Date	Place
Finnish Association of Accountants	1 October	Online
CRUF	1 December 2021	London/Online
EFRAG FIWG/IAWG joint meeting	4 February 2022	Online
EFRAG and the DASB	16 February 2022	Online

EFRAG and the EAA	25 February 2022	Online
EFRAG and Accountancy Europe	28 February 2022	Online
EFRAG and the AASB (User Advisory Committee)	10 March 2022	Online
EFRAG and the AASB (Academic Advisory Panel)	5 April 2022	Online
EFRAG and the AASB (Disclosure Initiative)	11 April 2022	Online
EFRAG and Accountancy Europe	9 May 2022	Online
EFRAG and the Licensing Executives Society France	16 May 2022	Online
EFRAG and the ICAEW	30 June 2022	Online

Participation in events

Organiser(s)	Date	Place
IFASS	30 September 2021	Online
IVSC	26 October 2021	Online
ENG	24 November 2021	London/Online
ACCA	25 November 2021	Online
ICAS	30 November 2021	Online
CFA Institute	9 December 2021	Online
ASAF	9 December 2021	Online
World Bank (STAREP/REPARIS)	31 March 2022	Online
The ANC (11èmes États Généraux de la recherche comptable de l'Autorité des Normes Comptables)	14 April 2022	Online
Association Francophone de Comptabilité	25 May 2022	Bordeaux
Danish Accounting Council	14 June 2022	Copenhagen/online
Association Francophone de Comptabilité	21 June 2022	Nice/online

Other input

Crovini, Chiara; Giunta, F.; Nielsen, C. and Simoni, L. 2021. *Do companies disclose relevant information about intangibles? Insights from business model reporting and risk reporting*. EFRAG and ICAS.

Zambon, Stefano; Marzo, G.; Bonnini, S. and Girella, L. 2023. *The production and consumption of information on intangibles – an empirical investigation of preparers and users*. ICAS, EFRAG and EFFAS.