

# UKEB Intangibles Research

## Accounting Standards Advisory Forum Meeting



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# 9 July 2024

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# UK Endorsement Board Research Project Accounting for Intangibles

## Contents

- Context
- Findings – stakeholder interviews
- Findings – survey of users
- Findings – quantitative analysis
- Conclusions and resources

# UKEB Intangibles Research Project

In anticipation of an international debate on intangibles, in 2022 the UKEB began a research project aimed at gathering evidence about the intangibles landscape in the **UK**.

The UKEB's comprehensive research project:



Explored UK stakeholders' views on the accounting for intangibles under International Accounting Standards.



Surveyed users of UK financial statements to better understand their perspectives on the current and future reporting of intangibles in the financial statements.



Reviewed the nature and extent of current reporting practices for intangibles among UK listed companies using IFRS standards.



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# Stakeholder Interviews (Qualitative Report)

## – Previously presented to ASAF

- Semi-structured interviews were conducted with 35 UK stakeholders, all with a direct interest in financial statements prepared in accordance with IFRS.
- Report published March 2023 (Presented at July 2023 ASAF)

### Common themes:

- IAS 38 *Intangible Assets* is not wholly aligned with the current *Conceptual Framework for Financial Reporting*
- Comparing companies which have grown organically with those that have grown by acquisition is problematic due to the different requirements for internally generated and purchased intangibles
- The disclosure about intangible expenditure in **financial statements** could be enhanced, with more disaggregation of information
- Both qualitative and quantitative factors influence materiality judgements about intangibles





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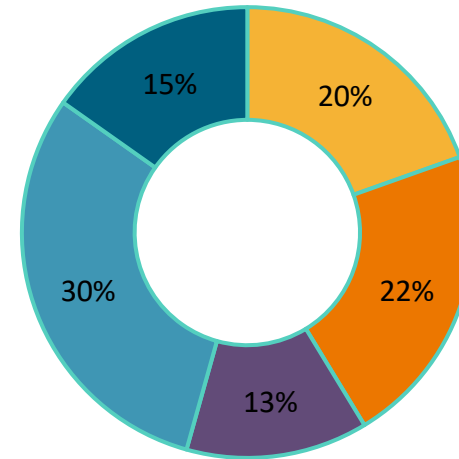
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# Survey of Users (Survey Report)

- Targeted survey of users of financial statements
- 46 responses
- Report published May 2024

## Equity/fixed income analyst

- *“Clearly intangibles form an important part of most businesses. Failing to either provide disclosures or recognise intangible assets compromises the usefulness of financial statements”*



- UK users who invest in UK companies
- UK users who invest in foreign companies
- Foreign users who invest in UK companies
- UK users that don't invest/lend
- Non-UK, non-investing users

## Key findings:

1. Intangibles are economically important
2. Specific issues highlighted
  - Limited disclosure/connectivity
  - Inconsistent categorisation
  - Lack of comparability
  - Concerns about subjectivity of measurement

# Current and Future Accounting for Intangibles

## Users' views on current accounting

- 85% of survey respondents told us that intangibles are 'very or extremely' economically important.
- However, only 52% of respondents said that the current financial statement information is 'very or extremely' useful.

## Users' views on future accounting

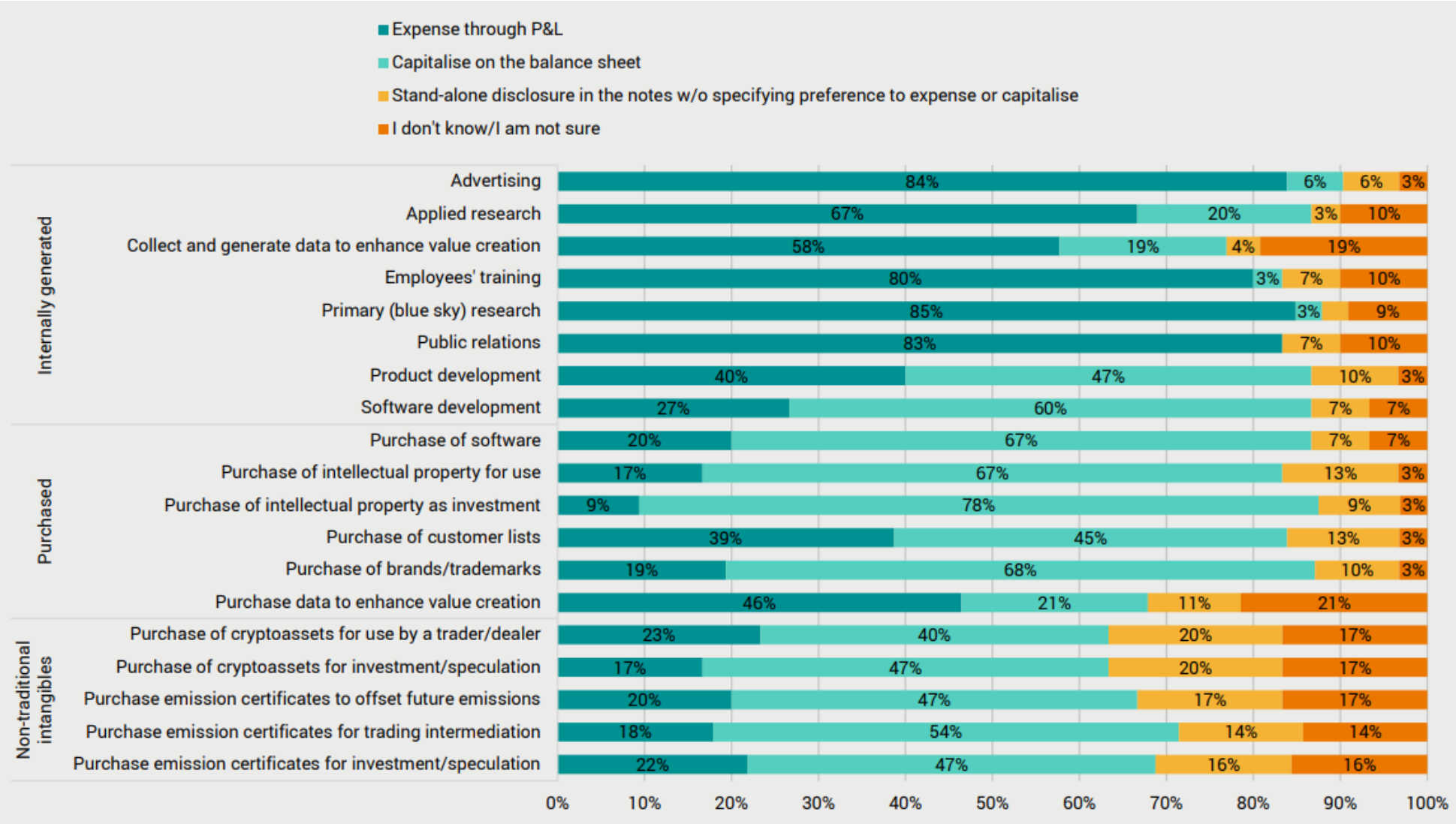
- Concern about the accounting for non-traditional (emerging) intangibles.
- Accounting treatment for companies that grow organically and those that grow through acquisition do not address investors' need for information.
- More granular information to be disclosed about company spending on intangibles, and the expected benefits from that spending.

### Financial professional

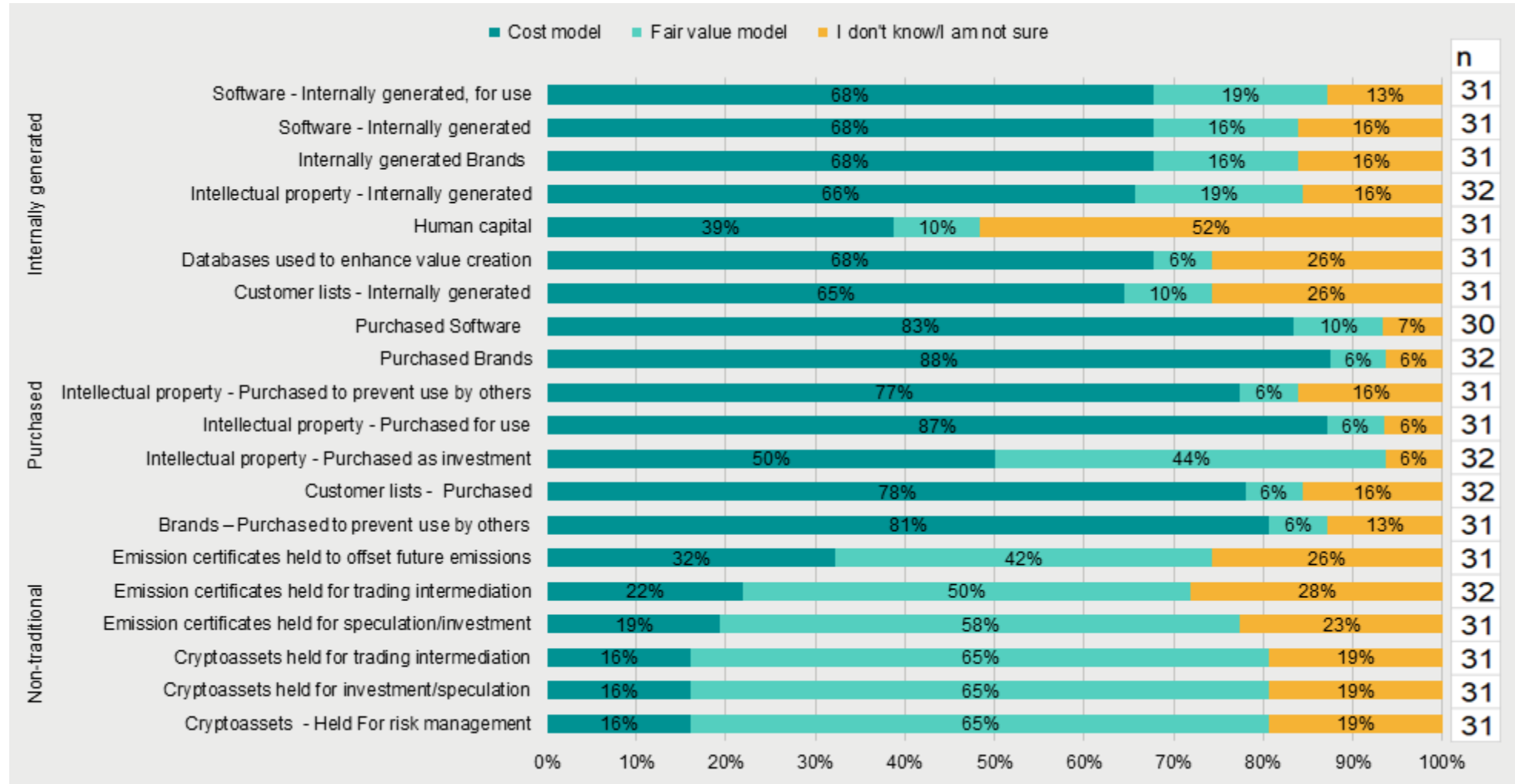
- “Cryptoassets in particular need their own accounting standards...but the information required should be obtainable and auditable – estimates are open to huge bias and are unhelpful”



# Preferred Accounting Treatments



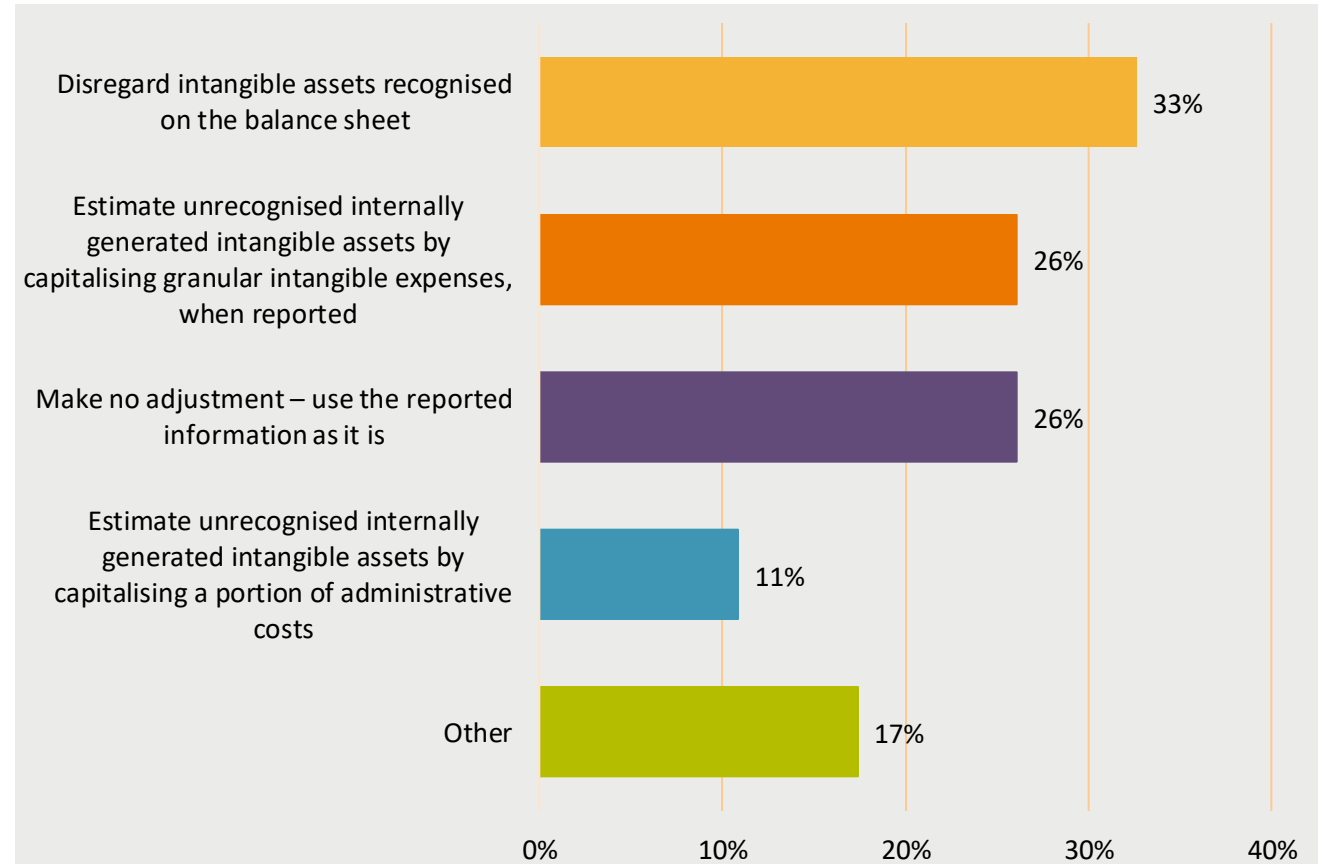
# Preferred Accounting Treatments if Capitalised



# Adjustments to Financial Statements

## Usefulness of information

74% of users adjust financial statements when comparing companies which have grown organically with those that have grown by acquisition



# Intangibles Information Sources

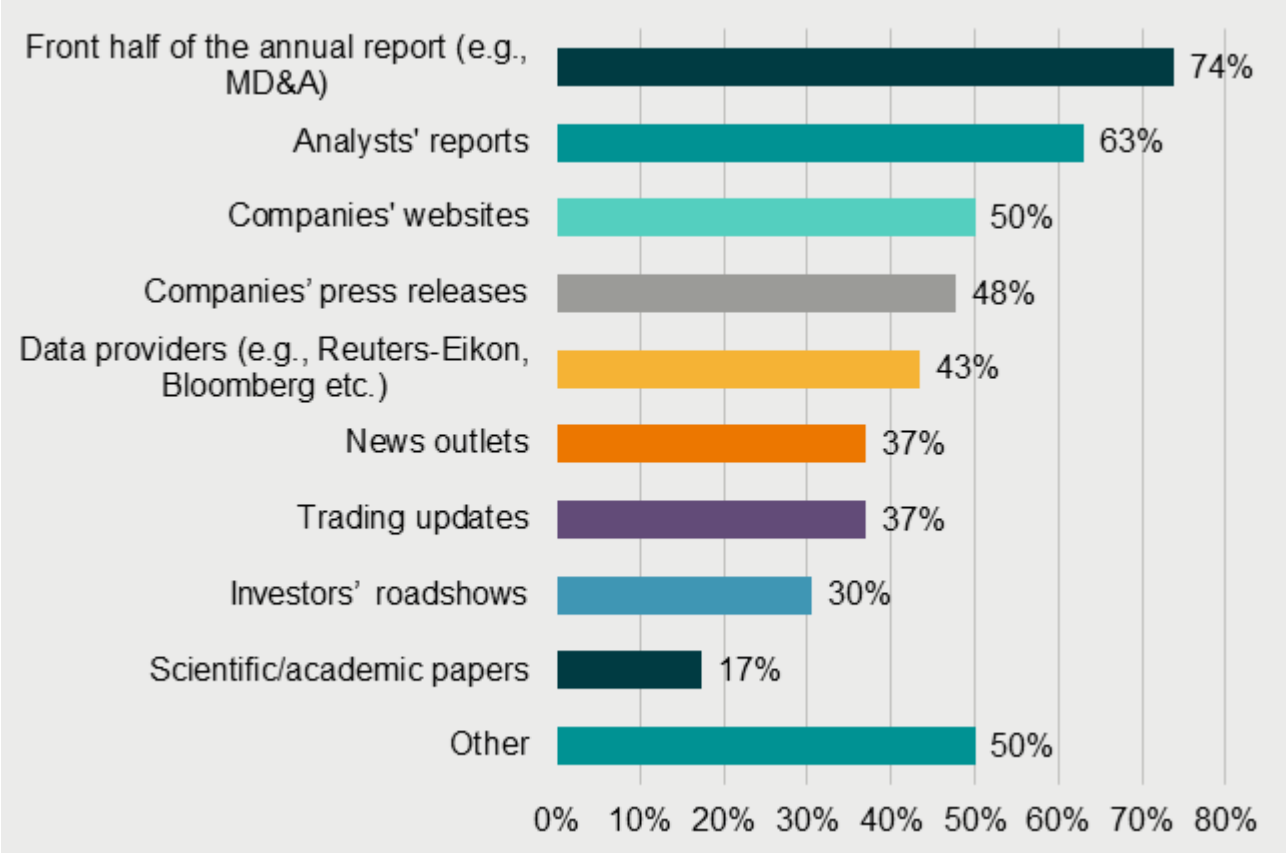
## Information sources

74% of users access relevant information from the front half of annual report

67% would like to see additional information on intangibles in financial statements (audited, integrated, more reliable)

## Disclosures

84% feel qualitative and quantitative factors are equally important when assessing materiality of intangibles  
Information about contribution to revenues most important



# What Users Told Us They Want – but...

- **Users are utilising narrative information and making their own calculations**
- They clearly need high quality, comparable and reliable information and would prefer that to be in the financial statements and notes than in other sources
- They would like the accounting to be improved but there are mixed views as to how:
  - changes to disclosures
  - changes to recognition and measurement
- Users appear cautious, but also want to see comprehensive consideration of the accounting for intangibles. A thorough exploration of stakeholder views about different alternatives is recommended before any decisions are taken about how to evolve the current international accounting for intangibles

# Creditor Perspectives

**Creditors, particularly lenders, are starting to be more vocal on intangibles.**

- IP-back finance is a growing area of interest
  - Not just patents but including copyrights and “innovative database designs”
- Banks have suggested they would find it **easier to lend if intangibles were recognised** in the balance sheet.
  - **Interactions between company accounting and Banks’ regulatory capital rules** impacting lending to innovative companies

“Internationally set accounting rules mean IP and intangible asset value are often hidden on balance sheets.” – *WIPO Report: Unlocking IP-backed Financing: The United Kingdom’s Journey*

# Questions for ASAF members

1. Do users of financial statements in your jurisdiction commonly make adjustments to intangible assets before they use the financial statements? If so, what types of adjustments?
2. Most users have told us that the financial statements remain a key source of information on intangibles, and are interested in an “accounting solution” to their information needs. Is this consistent with your jurisdiction?



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# Quantitative Analysis (Quantitative Report)



- Examination of financial statement data on intangible assets reported by **all UK listed companies** (population) from 2011-2021



- Review of intangibles financial statement data of a **sample of 80 companies** for 2021



- Investigation of **M&A transactions** from 2011-2021 at market level and selected sample of the 20 largest deals

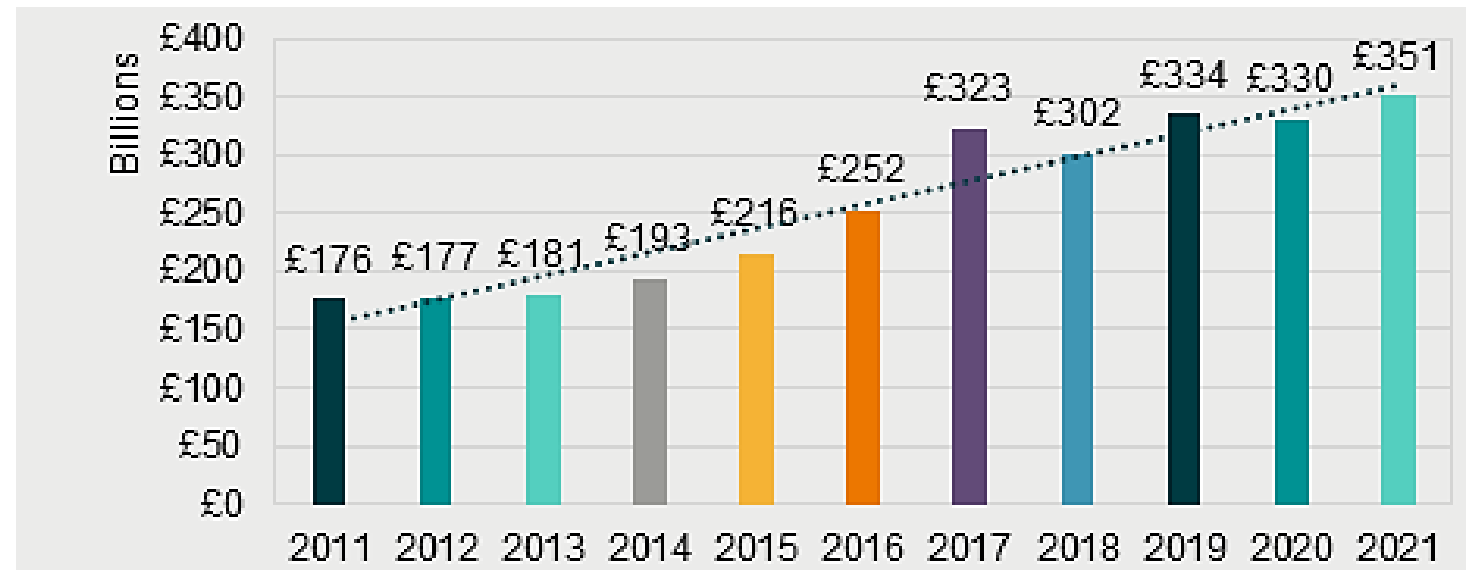


- Estimate of **value of unrecognised intangibles** in UK listed companies for 2011-2021, and estimated distribution between industries and companies of different sizes

- Report published May 2024

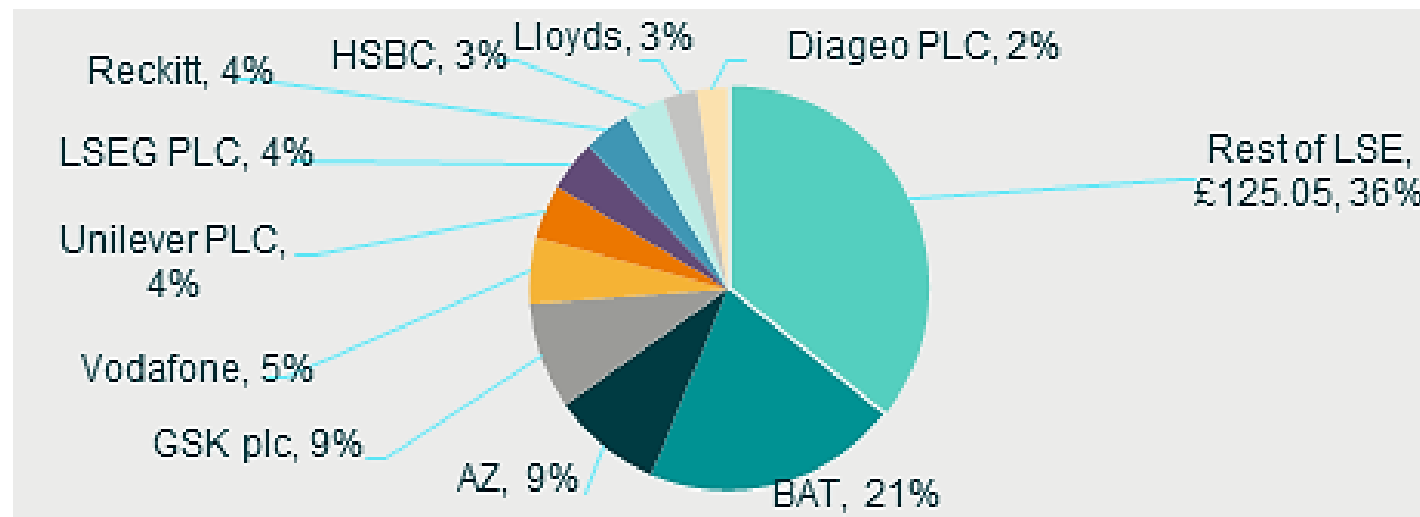
# Intangible Assets in UK Listed Companies

- 2021 - carrying amount of intangible assets (excluding goodwill) was £351bn for all UK listed companies (total assets were £11.5 trillion).
- Average growth rate from 2011-2021 in intangible assets 8% pa.
- Over the same period:
  - Total assets grew at 2% pa
  - UK inflation averaged 1.8% pa
- This far outstrips inflation and total asset growth rate over the same period



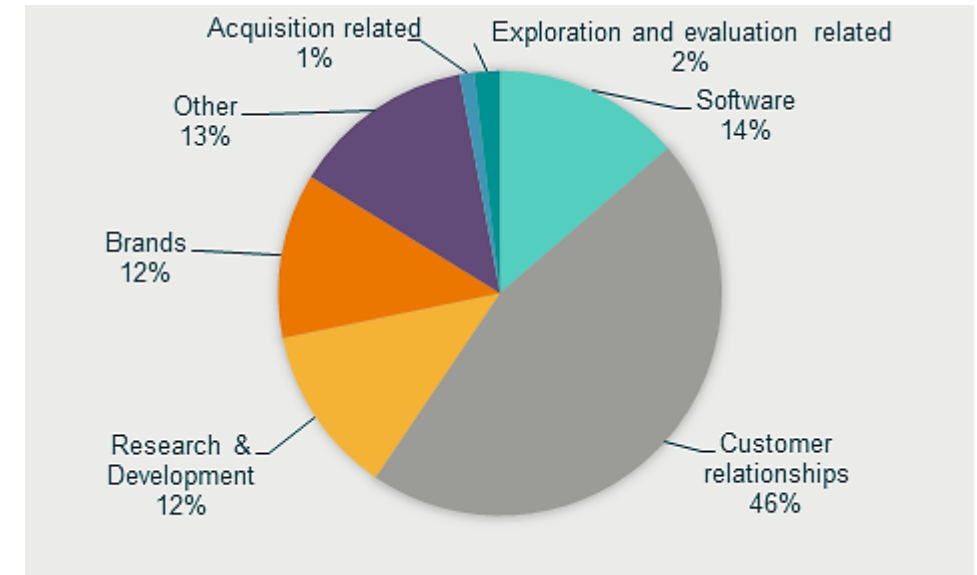
# Accounting for Intangibles –

- 79% of companies had at least one intangible asset on their balance sheet in 2021
- The largest 25% of companies had 97% of the intangible assets in the population
- 10 companies held almost two thirds of the total intangibles balance in 2021 – due to purchased intangibles from M&A activity
- British American Tobacco held 21% of the total intangibles balance in 2021.



# Accounting for Intangibles – Sample

- Smaller companies more likely to have R&D and software intangibles (internally generated) and a wider range of intangible assets than larger companies
- Intangibles are most prevalent in the health care, consumer staples and technology industries. However, technology companies' largest intangible was frequently customer relationships.
- 24% of companies in the sample did not distinguish between purchased and internally generated intangibles
- 31 companies disclosed research expense in the notes, but only 55% of these also had capitalised development costs

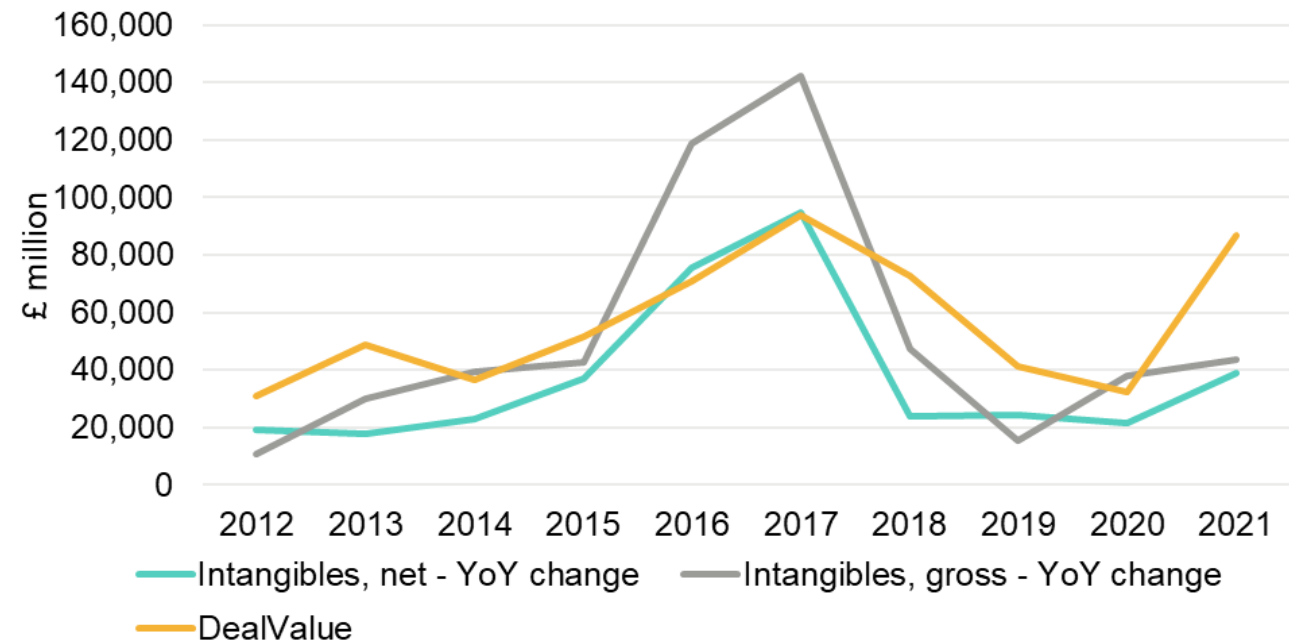


# Questions for ASAF members

3. Do you have quantitative data on intangibles for your jurisdiction similar to the data UKEB is reporting in its Quantitative Report? If so, is the concentration and distribution of intangible assets similar or different from UK listed companies?
4. Do you observe similar inconsistencies in how intangible assets are categorised on the face and in the notes to the financial statements in your jurisdiction?  
e.g. is it clear which assets are purchased in business combinations, and which are internally generated, and is there extensive and inconsistent use of the 'other' category.
5. Do you have information about expenses relating to intangible items in your jurisdiction? If so, do you see similar patterns to those observed in UK listed companies (research expense most commonly disclosed, then advertising expense, then training expense least commonly disclosed)?

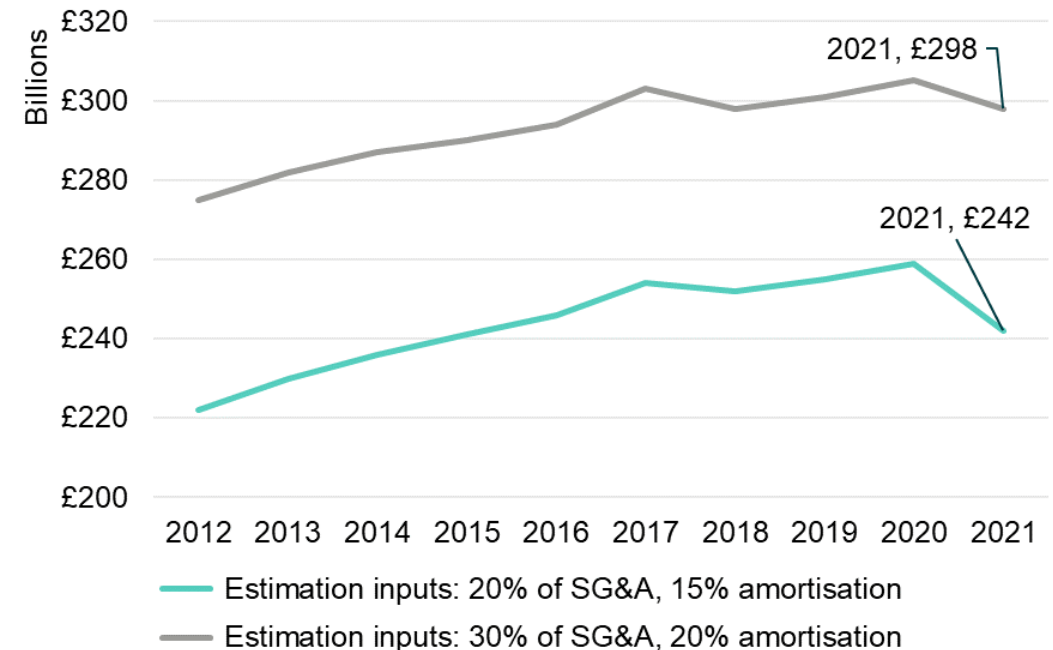
# Accounting for Intangibles – M&A Transactions

- Correlation between intangibles at cost (gross) and carrying amount (net) and deal value over the period
- 20 largest deals: average intangible assets 33% of purchased assets but varied from 0-84%
- Narrative reporting and notes to the financial statements seem to suggest that intangibles were an important driver of these acquisitions.



# Accounting for Intangibles – Estimate of Unrecognised Intangible Assets

- UKEB estimated unrecognised intangible assets using two sets of assumptions based on academic literature (Perpetual Inventory Method)<sup>1</sup>
- 2021 £242-298bn unrecognised intangible assets under market-wide approach
- Order of magnitude is similar to UK Office for National Statistics estimate<sup>2</sup>



# Question for ASAF members

6. Have organisations in your jurisdiction attempted to estimate unrecognised intangible assets? If so, have they used the perpetual inventory method or another method? What is the order of magnitude of the estimate in your jurisdiction?



# Quantitative analysis key takeaways

- While intangible assets are widespread and increasing in value, they still **only represent ~3% of the balance sheet.**
- **A few companies**, particularly those that have grown through acquisition, **hold most of the value of recognised intangibles.**
- Differences in accounting treatment for **internally generated and acquired intangibles hamper comparisons of companies** based on commonly used performance indicators.
- The disclosures in the notes to the financial statements are not as clear as they could be, and it is sometimes difficult to distinguish between different types of intangibles.
- Differences between recognised and estimated unrecognised intangible assets could indicate the existence of an **intangibles recognition gap.**



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# Concluding Comments

- There are opportunities to enhance the accounting for intangibles. Users of accounts:
  - need high quality, reliable and comparable information and would prefer that to be in the financial statements and notes.
  - would like the accounting to be improved, but there are mixed views as to how this can be achieved.
- Users of accounts want more granular information about companies' intangibles, and better accounting for emerging intangibles
- Differences in accounting treatment for internally generated and acquired intangibles hamper users' ability to compare companies based on commonly used performance indicators.
- The IASB's project provides a once in a generation opportunity to develop comprehensive improvements to the existing accounting standard for intangibles.

# Common themes of UKEB Research and other NSS Research<sup>3</sup>

| Theme  | UKEB research   | Other NSS research  |
|--|---|---|
| Disclosures in IAS 38 need to be improved      | UKEB Qualitative Report and Survey Report               | AASB improve disclosure requirements for internally generated intangibles<br>EFRAG combination of approaches – more disclosure on future-oriented expenses, intangible items key to business model, exemptions for commercial sensitivity<br>UK FRC additional disclosures needed |
| Recognition and measurement need to be amended | UKEB Qualitative Report and Survey Report (mixed views) | EFRAG review recognition criteria, consider revaluation model, remove prohibitions on capitalising (mixed views)  |
| More consistent terminology                    | UKEB Quantitative Report                                | AASB review of financial statements found terminology was inconsistent<br>EFRAG outreach participants agreed it would be useful if this was more consistent<br>XRB lack of standardised terminology in financial statements   |

# Resources

Scan QR  
code for  
reports



## [Intangibles reports page on UKEB website](#)

- All 3 reports
- Video introduction by Pauline Wallace, UKEB Chair
- Summary brochure

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# Endnotes

- 1: Peters, R. and Taylor, L.A. (2017). Intangible capital and the investment-q relation. *Journal of Financial Economics*, 123(2), pp.251–272.
- 2: Martin, J. (2019). Measuring the Other Half: New Measures of Intangible Investment from the ONS. *National Institute Economic Review*, 249(1), R17–R29.
- 3: IASB Staff Paper Agenda Reference: AP17A, April 2024. Intangible Assets. Summary of national standard-setter research.