Staff paper

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FASB | IASB Education Meeting

Date	**11 October 2024**
Project	**Intangible Assets**
Topic	**Update on the project**
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Purpose of the paper

1. The purpose of this paper is to provide an update of the IASB's Intangible Assets project.

2. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (together 'the boards') are not being asked to make any decisions but we welcome your comments or questions about this project.

Structure of the paper

3. This paper is structured as follows:

   (a) why the IASB started the project;

   (b) plans for initial work;

(c) activities to date and next steps;

(d) question for the boards;

(e) Appendix A—An overview of IAS 38 *Intangible Assets*;

(f) Appendix B—Possible project topics; and

(g) Appendix C—Possible project approaches.

Why the IASB started the project

4. The IASB's Third Agenda Consultation sought stakeholders' views on the IASB's activities and work for 2022 to 2026. Feedback to that Agenda Consultation highlighted deficiencies in the reporting of intangible assets. Stakeholders, including users of financial statements, rated a project on intangible assets as high priority. They raised matters relating to all aspects of IAS 38 *Intangible Assets*, including its scope, recognition and measurement requirements and the adequacy of the information entities are required to disclose about intangible assets (see Appendix A for a high-level overview of IAS 38).

5. Following its Third Agenda Consultation, the IASB added to its research pipeline a project on intangible assets that would comprehensively review IAS 38.[1]

Plans for initial work

6. At its April 2024 meeting, the IASB moved the Intangible Assets project to its research work plan.[2] The IASB considered the evidence from national standard-setter research and from an academic literature review, as well as the feedback from the Third Agenda Consultation in determining plans for initial work on the project.

[1] IASB's pipeline projects are projects that the IASB expects to start work on before its next five-yearly agenda consultation.

[2] The IASB carries out a research project to gather evidence about the problem to be solved and assess whether a feasible solution can be found. After completing the research phase, the IASB might move a research project to standard-setting to develop a new IFRS Accounting Standard or to substantially amend a Standard.

7. The IASB acknowledged that a comprehensive review of IAS 38 will be a large and complex project for the IASB and its stakeholders. Therefore, in the initial research phase of the project the IASB is seeking to define:

   (a) the problem(s) for the IASB to solve—that is the objective of the project;

   (b) the scope of the project; and

   (c) the approach to the project—that is how best to stage work to produce timely improvements to IFRS Accounting Standards.

8. The IASB is consulting its advisory bodies and other stakeholders to inform these decisions. To facilitate discussions with stakeholders, IASB staff developed a list of topics that the IASB might explore in the project (see Appendix B) and three possible approaches to staging the work (see Appendix C). The lists of topics and approaches are not meant to be exhaustive—they are intended to help stakeholders in their initial considerations on the project.

9. In addition, when starting the project, the IASB noted that although the title of the project refers to intangible assets, the IASB will also consider whether the project should be limited to accounting for and disclosing information about financial statements elements—assets and expenses arising from expenditure on intangible items—or whether the project should address intangible items more broadly.

10. The IASB will also need to consider the connections between this project and:

    (a) other projects on the IASB's work plan or prospective work plan—for example, its Management Commentary project or reserve project on pollutant pricing mechanisms; and

    (b) the work of the International Sustainability Standards Board (ISSB)—for example, the ISSB's requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and the ISSB's research project on Human capital.

Activities to date and next steps

11. To date, IASB members and staff consulted the following IFRS Foundation bodies:

    (a) the Capital Markets Advisory Committee and the Global Preparers Forum at their joint June 2024 meeting;[3]

    (b) the Accounting Standards Advisory Forum at its July 2024 meeting; and

    (c) the IFRS Interpretations Committee at its June 2024 meeting.

12. We also had the opportunity to consult with the International Forum of Accounting Standard-Setters, two national standard-setters' user advisory groups, a group of valuation specialists, a group of regulators and several other groups of users and preparers.

13. The staff will provide the IASB with a summary of feedback from these initial consultations at the IASB's October 2024 meeting.

14. Further consultations with stakeholders and other research activities will take place over the next few months. The IASB plans to discuss an updated summary of feedback from consultative activities and findings of other research and to decide on the project objective, scope and how to stage the work in the first half of 2025.

Question for the boards

Question for the IASB and the FASB
Do you have any comments or questions about the IASB's Intangible Assets project?

[3] Breakout groups of GPF members and breakout groups of CMAC members separately provided feedback prior to a joint discussion of that feedback.

Appendix A—An overview of IAS 38 *Intangible Assets*

IAS 38 *Intangible Assets* is one of the IASB's older Standards. It was originally issued by the International Accounting Standards Committee in September 1998 and adopted by the IASB in April 2001. The IASB made some changes to IAS 38 over the years but had not substantially revised it.

Table 1—An overview of IAS 38

Scope	IAS 38 is a residual Standard. It applies in accounting for intangible assets, except for: (a) intangible assets that are within the scope of another IFRS Accounting Standard (for example, intangible assets held for sale in the ordinary course of business within the scope of IAS 2 *Inventories*; goodwill acquired in a business combination within the scope of IFRS 3 *Business Combinations* and leases of intangible assets within the scope of IFRS 16 *Leases*); (b) financial assets; (c) the recognition and measurement of exploration and evaluation assets; and (d) expenditure on the development and exploration of minerals, oil, natural gas and similar non-regenerative resources.
Definition	An intangible asset is an identifiable non-monetary asset without physical substance.
Recognition	An intangible asset is recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. Additional requirements and guidance apply to internally generated intangible assets to determine whether research and development costs meet the criteria for recognition. Generally, research costs are expensed and development costs are recognised as intangible assets if they meet specific criteria.

	Expenditure on particular internally generated items (for example, brands and customer lists) is not recognised as intangible assets.
Measurement	Intangible assets are initially measured at cost. After initial recognition, an entity can choose either: (a) *the cost model*—an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses; or (b) *the revaluation model*—an intangible asset is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated amortisation and subsequent accumulated impairment losses. Fair value is measured by reference to an active market. Intangible assets with finite useful lives are amortised over their useful lives. Those with indefinite lives are not amortised. All intangible assets are tested for impairment applying IAS 36 *Impairment of Assets*.
Disclosure	For each class of intangible assets, an entity discloses: (a) information about useful lives; (b) amortisation methods and rates used; (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; (d) a reconciliation of the carrying amount at the beginning and end of the period; and (e) the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included. IAS 38 also provides specific disclosure requirements, including for intangible assets measured using revaluation model and for research and development expenditure.

Appendix B—Possible project topics

Table 2 sets out the initial list of topics that the IASB could explore in the project, which the IASB staff developed based on feedback in the Third Agenda Consultation and other research. This initial list is provided to stakeholders when asking for feedback on the scope of the project and priority topics (see paragraph 8).

Table 2—Possible project topics

Scope	
1	IAS 38 sets out requirements for intangible assets and for expenses from expenditure on intangible items. Should the IASB consider only financial statement elements—assets and expenses—or should it consider intangible items more broadly?
2	IAS 38 excludes some types of intangible assets, such as those within the scope of another IFRS Accounting Standard. Should the IASB reconsider those scope exclusions? Should any of those excluded items be considered in the project?
3	Should intangible assets held for investing (for example, cryptocurrencies and emission rights held for investing) be included in the scope of the project and IAS 38?
Definition	
4	What are the properties of intangible assets?
5	Should the definition of an intangible asset, and the associated guidance, be updated for the revisions to the *Conceptual Framework for Financial Reporting*?
6	Do specific practice issues arising from applying the definition of an intangible asset, and the associated guidance, suggest a need to revise the definition? For example, do issues relating to software as a service arrangements and arrangements linked to digitisation suggest a need to improve IAS 38, particularly to clarify what is the underlying resource that an entity controls?
7	Is there a need to develop more consistent labels and terminology?
Recognition	
8	Are the recognition criteria in IAS 38 still appropriate? More specifically: • Do the properties of intangible assets justify specific recognition criteria for intangible assets? • Should the recognition criteria be updated to reflect new types of intangible items and new ways entities are accessing and using intangible items? • Should the recognition criteria be updated for the revisions to the *Conceptual Framework for Financial Reporting*?

9	Should the prohibitions on recognition in IAS 38 be reconsidered—for example, the prohibitions in paragraph 63 of IAS 38 on recognising intangible assets for internally generated brands, mastheads, publishing titles, customer lists and items similar in substance?
10	Should there be a recognition difference between acquired intangible assets and internally generated intangible assets, and how could, and should, the IASB help comparisons between entities that grow organically and those that grow through acquisition?
11	Should the recognition criteria for intangible assets acquired as part of a business combination be amended?
Measurement	
12	Can the cost of internally generated intangible assets be reliably measured?
13	Can amortisation periods be estimated?
14	Is it necessary for the fair value of intangible assets that are accounted for using the revaluation model to be measured by reference to an active market?
15	Because intangible assets often work together with other assets to generate value, can a fair value be linked to a specific intangible asset?
Presentation and Disclosure	
16	What information about recognised and unrecognised intangible assets do users of financial statements need? Where should the information be disclosed—financial statements or management commentary?
17	Should requirements be developed to disaggregate particular expenses that are associated with unrecognised intangible assets?
18	Should disclosure of qualitative and quantitative information about intangible items that reflects how an entity creates value and generates cash flows be required? Where should the information be disclosed—financial statements or management commentary?

Appendix C—Possible project approaches

Table 3 sets out three possible project approaches that the IASB staff developed for the purpose of facilitating discussion and seeking feedback from stakeholders (see paragraph 8).

Table 3—Possible project approaches

Project approach	Description	Pros	Cons
1. All-in-one	All topics identified by stakeholders further researched by the IASB to identify underlying problems and, if feasible, potential solutions. All of the IASB's decisions published in a single consultation document (such as a discussion paper or exposure draft) and, once finalised, a new or amended IFRS Accounting Standard is issued. Therefore, although the discussion of topics would be sequenced (so that topics are tackled in a logical order), the consultation documents would be published, and a final IFRS Accounting Standard (or amendment) would be issued only after all topics have been fully considered.	• All topics further researched – less risk of not identifying an improvement to IFRS Accounting Standards. • Easier to consider the interaction between topics.	• Significant amount of time until improvements to IFRS Accounting Standards implemented. • Resource may be expended on topics that ultimately do not result in improvements to IFRS Accounting Standards.

Project approach	Description	Pros	Cons
2. Early evaluation	Initial outreach used to assign priorities to the topics identified by stakeholders. Only topics that meet a specified threshold explored further in the project. Identifying topics to explore further could be based on urgency, prevalence, likelihood of feasible solution, likelihood of benefits outweighing costs and so on. Topics meeting the threshold would be further researched by the IASB to identify underlying problems and, if feasible, potential solutions. IASB's decisions published in a single consultation document and would relate to those priority topics only, as would any new or amended requirements subsequently issued.	• Improvements made on a timelier basis. • High priority topics dealt with – efficient use of IASB and stakeholder resources. • Other topics could be investigated later if sufficient stakeholder demand.	• Not all stakeholders' concerns further researched. • May not meet stakeholders' expectations of a comprehensive review of the accounting for intangibles. • Time and resources spent on prioritising topics – might be more than expected if consensus is difficult to achieve. • Risk of not pursuing a topic that should be explored because of simplicity of the process – for example, a topic might not be explored on the basis that it is unlikely a feasible solution can be developed, but further research might have identified a feasible solution. • Developing a solution for a topic that is ring-fenced could be complex.

Project approach	Description	Pros	Cons
3. Phased	The project is split into phases (for example, disclosure, recognition and measurement, or by intangible asset type, and so on). Consultation documents would be published and final requirements would be issued for each project phase, covering all topics included in that phase. For example, based on the feedback and research collected to date, the IASB could focus initially on improving the information that entities disclose about (recognised and unrecognised) intangible assets. The IASB would complete phase one before moving on to phase two, and so on.[4]	• Improvements made expediently for some topics. For example, users of financial statements appear to have identified improved disclosure requirements as the most likely way of satisfying their information needs. • All topics eventually explored. • Information from the research on disclosure requirements may inform research on other topics.	• Not all stakeholders may agree that the priority is disclosure (for example). • There may also be more than one high priority topic. • Risk that disclosure requirements (for example) have to be reconsidered when other topics are considered. • Completion of the whole project would take longer than ‘all-in-one’ approach because of the need for multiple consultation documents. • Some stakeholders may lose interest in the project after the first phase if the first phase deals with their biggest concerns.

[4] Although, with more project resource, phases could be worked on concurrently (similar to the development of IFRS 9 *Financial Instruments*), this has not been specifically considered because the ability to work on topics concurrently is equally applicable to the other approaches—the more resource allocated to the project, the greater the scope there is for working on topics concurrently whichever approach is followed.