IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Intangible Assets**
Topic	**Summary of other research**
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Purpose of the paper

1. At its meeting in April 2024, the International Accounting Standards Board (IASB) started its Intangible Assets research project. Also at that meeting, the IASB discussed a summary of recent research performed by national standard-setters (NSS) on the topic of intangible assets.

2. The purpose of this paper is to provide an update on further activities of some NSS, a summary of other research performed by the staff since April 2024 on the topic of intangible assets, and an update on the IFRS Foundation's research and standard-setting activities that could intersect with the Intangible Assets project.

Structure of the paper

3. This paper is structured as follows:

   (a) background;

   (b) national standard-setter update;

   (c) summary of other research;

(d) update on the IASB's and the International Sustainability Standards Board's (ISSB's) research and standard-setting activities; and

(e) question for the IASB.

Background

4. In addition to consulting stakeholders, in the initial research phase of the Intangible Assets project the staff:

   (a) continued to monitor some NSS' activities, including:

      (i) the release of the final two reports by the UK Endorsement Board (UKEB) in May 2024; and

      (ii) the activities of the Financial Accounting Standards Board (FASB);

   (b) did some research to help the IASB identify specific issues arising in applying IAS 38 *Intangible Assets*, including:

      (i) a review of IFRS Interpretations Committee (Committee) agenda decisions; and

      (ii) a review of European Securities and Markets Authority (ESMA) enforcement cases; and

   (c) continued to monitor the IASB's and ISSB's research and standard-setting activities that may intersect with the IASB's project on Intangible Assets.

National standard-setter update

UK Endorsement Board

5. The IASB discussed a summary of research performed by NSS on the topic of intangible assets at its April 2024 meeting. This summary included the first UKEB report, *Accounting for Intangibles: UK Stakeholders' Views*, which was published in March 2023. The UKEB have since released its final two research reports on the

accounting for intangibles in May 2024, which have been summarised in paragraphs 6–15 of this paper. The UKEB presented the results of their research on intangible assets to the July 2024 meeting of the Accounting Standards Advisory Forum.

Quantitative Analysis

6. The UKEB's *Accounting for Intangibles: A Quantitative Analysis of UK Financial Reports* provides an overview of the nature and extent of current reporting of intangibles by UK listed entities. It looked at:

   (a) financial statement data on intangible assets reported by all UK listed entities that apply IFRS Accounting Standards (population) from 2011–2021 (paragraph 7);

   (b) financial statement data on intangible assets for a sample of 80 entities for 2021 (paragraph 8);

   (c) business combinations from 2011–2021 at a market level and a selected sample of the 20 largest business combinations (paragraph 9); and

   (d) an estimation of the value of unrecognised intangible assets in UK listed entities for 2011–2021 (paragraph 10).

7. In 2021, the carrying amount of intangible assets (excluding goodwill) on UK-listed entities' balance sheets was £351 billion. The average growth rate in intangible assets from 2011–2021 was 8%. This far exceeded both inflation and the growth in total assets over the same period. While 79% of entities had at least one intangible asset on their balance sheet in 2021, the largest 25% of entities held 97% of the value of recognised intangible assets of the population. Ten entities held almost two thirds of the total recognised intangible assets in 2021—mainly driven by business combinations.

8. The UKEB found that a wide variety of categories and terminology were used to describe intangible assets in the financial statements. Smaller entities were more likely to have internally generated development and software intangible assets and a wider

range of intangible assets than larger entities. Intangible assets were most prevalent in the health care, consumer goods and technology industries. Notably, technology entities' largest intangible was frequently customer relationships. 31 of the 80 entities sampled disclosed research expenses in the notes, but only 55% of these also recognised development costs as an asset.

9. Amounts of recognised intangible assets, at cost (gross) and carrying amount (net), correlated strongly with the value of business combinations over the period 2011–2021. For the 20 largest business combinations during the period, recognised intangible assets were on average 33% of the acquired assets, but this varied from 0–84% by individual business combination. Narrative reporting and notes to the financial statements seemed to suggest that intangibles were an important driver for these business combinations.

10. The UKEB used a method common in academic literature to estimate the amount of unrecognised intangible assets over the 2011–2021 period.[1] This resulted in an estimate of between £242 and £298 billion, similar to estimates made by the UK Office for National Statistics.

User Survey

11. The UKEB's report *Accounting for Intangibles: A survey of users' views* explores, by means of a survey conducted in September 2023, users' perspectives on the current accounting for and reporting of intangibles and their preference for future accounting and reporting. The UKEB received 46 responses from a wide variety of users, comprising analysts and investors (50%), lenders and credit-rating agencies (6%) and others (44%).[2]

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[1] This method assumes that a portion of an entity's costs would include expenditure related to intangible items which could provide future economic benefits. For the purposes of the UKEB's report, selling, general and administrative (SG&A) expenses data from the statements of profit or loss of all UK listed entities between 2011 and 2021 was collected from Reuters-Eikon. Two sets of alternative assumptions were used—in one set, 20% of SG&A expenses were capitalised and an amortisation rate of 15% was used, and in the second set 30% of SG&A expenses were capitalised with an amortisation rate of 20%.

[2] These responses included 14 partial responses which answered questions on the current accounting for and reporting of intangibles and did not answer about future accounting and reporting.

12. 85% of survey respondents told the UKEB 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. Almost three quarters of respondents reported that they make adjustments to the intangible assets figure in financial statements, especially when they compare entities that have grown organically and those that have grown through acquisitions. The survey found that:

    (a) 33% of respondents disregarded intangible assets recognised on the balance sheet;

    (b) 26% of respondents estimated unrecognised internally generated intangible assets using disaggregated intangible expenses, when reported;

    (c) 26% of respondents made no adjustments—they used the reported information as it is;

    (d) 11% of respondents estimated unrecognised internally generated intangible assets using a portion of administration costs; and

    (e) 17% of respondents made other adjustments.

13. However, there was no widespread support for changing the current recognition and measurement model for traditional intangibles. Rather, they would generally prefer more granular disclosures.

14. Some respondents were concerned about the accounting for non-traditional intangible assets (for example, cryptocurrencies and emission rights) and wanted improvements to IFRS Accounting Standards to ensure that there is better information about these assets. However, there was a lack of strong consensus among respondents on how to achieve this—their most preferred option was for recognition on the balance sheet (42%–54% of responses) at fair value (roughly two thirds of those respondents who preferred balance sheet recognition).

15. The UKEB concluded that there is strong evidence for enhancement of the disclosure of intangible expenditure in the financial statements. Users want more disaggregated

information to be disclosed about spending on intangibles, including the expected benefits from that spending.

Financial Accounting Standards Board

16. In December 2020, the FASB Chair expanded the scope of the research project on Accounting for and Disclosure of Intangibles to include recognition. In December 2021, a summary of the June 2021 Invitation to Comment *Agenda Consultation* feedback was presented to the FASB. At this meeting, the FASB clarified that the following topics would be part of the Accounting for and Disclosure of Intangibles Research project:

    (a) software costs;

    (b) internally generated intangibles; and

    (c) research and development.

17. In June 2022, the FASB discussed the pre-agenda research performed to date, including stakeholder feedback. The FASB decided to pursue a separate project on software costs (see paragraphs 20–25) and left a broader intangibles project on the research agenda.

18. During the joint FASB-IASB Education meeting in October 2024, the FASB staff highlighted that stakeholder views on intangibles continue to be diverse, including views about when an intangible should be capitalised as an asset and what decision-useful information should be provided to users. Feedback from the agenda consultation indicated that:

    (a) some stakeholders favoured prioritising an intangibles project focused on recognition and measurement, while others suggested that the FASB consider prioritising disclosure improvements for intangibles;

    (b) there is no overarching framework for accounting for intangible assets;

(c) the lack of internally generated intangibles in primary financial statements and notes contributes to the difference between the book value and market capitalisation of many entities; and

(d) there is a lack of decision-useful information for users about internally generated intangibles and research and development.

19. In December 2024, the FASB issued an Invitation to Comment (ITC) *Recognition of Intangibles* with a comment deadline of 30 May 2025. The purpose of this ITC is to solicit stakeholder feedback on whether the FASB should pursue standard-setting on intangibles.[3] This ITC is focused on the initial recognition of intangibles. Specifically, the FASB would like to understand:

(a) whether there is a pervasive need to improve US GAAP related to the accounting for and disclosure of intangibles;

(b) what intangibles, or groups of intangibles, the FASB should consider addressing;

(c) what potential solution(s) the FASB should consider—including whether the potential solution or solutions are narrow for a specific intangible or could be applied broadly to a group of intangibles—and the expected benefits and expected costs of the potential solution(s);

(d) whether different accounting for intangibles should exist depending on how the asset is obtained (internally generated, acquired in a business combination, or acquired in an asset acquisition); and

(e) what information about intangibles a user utilises (or would utilise) for its analysis and how that information influences the user's capital allocation decisions.

[3] The ITC uses the term *intangibles* to include both (1) intangibles recognised as assets in the financial statements and (2) intangibles and related costs not recognised as assets in the financial statements.

Software costs

20. In June 2022, the FASB added a project to its technical agenda to modernise the accounting for and enhance the transparency about an entity's software costs.

21. The FASB considered a variety of recognition models in the project that would have resulted in more extensive changes to US GAAP and the extent of capitalisation. However, feedback from users generally indicated that they were not interested in significant increases in the level of capitalisation since users are striving to normalise earnings across entities and any capitalisation can make comparisons across entities challenging. Additionally, preparers indicated that more extensive changes to the recognition of software assets could be costly to implement, initially and on an ongoing basis. Therefore, in March 2024 the FASB decided to pursue only targeted improvements to Subtopic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*, rather than more extensive changes to the recognition of software costs. The FASB decided not to include Subtopic 985-20, *Software—Costs of Software to Be Sold, Leased, or Marketed* in the scope of the project at this stage.

22. In October 2024, the FASB issued a proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software* to improve the operability of the recognition guidance considering different methods of software development that are used today. The due date for comment letters was 27 January 2025.

23. The amendments in the proposed Update would remove all references to a prescriptive and sequential software development method (referred to as 'project stages') through Subtopic 350-40. The proposed amendments would specify that an entity would be required to start capitalising software costs when both of the following occur:

    (a) management has authorised and committed to funding the software project; and

(b) it is probable that the project will be completed, and the software will be used to perform the function intended (referred to as the 'probable-to-complete recognition threshold').

24. In evaluating the probable-to-complete recognition threshold, an entity may have to consider whether there is significant uncertainty associated with the development activities of the software. The proposed amendments also would require an entity to separately present cash paid for internal-use software costs recognised as an asset as investing cash outflows in the statement of cash flows.

25. The FASB will begin redeliberations after comments are received on the proposed Update.

Other projects related to intangibles

26. The FASB also recently published requirements or proposals on several other topics that may be explored in the IASB's Intangibles Assets project, including:

(a) disaggregation of expenses;

(b) cryptocurrencies; and

(c) environmental credits and environmental credit obligations.

27. In November 2024, the FASB issued Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (Update 2024-03). It was issued to improve disclosures about a public business entity's expenses and address requests from users for more detailed information about the types of expenses in commonly presented expense captions (such as cost of sales, selling, general, and administrative expenses, and research and development). The amendments in Update 2024-03 are effective for annual reporting periods beginning after 15 December 2026 and interim periods within annual reporting periods beginning after 15 December 2027.

28. Among other amendments in Update 2024-03, an entity is required to disclose, at each interim and annual reporting period, the total amount of selling expenses and, in annual reporting periods, its definition of selling expenses.

29. In December 2023, the FASB issued Accounting Standards Update 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets* (Update 2023-08). The objectives of the amendments are to provide users with more decision-useful information that better reflects the underlying economics of cryptocurrencies while reducing cost and complexity associated with applying cost-less-impairment accounting. The amendments in Update 2023-08 require an entity to measure cryptocurrencies that are within the scope of the amendments at fair value each reporting period with changes in fair value recognised in net income. The amendments also require that an entity provide disclosures about significant holdings, contractual sale restrictions, and changes during the reporting period. The amendments became effective for all entities for fiscal years beginning after 15 December 2024.

30. In December 2024, the FASB issued a proposed Accounting Standards Update, *Environmental Credits and Environmental Credit Obligations (Topic 818).* The due date for comment letters is 15 April 2025. The proposed Update provides recognition, measurement, presentation and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits. Under the proposed Update, an entity would be required to recognise an environmental credit as an asset when it is probable that the environmental credit will be used to settle an environmental credit obligation or transferred to another party in an exchange transaction. Environmental credits recognised as assets would be initially measured at cost unless received in a nonreciprocal transfer that is not a grant from a regulator or its designee(s). Subsequent measurement would depend on the intended use of the environmental credit—compliance environmental credits would be measured at cost and not tested for impairment at each reporting period, whereas non-compliance environmental credits would be measured at cost less impairment losses, if any. The proposed

Update also provides recognition, measurement and disclosure requirements for environmental credit obligations.

Summary of other research

IFRS Interpretations Committee agenda decisions

31. The staff reviewed 10 agenda decisions and one tentative agenda decision published by the IFRS Interpretations Committee related to intangible assets. The topics of the agenda decisions were split between the requirements related to the scope of IAS 38, the definition of intangible assets, the recognition criteria and measurement requirements for intangible assets, as set out in paragraphs 32–38.

Scope of IAS 38

32. Paragraphs 2–7 of IAS 38 *Intangible Assets* set out the scope of IAS 38 as a residual Standard. The Committee published two agenda decisions relating the scope of IAS 38, including:

    (a) how IFRS Accounting Standards apply to holdings of cryptocurrencies (June 2019). The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38. The Committee concluded that a holding of cryptocurrency is not a financial asset as defined in IAS 32 *Financial Instruments: Presentation*, because it is not cash or an equity instrument of another entity.

    (b) whether an entity recognises the training costs incurred to fulfil a contract with a customer as described in the request as an asset or an expense when incurred (March 2020). The Committee concluded that the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer and recognises those training costs as an expense when incurred in accordance with paragraph 69 of IAS 38.

Definition

33. The Committee published three agenda decisions related to the definition of an intangible asset and the related requirements. The March 2009 agenda decision relates to applying the requirements on identifiability in IAS 38 and IFRS 3 *Business Combinations* in accounting for a non-contractual customer relationship in a business combination. Contractual customer relationships are always recognised separately from goodwill because they meet the contractual-legal criterion. However, non-contractual customer relationships are recognised separately from goodwill only if they meet the separable criterion. The Committee noted widespread confusion in practice. The Committee recommended that the IASB amend IFRS 3 by removing the distinction between 'contractual' and 'non-contractual' customer-related intangible assets recognised in a business combination and reviewing the indicators that identify the existence of a customer relationship and including these indicators in IFRS 3. However, in May 2009, the IASB did not proceed with this recommendation at that time, deferring the issue to the post-implementation review of IFRS 3. The recognition of separate intangible assets in a business combination was discussed as part of the IASB's project on Business Combinations—Disclosures, Goodwill and Impairment (see paragraphs 52–57).

34. The Committee published two agenda decisions relating to the control criterion of the intangible asset definition, both relating to 'Software as a Service' (SaaS) cloud computing arrangements. Specifically:

    (a) in March 2019, the Committee discussed how a customer accounts for its right to receive access to a supplier's application software hosted on cloud infrastructure managed and controlled by the supplier in exchange for a fee. The Committee observed that if a contract conveys to the customer only the right to receive access to the supplier's software over the contract term, that right does not give the customer the power to obtain the future economic benefits flowing from the software and to restrict access to those benefits—so the customer does not control the software. Therefore, the Committee concluded that such contracts do not meet the definition of an intangible asset and are service contracts. The Committee also observed that such contracts do not contain a software lease.

(b) in March 2021 the Committee discussed how a customer accounts for costs of configuring or customising a supplier's application software in a SaaS arrangement. The assessment of whether configuration or customisation of that software results in an intangible asset for the customer depends on the nature and output of the configuration and customisation performed. The Committee observed that in the SaaS arrangement described in the request, a customer often would not recognise an intangible asset because the customer does not control the software being configured or customised and those configuration and customisation activities do not create a resource controlled by the customer that is separate from the software. The Committee also observed that in some cases a customer might recognise an intangible asset, for example, when the arrangement results in additional code that is identifiable and meets the recognition criteria in IAS 38.

35. As discussed in paragraph 25(a) of Agenda Paper 17A, many stakeholders we spoke to said that they would like more guidance on how to account for SaaS arrangements, and some did not agree with the outcome of the Committee's agenda decisions.

Recognition

36. The Committee published three decisions related to recognition of intangible assets. Specifically:

(a) in July 2009 the Committee noted that IAS 38 includes definitions and recognition criteria for intangible assets that provide guidance to enable entities to account for the costs of complying with the requirements of the European Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

(b) in March 2016 the Committee was unable to reach a consensus on how to account—both at the date of purchasing an asset and thereafter—for variable payments to be made for the purchase of an intangible asset that is not part of a business combination. The Committee determined that this issue was too broad for it to address within the confines of existing IFRS Accounting Standards. As discussed in paragraph 34 of Agenda Paper 17A, some stakeholders suggested that the IASB consider the accounting for contingent or variable consideration on purchase of an intangible asset.

(c) in September 2017, the Committee discussed how to account for goods acquired to distribute as part of promotional activities that remain undistributed as at the reporting date. The Committee concluded that applying paragraph 69 of IAS 38, such goods are recognised as an expense because they are acquired solely to be used for advertising and promotional activities. The expenditure on such goods is recognised as an expense when an entity owns or otherwise has a right to access those goods.

37. In addition, in November 2024, the Committee discussed whether an entity's investments in carbon credits and expenditures for research activities and development activities resulting in intellectual capital from innovation programs linked to its commitments to reduce a percentage of its carbon emissions meet the requirements in IAS 38 to be recognised as intangible assets. The Committee did not consider the question about the accounting for carbon credits because the IASB has been separately performing research on pollutant pricing mechanisms to assess their prevalence and significance (see paragraphs 58–64). In relation to the question about the accounting for expenditure on research activities and development activities, evidence gathered to date indicated no material diversity in the accounting for this expenditure and the Committee tentatively concluded that the matter did not have a widespread effect. The Committee tentatively decided not to add a standard-setting project to the work plan and published a tentative agenda decision explaining its rationale. This tentative agenda decision was open for comment until 3 February 2025 and the Committee will reconsider its tentative agenda decision at a future date.

Measurement

38. The Committee published two decisions related to the measurement requirements in IAS 38. Specifically, these decisions related to:

    (a) the requirements in paragraph 98 of IAS 38 to select an amortisation method for intangible assets with a finite life on the basis of the expected pattern on consumption of the expected future economic benefits embodied in the asset. In January 2010 the Committee decided not to provide guidance on the meaning of 'consumption of economic benefits' noting that the determination of the amortisation method for finite-lived intangible assets is a matter of judgement.

    (b) the requirements for derecognition of an intangible asset and measurement and presentation of the related gain or loss. In June 2020, the Committee concluded that, in the case of a football club, any transfer payment received for a registration right related to a player contract previously recognised as an intangible asset should be recognised as part of the gain or loss on disposal of an intangible asset, and not as revenue applying IFRS 15 *Revenue from Contracts with Customers*.[4]

ESMA enforcement cases

39. ESMA regularly publishes Extracts from the European Enforcers Coordination Sessions (EECS) Database of Enforcement. The staff reviewed all published enforcement decisions for cases related to IAS 38 published from December 2007 and identified 19 cases related to IAS 38. Some cases addressed more than one accounting issue related to a particular fact pattern. In most of these cases, the enforcer disagreed with the entity's chosen accounting treatment.

[4] This transfer payment was for releasing the player from the contract before the contract ends.

40. We also discussed these published cases with ESMA as part of our outreach activities (see Agenda Paper 17A). During this meeting, ESMA noted that they do not publish all enforcement decisions included in the EECS Database, specifically if these decisions have similar fact patterns. In addition, the decisions included in the EECS database follow predetermined criteria set out in ESMA Guidelines on enforcement of financial information, which means they may not be representative of how many issues European enforcers encounter in their regular activities. For all cases discussed by ESMA with European enforcers from January 2015:

    (a) the five most common industries were pharmaceuticals, telecom/media/entertainment, software, automotive and consumer goods;

    (b) the five most common types of intangibles were drug development expenditures, trademarks, customer relationships, program/broadcasting rights and databases; and

    (c) the five most common accounting issues were recognition of development costs, determination of useful life, applicable amortisation method, assessment of control over an asset and determination of fair value of an acquired asset.

41. Many published cases related to the recognition of intangible assets in the balance sheet. Assets in question were obtained in various ways—acquired separately, acquired in a business combination, internally generated or acquired through an exchange of non-monetary assets. Specifically:

    (a) two ESMA enforcement cases that related to the requirements in IAS 38 on the separate acquisition of intangible assets discussed:

        (i) how to apply the requirements on recognising contractual rights representing a present right to receive future cash flows and the separability criterion (paragraphs 21, 25 and 12(a) of IAS 38) in identifying assets to recognise separately when assets are acquired as part of a group of assets; and

(ii) how to consider the requirements on directly attributable costs of bringing the asset into use (paragraphs 27 and 68(a) of IAS 38) to football agents' fees.

(b) three ESMA enforcement cases related to assets acquired in a business combination focused on applying the requirements in IAS 38 and IFRS 3 on recognising identifiable intangible assets separately from goodwill. All cases resulted in the enforcer asking the entity to recognise additional intangible assets.

(c) two ESMA enforcement cases related to internally generated intangible assets discussed:

(i) how to apply the recognition criteria in paragraph 57 of IAS 38 to the development costs of a drug in early development stage; and

(ii) whether the prohibition on recognising customer lists and similar items in paragraph 63 of IAS 38 is applicable to the costs of a recruitment services provider's internally generated candidate database.

(d) one ESMA enforcement case related to intangible assets acquired in exchange for a non-monetary asset discussed how to apply the requirements in paragraph 47 of IAS 38 on assessing whether the fair value of an intangible asset is reliably measurable in an exchange of football player registration rights.

42. Seven published enforcement cases related to the subsequent measurement of an intangible asset. For example:

(a) four cases relate to applying the requirements in paragraphs 91–93 of IAS 38 to determine whether an asset has an indefinite useful life. In these cases, the enforcers disagreed with the entities' assessment that the assets in the cases—website content, search engine optimisation assets, customer relationships and dealer networks—had an indefinite useful life.

(b) two cases relate to applying the requirements in paragraphs 97–99 of IAS 38 to determine the amortisation method for content rights and telephony licenses.

(c) one enforcement case clarified that an intangible asset should be assessed for impairment as opposed to reclassification as research and development costs.

43. The other published cases included topics related to:

(a) the definition of an intangible asset—the case discussed how the nature of the underlying resource controlled by the entity determines the correct accounting treatment in the provided pattern related to acquired distribution rights. This case highlighted the diversity of views in practice on identification of the underlying resource.

(b) the disclosure requirements—the cases identified non-compliance with the requirements for disclosing information about intangible assets assessed as having an indefinite useful life and about individual intangible assets that are material to the entity's financial statements; and

(c) the disposal of an intangible asset and appropriate classification of the resulting gains or losses.

Update on the IASB's and ISSB's standard-setting activities

44. The IASB's decisions in the Intangible Assets project may be affected by the IASB's and ISSB's previous and current work. We have summarised the status of IASB and ISSB projects that may intersect with the IASB's project on intangible assets. These projects are:

(a) the IASB project on Management Commentary;

(b) the IASB project on Business Combinations—Disclosures, Goodwill and Impairment (BCDGI);

(c) the IASB reserve list project on Pollutant Pricing Mechanisms;

(d) other IASB projects; and

(e) the ISSB project on Human Capital.

IASB project on Management Commentary

45. During our outreach activities as part of the Intangible Assets project (see paragraph 30 of Agenda Paper 17A), a few stakeholders have commented that information on how an entity invests in intangible items with the intention of creating value and generating cash flows may be presented in management commentary.

46. Management commentary or a similar report is required in many jurisdictions and typically falls under the remit of local regulators. The IASB's aim in revising its IFRS Practice Statement 1 *Management Commentary* (the revised Practice Statement) is to develop a comprehensive resource for regulators and entities to support greater global alignment in management commentary.

47. Most respondents expressed broad support for the IASB's proposals in the Exposure Draft *Management Commentary*, with some respondents suggesting refinements and enhancements to particular proposals. In June 2024, the IASB decided to finalise the project by making targeted refinements to its proposals. The IASB did not identify a need for targeted refinements to its proposals on resources and relationships.

48. The IASB completed its deliberations in December 2024 and expects to issue the revised Practice Statement in the first half of 2025.

49. The revised Practice Statement will include requirements and guidance that will apply to reporting on an entity's resources and relationships, in particular disclosure objectives and a requirement to focus on key resources and relationships. Resources and relationships in the scope of the revised Practice Statement will include both intangible resources recognised as assets in the entity's financial statements and intangible resources that do not meet the criteria in IFRS Accounting Standards for recognition as assets, such as know-how or other intellectual capital, customer information, brands or reputation.

50. The disclosure objectives in the revised Practice Statement will require management commentary to provide information that enables users to understand the resources and relationships on which the entity's business model and management's strategy for

sustaining and developing that model depend. Specifically, the revised Practice Statement will require information to enable users to understand:

(a) the nature of the entity's resources and relationships and how the entity deploys them;

(b) how the entity obtains its resources and maintains its relationships;

(c) factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term; and

(d) progress in managing the resources and relationships.

51. Furthermore, the revised Practice Statement will require management commentary to focus on the entity's key resources and relationships—that is those on which the entity's ability to create value and generate cash flows fundamentally depends. An appendix to the revised Practice Statement will provide an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about intangible resources and relationships, accompanied by examples of resources and relationships that might be key and of information about resources and relationships that might be material in the context of management commentary.

IASB project on BCDGI

52. In the post-implementation review of IFRS 3, many stakeholders identified challenges with the requirement to recognise separately from goodwill all identifiable intangible assets acquired in a business combination. The challenges relate to both costs and benefits.

53. Some users expressed concerns about the usefulness of the information provided because:

(a) there are concerns about the level of measurement uncertainty in estimating the fair value of these items;

(b) some identifiable intangible assets acquired in a business combination are similar to goodwill;

(c) some users consider amortising particular intangible assets results in double counting of expenses because subsequent costs incurred in maintaining these assets are recognised as an expense in the same period as the amortisation expense; and

(d) amortising particular acquired intangible assets makes it difficult to make comparisons with entities that grow organically and that do not recognise internally generated intangibles.

54. Other stakeholders said recognising identifiable intangible assets acquired in a business combination is costly because:

(a) valuing intangible assets is complex and subjective;

(b) distinguishing some intangible assets, such as brands and customer lists, from the rest of the business is difficult because doing so requires an arbitrary allocation of cash flows; and

(c) applying the separability criterion in IAS 38 is often difficult.

55. However, the views on whether separate recognition of identifiable intangible assets provides useful information were mixed. In its Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* the IASB had no compelling evidence that it should change the range of intangible assets recognised in a business combination.

56. Most respondents to the Discussion Paper who commented on the IASB's view, including many users, agreed. In their view, goodwill and other intangible assets acquired in a business combination are different in nature and recognising these assets separately provides better and more useful information. However, some respondents, including some users, disagreed with the preliminary view. In their view, separately recognising acquired intangible assets does not provide useful information and the costs of doing so outweigh the benefits.

57. Following its redeliberations, the IASB decided not to explore further changing the range of identifiable intangible assets recognised separately from goodwill in its BCDGI project and instead to consider whether to respond to the feedback received on this topic in its broader project on Intangible Assets.

IASB reserve list project on Pollutant Pricing Mechanisms

58. During our outreach activities (see paragraph 23(c) of Agenda Paper 17A) many stakeholders said that accounting for carbon credits is a priority.

59. Many respondents to the IASB's Third Agenda Consultation, including some users, rated a project on pollutant pricing mechanisms (PPMs) as a high priority. However, the IASB decided not to add a project on PPMs to its work plan, concluding that other projects were of higher priority.

60. Instead, a project on PPMs was added to the reserve list. Projects on the reserve list are added to the work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.

61. Since completing the Third Agenda Consultation, several stakeholders have suggested that the IASB should prioritise a project on PPMs. They argue that PPMs are increasing in prevalence and that deficiencies in reporting exist. More specifically, they argue that the lack of specific requirements on PPMs has resulted in diversity in practice, which impairs comparability.

62. In response to these stakeholder comments, the staff have undertaken horizon-scanning activities to assess whether the situation has changed since the Third Agenda Consultation such that the IASB now needs to prioritise a project on PPMs. These horizon-scanning activities have found that:

    (a) there is insufficient evidence to suggest that many IFRS reporters are currently affected by PPMs. However, the prevalence of PPMs is increasing, particularly as jurisdictions continue to implement new compliance schemes or expand the scope of existing schemes. There is also growth in the numbers of entities participating in voluntary schemes. Entities in carbon intensive industries, such as oil and gas and aviation, are more affected by PPMs than other entities. For many entities the effect of PPMs is currently immaterial, but this is projected to change as carbon prices increase and compliance schemes reduce or phase out free carbon allowances.

(b) there is diversity in accounting for both compliance and voluntary schemes and feedback suggests that users receive insufficient information about an entity's participation in PPMs. Introducing specific accounting requirements for PPMs will decrease that diversity, improve comparability between entities and may provide users with the information they want. However, the perceived lack of information may, in part, be because the schemes are not yet qualitatively material for many entities. In addition, some of the requested information may be outside of the scope of financial statements but might instead be provided by sustainability-related financial disclosures.

63. In January 2025, the IASB met to decide whether to start a project on PPMs before the next agenda consultation or defer a decision to add a project on PPMs to the IASB's work plan to the next agenda consultation. The staff highlighted that starting a new project before the next agenda consultation would have implications for active projects. Although horizon-scanning activities suggest that the prevalence and significance of PPMs is increasing, there is insufficient evidence to suggest the issue is sufficiently time-sensitive to justify disrupting active projects.

64. Consequently, the IASB deferred a decision to add a project on PPMs to the IASB's work plan until the next agenda consultation.

Other IASB activities

IFRS 18 Presentation and Disclosure in Financial Statements

65. As mentioned in paragraph 26(a) of Agenda Paper 17A, some stakeholders suggested the IASB explore additional presentation and disclosure requirements related to

expenses. A few stakeholders mentioned the recently issued IFRS 18 *Presentation and Disclosure in Financial Statements* and said it could lead to improvements in expense disaggregation, and this should be considered before exploring further requirements. The IASB issued IFRS 18 in April 2024, with an effective date for years beginning on or after 1 January 2027 with earlier application permitted. Amongst other requirements, IFRS 18 provides entities with guidance on how to aggregate and disaggregate transactions and other events into the line items in the primary financial statements and information disclosed in the notes.

Cryptocurrencies

66. One of the topics that could be included in our project is accounting for cryptocurrencies, and many stakeholders in our outreach activities suggested the IASB consider this (see paragraph 23(c) Agenda Paper 17A). Previously, many respondents to the Third Agenda consultation highlighted the increasing prevalence of cryptocurrencies and related transactions and suggested that the IASB add a project on the accounting for such items to its work plan. However, in deciding not to do so, the IASB noted that:

    (a) there are questions about whether such transactions are prevalent in many jurisdictions or have a pervasive effect on the financial statements of many entities;

    (b) a project to consider the accounting for different types of cryptoassets and cryptoliabilities would be complex and might be premature, given such cryptoassets and cryptoliabilities are part of a new and rapidly evolving ecosystem;

    (c) in June 2019 the Committee published an agenda decision that explains how to account for holdings of cryptocurrencies (see paragraph 32(a)); and

    (d) the project on Intangible Assets will review the scope of IAS 38, including whether cryptocurrencies should remain within it.

ISSB project on Human Capital

67. In response to our surveys, many stakeholders said that information about human capital in financial statements is insufficient (see paragraph 23 of Agenda Paper 17C and paragraph 18 of Agenda Paper 17D). Also, during our outreach activities (see Agenda Paper 17A), a few stakeholders said that they the IASB should work closely with the ISSB on human capital-related matters, which may be considered intangible items.

68. As part of its 2024–2026 work plan, the ISSB will research risks and opportunities associated with biodiversity, ecosystems and ecosystem services and human capital. The research projects will help the ISSB decide whether it should pursue standard-setting for disclosure requirements on these topics.

69. As noted in the Feedback Statement on *Consultation on Agenda Priorities*, the ISSB research project on Human Capital will explore information about sustainability-related risks and opportunities associated with human capital. Human capital refers to the people who make up an entity's own workforce and workers in the entity's value chain. Consistent with the Integrated Reporting Framework, human capital also refers to the workforce and workers' competencies; capabilities and experience; and motivations to innovate. How an entity manages and invests in its human capital can directly affect its ability to deliver value over the long term. Human capital management includes such issues as workforce composition, workforce stability, diversity and inclusion, training and development, health, safety and wellbeing, and compensation.

70. Initial research will seek to define the project's scope and determine how best to stage work on the topic to produce timely analysis and explore the necessity and feasibility of standard-setting. The ISSB noted that it might consider opportunities for connectivity between work on human capital-related risks and opportunities and any work related to the IASB's Intangible Assets project.

71. ISSB staff are executing research on human capital in four phases guided by specific research questions, which are:

(a) evidence of investor interest: ‘What are the information needs of investors and how is current disclosure practice meeting or failing to meet these needs?’;

(b) evidence of effects on entities’ prospects: ‘Whether, how and to what extent do human capital-related risks and opportunities affect an entity’s cash flows, its access to finance or its cost of capital over the short, medium or long term?’;

(c) existing standards and frameworks: ‘What is the current landscape of standards and frameworks for human capital-related reporting and how does it compare to the requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and the SASB Standards?’; and

(d) current state of disclosure: ‘What is the current state of company disclosure about human capital-related risks and opportunities?’.

72. In November 2024, the ISSB received an update on the staff’s preliminary findings relating to other disclosure standards and frameworks. In December 2024, the ISSB received an update on the staff’s preliminary findings relating to evidence of investor interest in information about risks and opportunities related to human capital and evidence of how these risks and opportunities affect entities’ prospects. In January 2025, the ISSB received an update on the staff’s preliminary findings relating to information about human capital-related matters that might be presented or disclosed in financial statements when applying IFRS Accounting Standards. The ISSB was not asked to make any decisions. The ISSB will receive further updates on this research project in future meetings.

Question for the IASB

Question for the IASB
Does the IASB have any comments or questions on the update on national standard-setter work and other research performed, as summarised in this paper?