

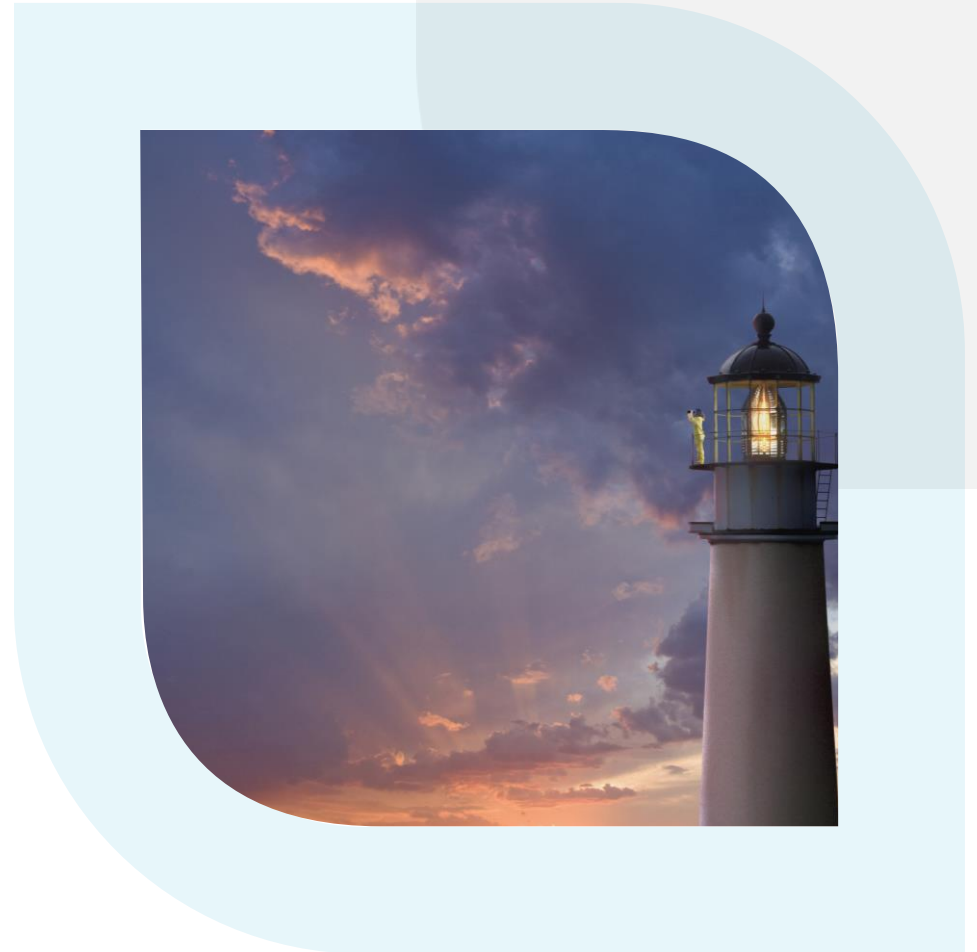
BETTER INFORMATION ON INTANGIBLES

EFRAG's tentative recommendations

2 November 2023

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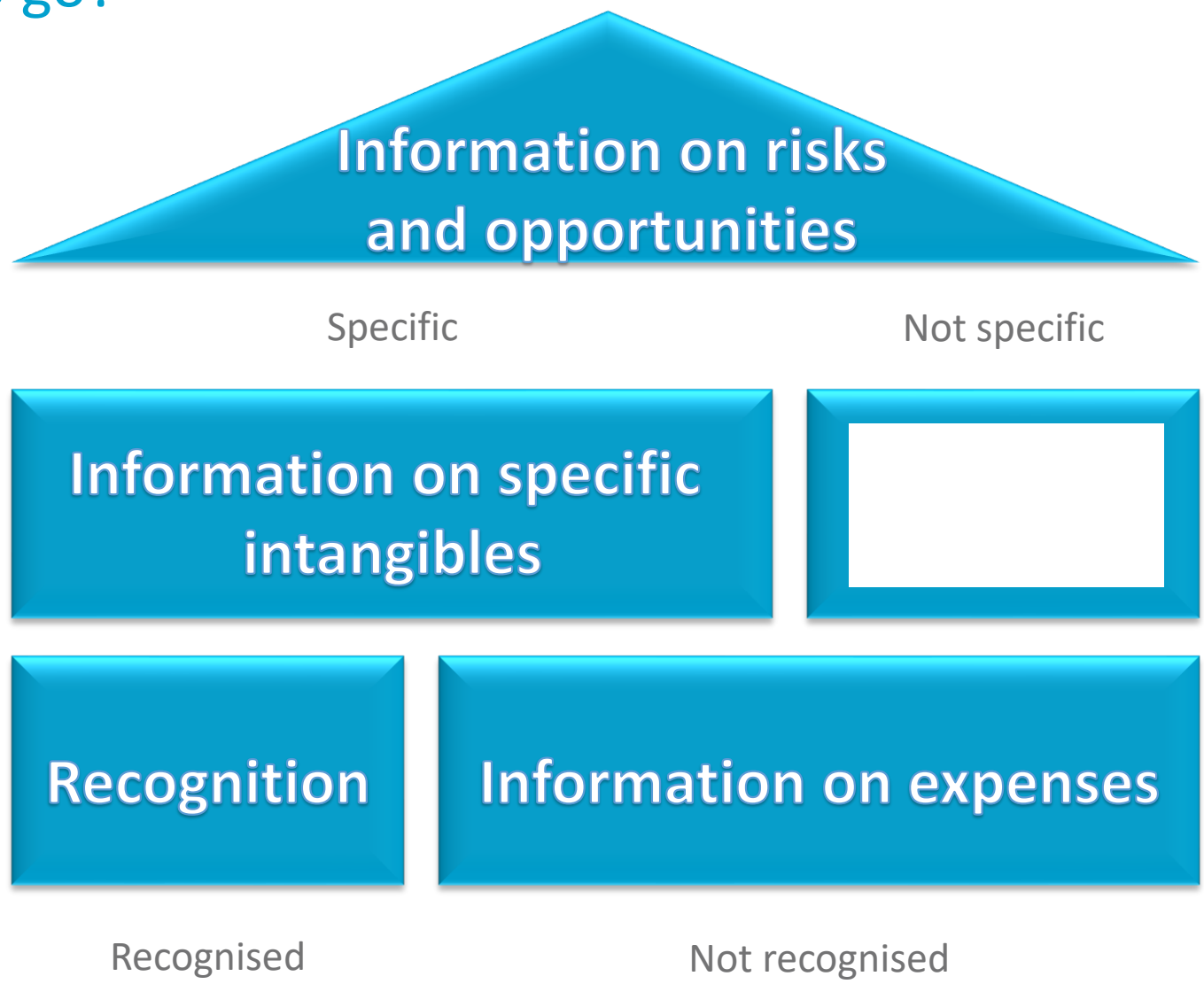
About the project

- August 2018 – EFRAG started a project on intangibles following feedback received in response to EFRAG’s research agenda consultation
- 2019: Interviews with different stakeholders on issues and solutions
- February 2020: Literature review on reporting of intangibles
- March 2020: Formation of advisory panel on intangibles
- August 2021: EFRAG’s Discussion Paper published
- 2022 and 2023: Publication of two co-supported academic studies
- April 2023: EFRAG’s recommendation and feedback statement

About the recommendations

- 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
- The recommendations cover only information on intangibles used in an entity's operation
- The recommendations cover both information to be provided in the financial statements (including the notes) and in the management commentary

Which way to go?



Key to an entity's business model

Materiality threshold

Recognition

Intangible meeting the definition of an asset in the Conceptual Framework and meeting recognition criteria



Recognition

- Consider current explicit prohibitions for recognition – potentially, some more generic guidance could be developed instead
- Consider recognition requirements for: research and development and intellectual property (including software and IT)
- Measurement generally at cost for assets covered by the scope of the DP (assets used in the operation of the entity)
- Consider conditional recognition
- Disclosure requirements
- EFRAG’s proposal would not result in the statement of financial position being similar for entities growing organically and entities growing by acquisitions

Information on (future oriented) expenses

- Could provide information to support users' understanding of the value of the entity's unrecognised internally generated intangibles
- To be further examined whether information should be provided by disclosing the recognised expenses the management considers relate to benefits of future periods, by providing further specifications and breakdown of expenses to help users perform their own assessments – or a combination

Information on (future oriented) expenses

- Example of how more granular information on expenses could be provided (from DP):

	Cost of sales	Marketing and distribution expenses		Administrative expenses	Research and development expenses		Total
		Marketing expenses	Distribution expenses		Patent expenses	Other research and development expenses	
Depreciation expenses							
Employee benefit expenses (not capitalised)							
Fees to consultants (not capitalised)							
Legal fees (not capitalised)							
Fees to providers of staff training (not capitalised)							
...							
Total							

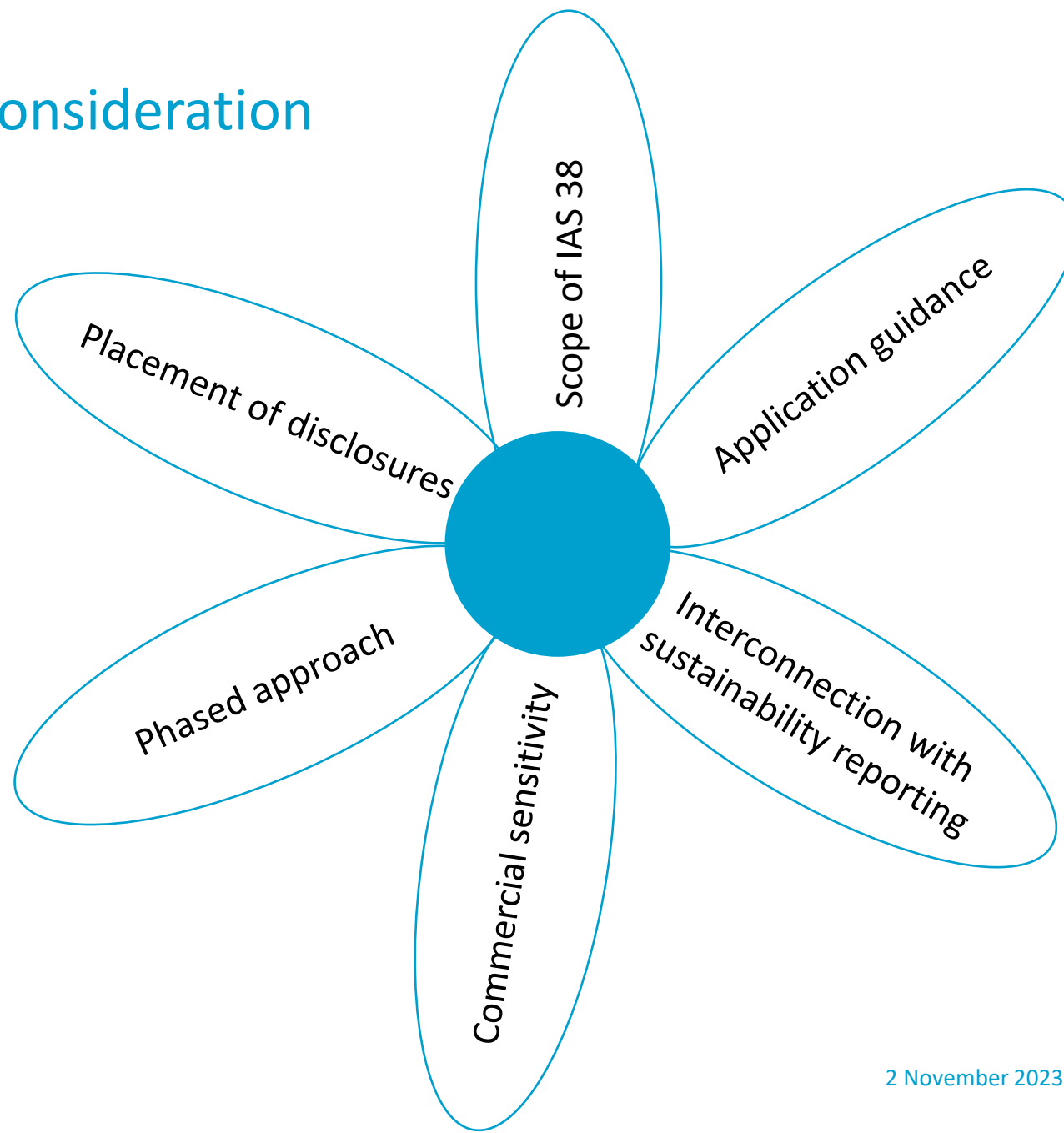
Information on specific intangibles

- For intangibles (both recognised and unrecognised) that are key to an entity's business model
- Supplement both recognition and information on expenses
- Information can be quantitative (including KPI's), qualitative or both – so if quantitative information cannot be provided, qualitative information should be provided
- Recommendations and Feedback Statement includes examples of information considered useful for various types of intangibles

Information on risk and opportunity factors affecting intangibles

- Support from majority of respondents to the issue the proposal in the DP to include information on risk and opportunity factors affecting intangibles
 - Limited to factors linked to the key intangibles
 - Should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (e.g., KPIs used to measure it) and how the risk is managed and mitigated
- To be further examined considering also the developments in and information needs around sustainability reporting

Issues for consideration



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