Staff paper

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IASB® meeting

Date	**April 2024**
Project	**Intangible Assets**
Topic	**Summary of national standard-setter research**
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Purpose and structure

1. The purpose of this paper is to provide the International Accounting Standards Board (IASB) with a summary of recent research performed by national standard-setters (NSS) on the topic of intangible assets.

2. This paper is structured as follows:

   (a) Background;

   (b) Key messages; and

   (c) Summary of national standard-setter research.

Background

3. Several NSSs have performed research on intangible assets. The evidence from this research, together with evidence from academic research (see Agenda Paper AP17B) and feedback the IASB received on its Third Agenda Consultation (see Agenda Paper AP17), provides the IASB with some initial information about potential questions the IASB might seek to answer in this project.

4. We identified relevant research by NSSs from our horizon-scanning for this topic and through a request to the members of the International Forum of Accounting Standard

Setters (IFASS). We asked IFASS members for research on intangible assets they had performed, or were performing, and wanted to share with the IASB in preparation for the IASB starting its research on intangible assets.

Key messages

5. The NSS research highlights a range of stakeholder concerns about accounting for intangible items applying IAS 38 *Intangible Assets*, in particular a concern that financial statements do not provide sufficient information about unrecognised internally generated intangible assets and hence do not reflect key value drivers of the business.

6. There are mixed views on the best way to remedy this concern, in particular on whether the main focus should be on:
   (a) recognition of more internally generated intangible assets by reconsidering:
      (i) the recognition criteria in IAS 38;
      (ii) the prohibitions in IAS 38 on the recognition of many internally generated intangible assets; or
   (b) improving requirements to disclose information about unrecognised internally generated intangible assets, for example:
      (i) qualitative and key performance indicator (KPI) information about intangible items key to the entity's business model; and
      (ii) disaggregation of expenditure on intangible items that are expensed (including future-oriented expenditure).

7. Improving disclosure requirements was often the suggested starting point, particularly by users of financial statements. However, stakeholders also highlighted that some of the information suggested in paragraph 6(b) may be commercially sensitive.

8. Many stakeholders highlighted the inconsistency between the accounting requirements for acquired and internally generated intangible items and the effect this

inconsistency has on comparability. However, overall views of whether to address this were mixed. Stakeholders also questioned whether the 'active market' restriction in paragraph 75 of IAS 38 was appropriate.

9. There were also requests for consistent terminology to be used, without which some say a precise understanding of the nature of the intangible item is impeded.

Summary of national standard-setter research

10. We identified the following research performed by NSSs:

    (a) Australian Accounting Standards Board (AASB):

        (i) Staff Paper *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures* March 2022;

        (ii) Joint AASB-Auditing and Assurance Standards Board (AUASB) Research Report *Australian Listed Entities: Recognised intangible assets and key audit matters* May 2023; and

        (iii) Intangible assets research project (ongoing);

    (b) EFRAG—Recommendations and Feedback Statement *Better Information on Intangibles. Which is the best way to go?* April 2023;

    (c) UK Endorsement Board:

        (i) *Accounting for Intangibles: UK Stakeholders' Views* March 2023;

        (ii) *Accounting for Intangibles: A survey of users' views* (expected April 2024); and

        (iii) *Accounting for Intangibles: A quantitative analysis of UK Financial Reports* (expected April 2024);

    (d) Other NSS research:

        (i) Canadian Accounting Standards Board—*Survey of the types of intangibles prevalent in the Canadian market*;

(ii) UK Financial Reporting Council—Feedback Statement *Business Reporting of Intangibles: Realistic proposals* January 2021; and

(iii) New Zealand External Reporting Board—*Meeting users' needs, recognition and disclosure of intangible assets* September 2023.

Australian Accounting Standards Board

Staff Paper

11. The AASB conducted a study in 2021 to address perceived gaps in the information entities disclose in financial statements about intangible assets, particularly unrecognised internally generated intangible assets. The study did not consider intangible resources used by an entity that do not meet the definition of an asset for example, employee relations and culture.

12. In March 2022, the AASB published a Staff Paper *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures*.

13. The Staff Paper suggests that, as a first step, the IASB consider improving the IAS 38 disclosure requirements for unrecognised internally generated intangible assets. This could be an interim solution until (and if) the IASB reviews IAS 38's recognition, measurement and other requirements.

14. The Staff Paper proposes an entity disclose information in its financial statements about each significant unrecognised internally generated intangible asset controlled by the entity that plays a key role in pursuing the entity's objectives. IAS 38 could be amended to specify requirements or encouragement to disclose:

    (a) a description of the asset.

    (b) the reason it is considered to play a key role in the pursuit of the entity's objectives.

    (c) the reason it failed the recognition criteria in IAS 38.

(d) the operating segments in which it is used.

(e) any legal restrictions on its title.

(f) whether at any time during the period it was newly internally generated, or held for sale, abandoned or sold, or any plan of sale was changed (together with a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal).

(g) its expected useful life and whether the entity's assessment of useful life has changed materially since the prior period.

(h) financial (cost or fair value), non-financial quantitative, non-financial non-quantitative or narrative (qualitative) information that:

   (i) reflects an appropriate balance between relevance and faithful representation of the potential of the asset to generate economic benefits for the entity;

   (ii) could be used as inputs for users of financial statements own assessments of financial effects and stewardship; and

   (iii) if quantitative, is calculated on a comparable and consistent basis over time and supported by explanations of the factors that have caused it to change.

15. The Staff Paper provides analysis of the suggested disclosure requirements listed in paragraph 14, including a discussion of the type of information that could result from them. It does not attempt to reach definitive conclusions on these suggested disclosure requirements.

16. As part of the study, AASB staff obtained feedback from 20 responses to an online survey for users of financial statements (including academics), 12 responses to an online survey for preparers and auditors, and from other forums. The staff used this feedback to help develop the proposals in the Staff Paper.

17. Feedback from users of financial statements indicated:

    (a) they do not consider financial statements prepared in accordance with IAS 38 to be useful relative to other sources of information about unrecognised internally generated intangible assets;

    (b) the majority support amending IAS 38 although a significant minority could support no change;

    (c) they had mixed views on whether IAS 38 should be amended to require the recognition of more internally generated intangible assets or only to improve the disclosure requirements;

    (d) many agreed with IAS 38's prohibition on recognition of many internally generated intangible assets and most agreed with the asymmetry arising from non-recognition of many internally generated intangible assets compared with recognition of the same kinds of intangible assets acquired in a business combination;

    (e) most were not concerned with the 'book value/market capitalisation gap' for listed entities;

    (f) almost all did not consider the restriction on revaluation of intangible assets in IAS 38 to provide useful information in financial statements however, despite this, most did not agree with changing this restriction; and

    (g) they had not seen any examples of entities following the encouragement in paragraph 128(b) of IAS 38 to disclose a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in IAS 38.

18. Feedback from preparers and auditors indicated:

    (a) many consider the requirements in IAS 38 result in an appropriate balance between costs to preparers and benefits to users of financial statements. However, almost all said the information about intangible assets required (or encouraged) by IAS 38 to be provided in financial statements does not appropriately reflect an entity's recognised and unrecognised intangible assets.

(b) most agreed that amendments should be made to IAS 38.

(c) they had mixed views on what requirements should be amended, many expressing at least some level of support for amending the recognition requirements or for only amending the disclosure requirements.

(d) there were mixed views on the appropriateness of the prohibition in IAS 38 on recognition of many internally generated intangible assets however, most disagreed with the asymmetry between the accounting for internally generated intangible assets and acquired intangible assets.

(e) most (that had involvement with listed entities) said the gap between market capitalisation and book values justified amendments to require more internally generated intangible assets to be recognised.

(f) there were mixed views on whether the 'active market' restriction for revaluation in IAS 38 was appropriate.

(g) they had not provided (or audited) information encouraged by paragraph 128(b) of IAS 38—some said this was because of cost reasons or concerns it would reveal proprietary information and some said it was because the encouraged information on its own is incomplete.

19. AASB staff also held discussions with individuals from a valuation services organisation. These valuers said:

(a) many unrecognised internally generated intangible assets can be reliably measured at fair value. Valuers noted that these assets can be measured when applying IFRS 3 *Business Combinations*, but acknowledged that the circumstances of a business combination differ significantly from other circumstances a valuation might be undertaken.

(b) they had concerns about recognising currently unrecognised internally generated intangible assets, and also disclosing the value of these assets in financial statements because:

(i) of difficulties of valuing discrete intangible assets;

(ii) of litigation risk if the disclosed information does not reflect what subsequently transpires; and

(iii) it may reveal commercial secrets.

(c) users of financial statements are better served by information about an entity's operations and investments (into which unrecognised internally generated intangible assets and other intangible resources are an input).

20. The AASB initiated and supported three academic research projects as part of the study. In broad terms, this research did not find examples of Australian entities voluntarily providing information about unrecognised internally generated intangible assets in their financial statements.

Joint AASB-AUASB Research Report

21. The report aimed to gain a comprehensive understanding of the significance of recognised intangible assets on the statements of financial position of Australian-listed entities.

22. A review of financial statements from 2010 to 2021 found that:

(a) with the exception of micro-mining entities, the majority of Australian entities recognised some intangible assets (excluding goodwill) on their statement of financial position.

(b) the level of investment in intangible assets for the majority of entities, as a percentage of assets, is relatively low. However, there are some entities that recognised a significant level of intangible assets as a percentage of total assets.

(c) there is a wide variety of category descriptions used to present intangible assets, possibly impeding both comparability and a precise understanding of the nature of the intangible asset.

(d) intangible assets are the most frequent key audit matter subject matter, suggesting a substantial portion of auditors' resources are required to assure such information, despite the relatively low level of recognised intangible assets.

Intangible assets research project

23. In June 2022, the AASB added intangible assets to its research work program in response to stakeholders' requests.

24. The AASB staff is currently at stage one of the project, focusing on disclosure. At later stages of the project, other aspects of applying IAS 38 will be explored.

25. Feedback on the 2022 Staff Paper generally supported the AASB's decision to continue further work on disclosures. Stakeholders suggested disclosing key metrics for intangible assets, emphasising transparency around an entity's operations and investments rather than the valuation of an unrecognised internally generated intangible asset.

26. The stage one project aims to explore:

(a) the scope of metrics—for example, whether metrics should cover all intangible items (including unrecognised internally generated intangible assets and resources) or common types of intangible assets;

(b) the features of metrics—for example, whether metrics would be quantitative or qualitative measures;

(c) metric categories—for example, whether metrics should be grouped by industries or by types of intangible items;

(d) the criteria to identify metrics and metric categories;

(e) the costs, benefits and likely effects of metrics; and

(f) the verifiability and enforceability of metrics.

EFRAG

Recommendations and Feedback Statement

27. EFRAG published the Discussion Paper *Better Information on Intangibles—Which is the best way to go?* in August 2021. EFRAG received 26 comment letters and four online surveys, and participated in 30 outreach events. EFRAG published the Recommendations and Feedback Statement *Better Information on Intangibles. Which is the best way to go?* in April 2023.

28. The Discussion Paper presented possible approaches to provide better information on intangible items—recognition and measurement, disclosure of information on specific intangible items (key to an entity's business model) to help users of financial statements assess the contribution of the intangible item to the value of the entity, information on risks and opportunities, and information on future-oriented expenses.[1] Respondents agreed these were the relevant approaches to achieve better information on intangible items and most supported a combination of these approaches. Several respondents said intangible items are different and different solutions could therefore apply to different intangible items.

29. EFRAG's study uses the term 'intangibles' in referring to intangible sources of possible economic benefits, and this term would include items that would not meet the definition of an asset.[2] The approaches presented only considered intangible items used in an entity's operations and not those used as investments or for other purposes.

[1] Expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods.

[2] For consistency with the remainder of this Agenda Paper we have used the term 'intangible items' to refer to this broader definition.

30. EFRAG included tentative recommendations based on the feedback received (see paragraphs 31–41) in response to the Discussion Paper:

    (a) Consider and clarify the scope of IAS 38, including what types of intangible items to include and how to distinguish between assets in the scope of IAS 38 and assets in the scope of other IFRS Accounting Standards;

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

    (c) Consider the border between financial reporting and sustainability reporting, and the interconnection between the two;

    (d) Apply a phased approach so some improvements can be introduced in the short term—either disclosure requirements or recognition and measurement requirements;

    (e) Specify requirements to recognise in the statement of financial position only those intangible items that meet the definition of an asset in the *Conceptual Framework for Financial Reporting* (Conceptual Framework) and recognition criteria in IAS 38;

    (f) Review the recognition criteria in IAS 38, including whether the rationale for prohibiting some intangible assets being recognised still apply;

    (g) Consider whether guidance could be developed on how the concept of control is applied to internally generated intangible items if the prohibitions in IAS 38 were removed;

    (h) Consider applying a conditional recognition approach;

    (i) Consider whether the revaluation model in IAS 38 should be retained;

    (j) Require entities to disclose (quantitative and qualitative) information about intangible items that are key to an entity's business model, including those not recognised in the statement of financial position;

    (k) Develop disclosure requirements on (future-oriented) expenses; and

(l) Consider providing an exemption to the disclosure requirements in specific circumstances when information is commercially sensitive.

31. Many respondents agreed with the issues the Discussion Paper raised about the information financial statements provide about intangible items applying IAS 38:

(a) Financial statements do not reflect the drivers of value for intangible intensive businesses.

(b) Performance measures are distorted, for example, return on asset ratios do not provide useful information because the 'assets' part is not properly reflected.

(c) Comparability is affected as most intangible assets are not recognised if they are internally generated, but are recognised if they are acquired.

(d) It is difficult to assess control for particular intangible items.

(e) It may be difficult to identify or allocate costs when measuring internally generated intangible assets at cost, and cost does not reflect the value of the asset, but measuring at fair value may be difficult because there is no active market for most intangible items.

(f) Additional information is difficult to compare and use because the boundaries between different intangible items are not well defined. There are also no generally accepted approaches on how to report on intangible items and some of the information may be commercially sensitive.

32. A majority of respondents agreed it would be useful to introduce a common terminology for intangible items.

33. Most respondents were in favour of removing the explicit prohibitions to recognise some internally generated intangible items as assets and of recognising more internally generated intangible assets. However, the responses indicated that the recognition of additional internally generated intangible assets should be limited and should in all cases only apply to intangible items that would meet the definition of an asset in the Conceptual Framework.

34. Participants at outreach events were asked whether more internally generated intangible assets should be recognised in financial statements. 81% of academics, 74% of auditors and 72% of preparers said yes. However, only 42% of users said yes.

35. Respondents suggested that, in developing recognition criteria, the IASB consider:

    (a) whether an internally generated intangible item is created by means of an identified investment;

    (b) whether cost can be linked to a specific asset and the complexity and reliability of measurement;

    (c) the level of uncertainty regarding future cash flows; and

    (d) how separately identifiable the intangible item is.

36. Some respondents said only targeted changes, rather than fundamental changes, to the IAS 38 requirements on recognition should be considered, identifying:

    (a) the recent IFRS Interpretations Committee agenda decision on cloud computing, which in their view did not result in useful information; and

    (b) the research and development requirements, which in their view need updating to suit new agile development processes.

37. Some of these respondents said the issue of different accounting for internally generated intangible items and acquired intangible items would be better addressed by reviewing the requirements for business combinations.

38. Some respondents supported a conditional recognition approach whereby expenditure is capitalised and fully impaired until the condition is met, at which point the impairment losses are reversed.

39. Respondents also indicated intangible assets used in an entity’s operation should generally be measured at cost, being more relevant and useful information because of the estimation uncertainty associated with fair value measurement, and allowing assessment of returns on investment and management stewardship. A few respondents

said initial recognition at fair value and subsequent measurement at cost may be more appropriate for some intangible assets, for example where costs are difficult to identify.

40. A majority of respondents providing a view said that information on specific intangible items should be limited to intangible items that are key to an entity. Many respondents considered information about future-oriented expenses would be useful, but there were mixed views on whether to base the classification of expenses as future-oriented on management's assessment or to enable users of financial statements to make their own assessments by providing more granular information on expenses recognised in the period.

41. Many respondents said information on recognised intangible assets should be provided in the notes to financial statements whereas information on unrecognised intangible assets should be part of management commentary.

UK Endorsement Board

UK Stakeholders' Views

42. The UK Endorsement Board (UKEB) published its research report *Accounting for Intangibles: UK Stakeholders' Views* in March 2023. That report sets out stakeholder views on the accounting for intangible items under IFRS Accounting Standards within the wider context of the economic effect of intangible items in the UK. These stakeholder views were based on 35 one-to-one interviews and roundtable discussions held with advisory groups.

43. The report highlights data that indicates there has been a significant increase in the economic value of intangible items over the last 15 years, both at a national and entity level. However, this increase can only be inferred indirectly as the current accounting recognition criteria mean that many intangible items are not recognised as assets in both national and entity accounts.

44. No single problem or solution emerged from stakeholders interviewed. A summary of concerns and possible solutions highlighted by stakeholders is included in paragraphs 45–48.

45. Concerns about the accounting for intangible items applying IAS 38 that UK stakeholders highlighted were that:

    (a) IAS 38 is an old Accounting Standard. It is not aligned with the revised Conceptual Framework and does not reflect advances that have given rise to new types of intangible items.

    (b) the recognition criteria in IAS 38 appear rule driven, with blanket prohibitions on the capitalisation of particular expenditure and a high threshold for recognition of development expenditure, leading to limited recognition of intangible assets.

    (c) the recognition criteria for purchased intangible assets or intangible assets acquired through a business combination are different from the criteria for intangible assets developed internally, reducing comparability.

    (d) information about expenditure on expensed intangible items is insufficiently disaggregated.

46. However, some stakeholders supported retaining the current approach to accounting for intangible items, concerned that changes to the recognition requirements could lead to over capitalisation in the financial statements and that enhanced recognition and disclosure requirements would introduce additional costs with limited benefits.

47. In discussing potential solutions to help address the concerns raised:

    (a) stakeholders said any new approach to accounting for intangible items should be grounded in the Conceptual Framework, should be principles-based and should address the possibility of future developments.

    (b) some stakeholders wanted more intangible items recognised in the statement of financial position, although they acknowledge this would increase the need for judgement (for example, in determining when an entity would stop capitalising expenditure, in identifying expenditure that can be clearly attached to an intangible item, in separating maintenance from investment expenditure, and so on) and changes would require careful consideration of the relevance and reliability of the financial information and the costs and benefits of providing that information.

(c) stakeholders seeking broader recognition criteria tended to favour a cost model for recognised intangible assets. However, they suggest that, for intangible assets for which there are more reliable market measures, a fair value model may be more appropriate (for example, cryptoassets held for investment purposes).

(d) there was a clear call for enhanced disclosure requirements about intangible assets (recognised or unrecognised), with users of financial statements in particular calling for more granular reporting of expenditure related to individual intangible assets.

(e) stakeholders wanted more qualitative and KPI information about intangible items that are key to the entity's business model, and generally there was support for the information to be included in the notes to financial statements so that it is audited.

48. Investors appear not to put significant weight on the recognition of intangible assets, as they are not convinced it will always give reliable information. They indicate they would rather have detailed information about expenditure on such items to allow them to make their own assessment of the potential value that may be created.

Survey of users' views

49. The UKEB plans to publish a research report *Accounting for Intangibles: A survey of users' views* in April 2024. The report will summarise the views of users of financial statements on the current accounting for intangible items, and their preferences for accounting for intangible items, based on 46 responses to a survey.

Quantitative analysis of UK Financial Reports

50. The UKEB plans to publish a research report *Accounting for Intangibles: A quantitative analysis of UK Financial Reports* in April 2024. The report aims:

(a) to provide further and more granular evidence on the prevalence of intangible items in UK listed companies applying IFRS Accounting Standards;

(b) to explore the relationship between intangible assets and entities' performance; and

(c) to examine whether the main concerns identified by UK stakeholders in the research report *Accounting for Intangibles: UK Stakeholders' Views* are supported by the examination of UK entities' financial reports.

Other NSS research

Canadian Accounting Standards Board

51. The Canadian Accounting Standards Board (AcSB) is undertaking research to get a better understanding of the types of intangible items that are gaining prevalence in the Canadian market and the information required by users of financial statements. The AcSB has launched a survey to obtain feedback from stakeholders to inform this topic. The status is ongoing as the AcSB is trying to obtain additional feedback from a broader range of stakeholders.

UK Financial Reporting Council

52. The staff of the UK Financial Reporting Council (UK FRC) published a Discussion Paper *Business Reporting of Intangibles: Realistic proposals* in February 2019. The 24 responses received on the Discussion Paper are summarised in the Feedback Statement *Business Reporting of Intangibles: Realistic proposals* published in January 2021.

53. The Discussion Paper considered intangible items more broadly than only those intangible items that meet either the definition of an asset in the Conceptual Framework or the recognition criteria in IAS 38.

54. The main proposals in the Discussion Paper were:

    (a) an intangible asset should be recognised at cost only if:

        (i) the costs to be incurred on development of an intangible asset can be estimated at the time a project to develop an intangible asset is undertaken; and

        (ii) the economic benefits to be derived from the intangible asset can be specified when the costs are first incurred, and hence a method of amortisation or monitoring for impairment can be established;

    (b) requirements should be developed for entities to disclose:

        (i) the amount and nature of investments in unrecognised intangible assets that are recognised as an expense in the period, particularly those that are incurred to generate benefit in subsequent periods (future-oriented intangible items); and

        (ii) the cumulative amount of future-oriented expenditure expected to benefit future periods, and movements in this amount;

    (c) narrative reporting (for example, management commentary) should complement the information provided in financial statements and discuss those intangible items most relevant to an entity's business model and provide metrics relating to those intangible items to help investors make their own assessment of the intangible items and their effect on financial performance.

55. All respondents agreed with the importance of reporting on intangible items and the majority of respondents acknowledged the limitations of the current reporting framework in capturing and presenting the nature and value of intangible items.

56. The main reservation about the proposals in the Discussion Paper was that, given the measurement uncertainty relating to intangible assets and the difficulty in identifying future-oriented expenditure, the proposals would lead to highly subjective disclosures involving a high degree of management judgment. There were also concerns about the commercial sensitivity of the information and compliance costs.

57. There were mixed views on the proposed criteria for recognition of intangible assets at cost and several respondents also noted challenges with applying the criteria because the scope of a development project may change as it progresses.

58. There were also mixed views on the requirements to disclose future-oriented expenditure. The main concern of those respondents that disagreed was the subjective nature of the allocation of costs between current period expenses and expenditure on future-oriented intangible items. However, a majority of respondents expressed support for improving the quality of information on recognised and unrecognised intangible assets in narrative reporting, albeit some with caveats or reservations.

New Zealand External Reporting Board

59. The New Zealand External Reporting Board (NZ XRB) presented the findings of research on intangible items at the September 2023 meeting of IFASS. The key findings of the research, based on a review of data from 226 listed NZX companies over the 2016–2021 period, were:

    (a) The most frequently capitalised types of intangible item were software and goodwill. The research found diversity in the terminology used for similar types of intangible assets and suggested standardisation of terminology would be beneficial for users of financial statements.

    (b) The most frequent types of intangible expenses were donation, sponsorship or community expenses. A key finding was the need to mandate specific expense categories if an expense disclosure approach was adopted.

    (c) A review of data from a sample of 20 entities found that none disclosed a selection of the information the AASB (see paragraph 14) and EFRAG (see paragraph 28) papers suggested is useful. Information related to human capital, structural capital and relational capital was also analysed. Half the entities in the sample provided information that may relate to unrecognised intangible assets, but that information was quite general and did not link to particular unrecognised intangible assets. More indicators in non-financial reporting that relate to future value creation could meet users of financial statements information needs about unrecognised intangible assets.

(d) The vast majority of capitalised intangible assets were measured at cost because there is no active market to permit fair value measurement, including those that are close to meeting the criteria for an active market, for example fishing quotas. The research suggested applying the requirements of IFRS 13 *Fair Value Measurement* as a low-cost solution to reduce the gap between market capitalisation and the book value of assets, and this would allow for greater transparency and relevance of intangibles' presentation and disclosures.

Question for the IASB
Does the IASB have any comments or questions on the summary of national standard-setter research?