Discussion of ZGMB (2023)

“The usefulness of disclosures on unaccounted intangibles for CFOs and investors: An international investigation”

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IASB Research Forum
IESEG School of Management
Paris November 2-3, 2023
ZGMB (2023) in a Nutshell

• What?
  – To provide **insights** on **preparers** and **users’** view on the **usefulness** of **information** on **unreported intangibles**

• How?
  – International **web-based survey** of preparers and users
  – **Focus group interviews** with preparers and users

• Why?
  – Directly **contrast** preparers and users’ views
  – Explore “**perceptions**” of **unreported intangibles** information **usefulness**
Key Findings

• Preparers and users generally view the current reporting for intangibles as lacking
  – Compared to users, preparers seem to be more “conservative” in their intangible information demands and in their attitudes toward change

• Preparers and users agree
  – Information on intangibles to be reported based on a combination of KPIs, narrative disclosures, and financial numbers
  – Need for auditing
Theoretical Development: Comments

• Currently, the authors rely on a “let the data speak” approach

• However
  – The study aims to inform policy and hence cannot be (entirely) descriptive
  – The way in which the questions are structured calls for some theory on
    • The usefulness of financial reporting information on intangibles
    • The expected costs and benefits of intangibles disclosure (e.g., proprietary costs)
    • The different nature of users (e.g., equity investors vs. creditors)
    • The objective of financial reporting information (valuation vs. stewardship/contracting)

• Suggestion: Be more explicit on the theory that informs the survey questions
Theoretical Development: Suggestions

• Build **theoretical framework** around the **economic determinants** of a **potential reform of intangibles reporting**

• As such, the survey could be presented as to provide **answers** to the following **policy-relevant questions**
  
  – **What do we mean by intangibles?** Do preparers and users share the same views about what constitutes an intangible resource?
  
  – **Have financial statements become less relevant** because of underlying **changes in the economy** not captured by financial statements?
  
  – **If so, has this led to suboptimal capital allocation** in the economy?
Research Design: Comments

• Survey design needs more transparency/discussion

• Unclear how the authors identify their initial sample
  – How many subjects did the survey initially target?
  – Who provided those contacts?
  – What is the survey response rate?
  – 40% of respondents abandon the survey after the initial personal questions—why?
  – How representative is the final sample compared with the underlying population?

• Focus groups
  – Sample size fairly small to draw any credible inferences
  – Is there an overlap between the surveyed subjects and the focus group subjects?
• Survey design
  – “The research mainly focuses on preparers and users and a comparison of their views (between-subjects design)”
    • That is not what it is commonly understood to be a between-subject design
  – “The survey was randomly assigned”
    • I could not understand the nature of the random treatment, if any
Research Design: Further Comments and Suggestions

• Empirical analysis
  – **Univariate comparisons** of responses across preparers and users
  – **However**
    • **Subsamples** of preparers and users likely vary **along several dimensions**
    • As such, **comparing unconditional means** may not be very informative
  – Consider **multivariate analysis** to compare responses while controlling for fundamental differences across preparers and users
Findings: Interpretation

• Key findings
  – Preparers are more conservative than users and exhibit a lower demand for change
  – New information on intangibles should be entail a mix of KPIs, narrative disclosures, and financial numbers

• How surprising are these findings?

• How do they help us revise our priors about potential improvements to current intangibles reporting?
Descriptive research provides interesting insights

But

- It is only a first step
- It cannot identify causal effects and thus reach conclusions on the costs/effectiveness of a potential regulatory action
- Descriptive studies should clearly caveat these limitations and be careful with what policymakers can take away
UKEB Intangibles Survey

• Survey on users’ views on the current reporting for intangibles under IFRS and what may be done to improve it

• Questions include:
  – Whether current requirements are useful for investment/lending decisions
  – If intangibles were capitalized, which subsequent measurement model would be more useful for decision making

• UKEB still seeking user responses:
  – Link: https://www.smartsurvey.co.uk/s/UKEB_intangibles_distribution/
  – Email: S.Alderighi@endorsement-board.uk
Concluding Remarks

• I very much enjoyed reading the paper
  – Relevant and timely research question

• Suggestions
  – Theoretical development: Strengthen the theory
  – Research design: Be more upfront about the details of the design and do more with your (rich) survey response data
  – Improve the discussion of the empirical findings

• Good luck!