Accounting Standards Advisory Forum
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Investor views on Intangible Assets and their amortisation

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Background

- Objective: to understand whether investors believe IFRS provides useful and reliable information about intangible assets
- Questionnaire based research of 27 investors (mainly based in UK and Germany), carried out during 2013-2014

Intangibles in a business combination

- More than half would prefer different accounting, both on initial recognition and subsequent reporting
- Majority tend to add back all amortisation when assessing earnings
- Significant support for distinguishing two classes:
  - ‘wasting’ intangible assets—amortise over useful life
  - ‘organically replaced’—annual impairment only, and may be subsumed within goodwill

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Classes of intangibles

Wasting

- Finite lives, identifiable revenue streams
- EG: wireless spectrum
- Amortise over useful life

Organically replaced

- Continually renewed through day-to-day operations
- EG: brands, customer lists
- Impairment only—combine with goodwill

Other messages

- About half content to recognise development costs (only) and amortise
- Strong support for recognition and amortisation of separately acquired intangibles (perhaps because these are “wasting”)
- Some concerns about consistency of application of standards and disclosures

For consideration…

- Recognition criteria of:
  - (i) probable future economic benefits; and
  - (ii) reliable measurement

  seem to work reasonably well for intangibles outside a business combination
- But these are not applied to intangibles resulting from a business combination

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