



# **UK Endorsement Board**

## **Accounting for Intangibles: UK Stakeholders' Views**

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**UKEB Chair**

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The views expressed in this presentation are those of the presenter and not necessarily those of the UKEB, nor are they necessarily reflective of any official policy or position.



# UKEB ASAF Presentation

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1. Introduction
2. UKEB Research
3. Ways forward on accounting for intangibles
4. Advantages and disadvantages of the approaches proposed

# Motivation: Intangible assets – IASB debate (1)

- The IASB has long acknowledged concerns about intangible assets:
  - Intangible assets are increasingly important in creating value (see economics section below)
  - This affect many companies/industries in many jurisdictions
- The IASB has declared that they will start a project on intangible assets based on the third Agenda Consultation (2021)
- Most respondents to the consultation regarded the project on Intangible Assets as “**high priority**” , including the UKEB
- The IASB website stated that the “project will aim to **comprehensively** review the accounting requirements for intangible assets”
- To date no specific timeline is provided

## IASB Board Member

- “I want to understand what stakeholders think is wrong with IAS 38, and how they think we could improve the accounting for intangibles”





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# UKEB's intangibles research project

- In early 2022, the UKEB agreed to undertake a multi-output, proactive research project on intangibles
- The research objective is to contribute to the ongoing international debate on improving the accounting and reporting of intangibles to provide investors with useful information for their decision-making
- Three projects:
  - Qualitative report: aimed at collecting UK stakeholders' views through interviews
  - Quantitative report: aimed at triangulating the qualitative report findings through data analysis
  - Survey report: aimed to collecting investors' views through a survey
- Qualitative report published in March, focus of today's presentation



# UK Stakeholder views on accounting for intangibles

UK Stakeholder Views on Accounting for Intangibles – published on 22 March 2023

35 Interviews with a range of UK Stakeholders

Key findings:

1. Intangibles have increasing economic importance, but are difficult to identify and measure.
2. There is no single problem or answer to accounting for intangibles.
3. Current accounting is rules based and inconsistent.
4. While there is an appetite to explore enhancing the recognition of intangibles among some stakeholders.
5. Investors are clearly focused on enhanced disclosure.



# Economics:

- Between 2008 and 2021 **recognised intangible assets** for FTSE 350 companies increased 185%, from £115 to £330 billion
- ONS in the UK produces experimental statistics at a national level and estimate investment in intangible assets is roughly equal to that in physical assets.
- Recognised intangible assets **grew at a faster pace than assets** overall, physical assets or market capitalisation
- Currently companies and industries with largest amounts of intangibles tend to be the ones involved in mergers and acquisitions (e.g. British American Tobacco - £72 billion net intangibles ex goodwill (2021))







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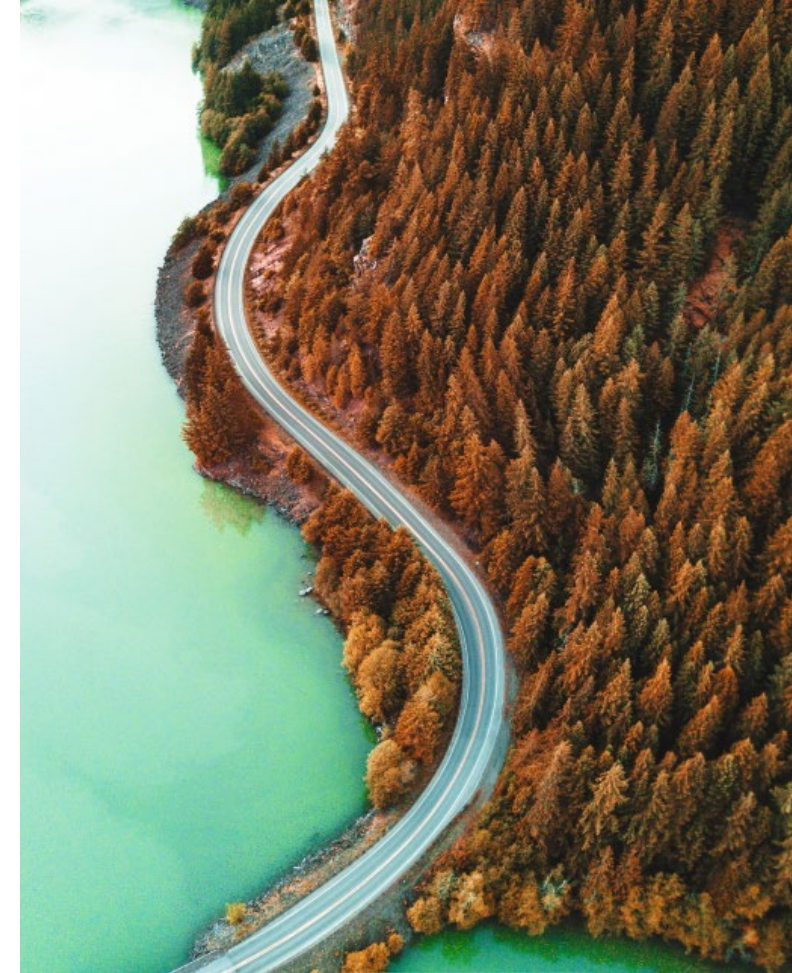
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# UK Stakeholder views on ways forward on accounting for intangibles

- A comprehensive review of the accounting for intangibles, which replaces or redrafts IAS 38.
- A project to enhance disclosure of intangibles, especially in relation to expenditure on intangibles that is not currently captured on the balance sheet.
- A targeted approach that develops new standalone standards for specific intangibles.



# IFRIC Agenda Decisions relevant to intangibles

IFRIC decision	Date
<a href="#"><u>Configuration or Customisation Costs in a Cloud Computing Arrangement</u></a>	27 April 2021
<a href="#"><u>Player Transfer Payments</u></a>	25 June 2020
<a href="#"><u>Training Costs to Fulfil a Contract</u></a>	3 March 2020
<a href="#"><u>Subsurface Rights</u></a>	21 June 2019
<a href="#"><u>Holdings of Cryptocurrencies</u></a>	21 June 2019
<a href="#"><u>Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud</u></a>	15 March 2019
<a href="#"><u>Goods acquired for promotional activities</u></a>	25 September 2017
<a href="#"><u>Property, Plant and Equipment and IAS 38 Intangible Assets—Variable payments for asset purchases</u></a>	1 March 2016
<a href="#"><u>Amortisation method – intangible assets with a finite useful life</u></a>	1 January 2010
<a href="#"><u>Compliance cost for the registration, evaluation, authorisation and restriction of chemicals</u></a>	1 July 2009

# A comprehensive review of IAS 38

UKEB Response to IASB's Third Agenda Consultation:

“A **comprehensive review** of *IAS 38 Intangible Assets* is necessary to address **the extent to which it captures relevant information on intangibles**, including crypto-currencies, pollutant pricing mechanisms, software, and development costs, particularly in relation to **value creation through scientific and technological innovation**.

The project should also consider whether **more relevant information would be provided** if intangible assets **held for investment or for trading**, such as crypto-currencies or pollutant pricing mechanisms, were addressed within the **scope of other IFRS Standards**.”

# UK Stakeholders' feedback – UKEB Intangibles Research

## Analyst

- “There has been a rise in intangibles, resilience, networks, brand value etc, and the accounting is bad at capturing this, along with the creative process. This problem will grow as the economy continues to move towards intangibles. If you want accounting to remain relevant there should be a solution”.

## Investor

- “I am nervous about having too many rules and trying to create bright lines. A principles-based approach is better. If you set a bright line people find ways to bend the rules. Principles usually lead to greater discipline in the accounting. I would prefer something that is more aligned with the *Conceptual Framework*. Is there really an asset here? Then we can think about the appropriate measurement”.



# A staged approach

The IASB feedback statement on the Third Agenda suggested (pg 27) a staged approach could be taken, ie:

1. Development of enhanced disclosure requirements, including disclosures about unrecognised intangible assets;
2. A review of the scope of IAS 38 to consider whether some recognised intangible assets should remain within the scope of IAS 38 or be included in the scope of another Accounting Standard;
3. A review of the definition of an intangible asset and recognition criteria in IAS 38; and
4. A review of the measurement requirements for intangible assets within the scope of IAS 38.



## A disclosure only focus

“Disclosure was a recurring theme in discussions with stakeholders and it is likely to be key to any future standard setting in this area. Not only was it raised by all stakeholder categories, but it also emerged that it has driven some stakeholders away from relying on the annual report, instead hunting for the information they need elsewhere.”

– UKEB Intangibles Research



# UK preparers and auditors' comments on disclosure – UKEB Intangibles Research

## Preparer

- “Even if you continue to expense, there isn’t enough granularity in the disclosures”.

## Auditor

- “The expenses are not disaggregated enough. You might see R&D and advertising. You won’t see training”.

# UK users' comments on disclosure – UKEB Intangibles Research

## Analyst

- “We spend a lot of time trying to figure out the intangible spend. Enhanced disclosure on expenses would be useful, like a breakdown of research and development and clear identification of marketing expenses”.

## Analyst

- “Sell-side do not really care about what is in the balance sheet. It is retrospective, the value comes from the future. We just want better breakdowns of [expense] information to help us extrapolate”.

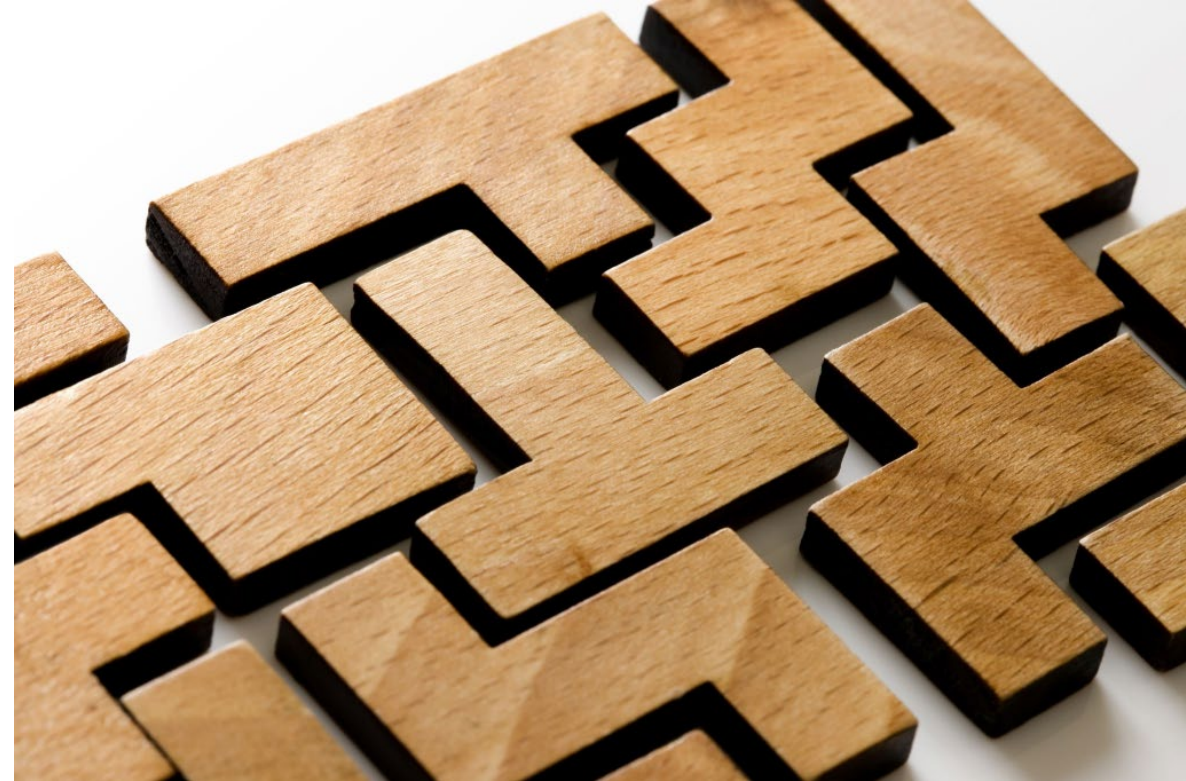
## Investor

- “Forecasting cash flow is easier when we understand marketing spend”.



# Targeted standards or amendments

- A different approach, mentioned by some stakeholders and some standard setters, would be to develop specific, targeted, standards or amendments.
- Often this proposal focuses on types of assets, such as cryptocurrency or pollutant pricing mechanisms.
- Alternatively, it could also be based on classes of assets, such as relationship assets or technology assets.





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# Possible advantages and disadvantages of a comprehensive review and a staged review

Approach	Advantages	Disadvantages
Comprehensive review	<ul style="list-style-type: none"><li>• Addresses most concerns;</li><li>• Modernising and future-proofing accounting for intangibles;</li><li>• Embedded into processes; and</li><li>• Enhancing connectivity.</li></ul>	<ul style="list-style-type: none"><li>• Difficult, time-consuming project;</li><li>• May not be supported by all stakeholders; and</li><li>• Fatigue.</li></ul>
Staged review	<ul style="list-style-type: none"><li>• As well as the above:</li><li>• Most urgent matters can be addressed first.</li></ul>	<ul style="list-style-type: none"><li>• As well as the above:</li><li>• May limit options for improvement in later stages; and</li><li>• May lead to cross cutting inconsistencies within the IFRS Standard.</li></ul>

# Possible advantages and disadvantages of a review of disclosure requirements and developing targeted standards or amendments

Approach	Advantages	Disadvantages
Review of disclosure requirements	<ul style="list-style-type: none"><li>• Provides many of the main benefits requested by users; and</li><li>• Less resource- and time-intensive.</li></ul>	<ul style="list-style-type: none"><li>• Recent history of disclosure-only projects being less successful</li><li>• Underlying concerns not addressed; and</li><li>• Risks not being embedded into systems and processes.</li></ul>
Targeted standards or amendments	<ul style="list-style-type: none"><li>• Addresses stakeholders' most urgent needs; and</li><li>• Less resource- and time-consuming.</li></ul>	<ul style="list-style-type: none"><li>• Risks introducing inconsistency;</li><li>• Unclear how to prioritise; and</li><li>• “Fighting the last war”.</li></ul>



# Ongoing consideration

1. Understanding what users really want.
2. The scope of any future IASB intangibles project.
  - a) Comprehensive review of IAS 38
  - b) Staged comprehensive review of IAS 38
  - c) Limited review of IAS 38
  - d) Develop new, specific standards
3. How we can support the IASB to provide timely delivery of the project.

# Thank You

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