IFRS Accounting

Staff paper

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Project	**Intangible Assets**
Topic	**Project direction—prioritisation of broad groups of topics**
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Purpose of the paper

1. This paper provides staff analysis and recommendations on the selection and prioritisation of broad groups of topics for the International Accounting Standards Board (IASB) to explore in the Intangible Assets project.

Summary of staff recommendations

2. Based on the analysis in this paper, we recommend that:
   (a) the IASB begin work on the Intangible Assets project by:
      (i) performing an assessment of user needs for information about recognised and unrecognised intangible assets and expenditure associated with them in the financial statements; and
      (ii) exploring whether to update the definition of an intangible asset, associated guidance and some aspects of the recognition criteria, initially using, as test cases, application issues related to newer types of intangible assets and new ways of using them and then considering the

effects of any potential amendments on the broader population of intangible assets;

(b) the IASB begin work to explore, once work on the groups of topics listed in paragraph 2(a) has progressed sufficiently:

(i) accounting for intangible assets held for investment, based on the intended use or purpose of holding an asset and using test cases that could include some carbon credits and cryptocurrencies;

(ii) broader aspects of the recognition requirements in IAS 38 *Intangible Assets*; and

(iii) improving disclosure requirements about recognised and unrecognised intangible assets and expenditure associated with them;

(c) the IASB only consider whether to explore topics relating to improving the comparability of information about acquired and internally generated intangible assets and the usefulness of information about intangible assets acquired in a business combination once work on the groups of topics listed in paragraphs 2(b)(ii)–(b)(iii) has sufficiently progressed;

(d) the IASB explore improving measurement of intangible assets in the context of work on other groups of topics rather than as a separate topic;

(e) the IASB consider whether to explore accounting for a broader range of intangible items once work on other groups of topics has sufficiently progressed; and

(f) the IASB not explore accounting for intangible assets covered by other IFRS Accounting Standards or consistency of labels for different intangible items in the Intangible Assets project.

Structure of the paper

3. This paper is structured as follows:

(a) recap of staff's initial thoughts;

(b) feedback and developments since March 2025;

(c) staff analysis and recommendations;

(d) Appendix A—Review of user adjustments; and

(e) Appendix B—Visual representation of recommended prioritisation of topics.

Recap of staff's initial thoughts

4. In this section, we provide a reminder of our initial thoughts on broad groups of topics that the IASB could explore in the project that were included in March 2025 Agenda Paper 17A.

Scoping topics

Topic 1: Accounting for intangible assets held for investment, such as some carbon credits and cryptocurrencies

Note on terminology: ***Intangible assets held for investment*** *In the initial outreach on the project, we used the term 'intangible assets held for investment' (originally used in the Third Agenda Consultation) to describe intangible assets other than those used in the production or supply of goods or services or held for sale in the ordinary course of business.* *We acknowledge that the term might be interpreted differently, and we will consider whether another term may be more appropriate if the IASB decides to explore this group of topics in the project.*

Carbon credits

In our initial outreach on the project, stakeholders used 'emission rights', 'carbon credits' and similar terms to describe assets generated by pollutant pricing mechanisms (PPMs). At this stage, we have not attempted to explore whether there would be any differences in the underlying items. In this paper, we used 'carbon credits' to describe all types of assets arising in PPMs. We will consider whether another term may be more appropriate if the IASB decides to explore this topic in the project.

Cryptocurrencies

In the outreach materials and surveys, we used the term 'cryptocurrencies' (that was originally used in the Third Agenda Consultation), and this term was used most commonly by our stakeholders. However, our stakeholders may have been using the term to refer to a broader range of cryptoassets that can also include other digital forms of value such as stablecoins and tokens. We will consider the exact term to use and what it captures if the IASB decides to explore this topic in the project.

5. Exploring accounting for intangible assets held for investment—which is mostly associated with newer intangible assets such as cryptocurrencies and carbon credits—could help meet the project objective of updating IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them. Furthermore, exploring accounting for intangible assets held for investment received strong support from our stakeholders, particularly preparers. However, the support for reviewing this group of topics could be for various things—for exploring accounting based on use of an intangible asset, for having clear requirements on PPMs, for scoping cryptocurrencies (and carbon credits) out of IAS 38 because they are not intangible assets or for broader modernisation of accounting for newer intangible assets.

6. The IASB's previous decisions on PPMs do not suggest exploring carbon credits separately in the Intangible Assets project. However, for both cryptocurrencies and carbon credits, in this project the IASB could:

   (a) apply a principle-based approach and explore accounting for intangible assets based on their use; or

   (b) use cryptocurrencies or carbon credits or both as test cases in exploring application challenges for newer intangible assets.

7. Depending on this work and the IASB's future decisions in the next agenda consultation, the IASB might later review whether these assets need to be scoped out of IAS 38.

Topic 2: Accounting for a broader range of intangible items

8. Support for exploring the accounting for a broader range of intangible items (including assembled workforce, an entity's reputation, internal organisation and corporate culture) was medium. Exploring this group of topics could contribute to the objective of improving the usefulness of information entities provide about intangible items in their financial statements. However, to keep the project manageable, the IASB could consider if it would be best to initially keep the scope of the Intangible Assets project narrow given the large spectrum of intangible items. For example, the IASB could begin with the current scope of IAS 38 and focus on financial statement elements (such as assets and expenses) only. Furthermore, if the IASB were to explore Topic 8 on improving disclosure requirements, this might involve considering the boundary between the financial statements and other reports, and user information needs. The IASB could consider whether and how to address a broader range of intangible items in the Intangible Assets project when:

   (a) the work on Topic 8 progresses sufficiently; and

   (b) the practice of applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* develops and the International

Sustainability Standards Board's (ISSB's) project on Human Capital progresses.

Topic 3: Accounting for intangible assets covered by other IFRS Accounting Standards

9. Overall, the level of support for considering intangible assets covered by other Accounting Standards was medium, with stakeholders' comments focused on goodwill. Many of the issues raised by stakeholders related closely to issues the IASB discussed in the Business Combinations—Disclosures, Goodwill and Impairment (BCDGI) project, such as switching to an amortisation model for subsequent measurement of goodwill and concerns about impairment testing. To keep the project manageable (and considering the broad spectrum of intangible assets in scope of IAS 38) the IASB could start with the current scope of IAS 38. Goodwill might be considered later in the project if decisions the IASB makes in the project significantly affect goodwill.

Subject area topics

Topic 4: Updating the definition of an intangible asset and associated guidance to make them easier to apply, particularly to newer types of intangible assets

10. This group of topics received strong support from our stakeholders, especially most preparers and many users of financial statements (users). It directly addresses the project objective of updating IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them. The IASB could decide to explore this group of topics using several application issues as test cases initially and then considering broader effects on intangible assets as a whole. This could be a good entry point into the project because:

    (a) it explores fundamental aspects of IAS 38, such as the definition and some aspects of the recognition criteria;

(b) exploring this group of topics could help the IASB start the project in a more focused way; and

(c) considering the underlying causes of application issues and developing potential solutions could inform other aspects of the project, especially those related to broader definition and recognition criteria topics.

Topic 5: Investigating whether more intangible assets should be reported on the balance sheet

11. There were mixed views on whether the IASB should explore more recognition of intangible assets on the balance sheet, with limited appetite for more recognition from users and preparers. However, some stakeholders said it would be odd not to explore this fundamental aspect of IAS 38 as part of a comprehensive review—and exploring recognition requirements would not necessarily result in significant changes to recognition. Furthermore, there is some evidence of real effects for entities as a result of lack of recognition, such as difficulties in raising finance or paying dividends, which could justify exploring this topic. Exploring this group of topics could help meet the objective of improving the usefulness of information that entities provide about intangible items in their financial statements.

12. Some aspects of the recognition criteria may be explored as part of the IASB's work on newer types of intangible assets (see Topic 4).

13. It could be beneficial to consider broader aspects of recognition once the definition of an intangible asset has been determined, especially if the IASB decided to perform a more fundamental review of recognition requirements.

14. Overall, we think the key decision for the IASB on this group of topics is to weigh up the rationale for exploring these topics against the difficulties that the IASB would likely face in tackling these topics given the apparent lack of enthusiasm from users and preparers for extensive changes to the amount of intangible assets recognised on entities' balance sheets.

Topic 6: Improving comparability of information about acquired and internally generated intangible assets

15. Improving comparability of information about entities that have grown organically and those that have grown via acquisition might contribute to meeting the objective of improving the usefulness of information entities provide about intangible items in their financial statements. Although there was some support for addressing this group of topics, there are concerns about the feasibility of finding a potential solution and different views as to whether these transactions are economically different or not.

16. The IASB could wait until it completes (or makes significant progress in) its work exploring:

    (a) the disclosure group of topics—to see if potential solutions for that group of topics could result in sufficient information to enable users to make comparisons; and

    (b) the possible need for more recognition—to see if as a result more internally generated intangible assets are to be recognised thus reducing the difference in accounting for acquired and internally generated intangible assets.

17. The IASB would need to consider whether it is appropriate to explore the recognition of intangible assets in a business combination in this project. To make that assessment the IASB would likely need to do some initial work to understand the root cause of the feedback on this topic. The timing of that work would need to be considered in light of the priority of other topics.

Topic 7: Improving measurement of intangible assets

18. Improving measurement of intangible assets could help address the objective of improving the usefulness of information entities provide about intangible items in their financial statements. It could also help address the objective of updating IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them, if the IASB uses newer intangible assets (such as

cryptocurrencies) as test cases to help explore the measurement of intangible assets held for investment. Although there was some support for exploring measurement issues, mostly from preparers, it does not appear to be a priority topic for stakeholders. Stakeholders who did comment on measurement raised various issues, some of which related to challenges in applying judgement. Therefore, exploring measurement issues as a separate group of topics might not bring significant improvements. Some aspects of the measurement requirements may be considered in exploring other groups of topics—for example, reliability of cost if exploring recognition requirements in Topic 5, or an appropriate measurement model if exploring accounting for intangible assets held for investment in Topic 1. Therefore, the IASB could focus on resolving measurement issues when those other topics are explored.

Topic 8: Improving disclosure requirements about recognised and unrecognised intangible assets and expenditure associated with them

19. This group of topics was identified by users as a priority and directly contributes to the objective of improving the usefulness of information entities provide about intangible items in their financial statements. Exploring this group of topics could be an expedient way to provide significant improvements in reporting (especially given the limited support for recognising more intangible assets on entities' balance sheets). However:

(a) some stakeholders would not consider focusing only on disclosure a comprehensive review;

(b) preparers expressed concerns about providing additional information about intangible assets, particularly information about key intangible assets and how they create value; and

(c) later changes may be needed once the IASB explores other groups of topics.

20. Initial exploration of user information needs could be performed early in the project to inform this and other groups of topics. It may be beneficial to explore disclosure more fully at a slightly later stage in the project to enable the IASB to consider:

(a) the effects of the implementation of IFRS 18 *Presentation and Disclosure in Financial Statements*, including how entities disaggregate information;

(b) the effects of the implementation of IFRS S1; and

(c) the effects of the IASB's early work on other groups of topics.

Topic 9: Improving consistency of labels for different intangible items

21. Overall, the strength of support for exploring consistent labels and terminology was low. The staff's initial thinking is that exploring this group of topics is possibly unlikely to bring significant improvement and this does not appear to be a priority topic.

22. However, we think the IASB could consider consistent labels and terminology when exploring other groups of topics in the project. For example, in considering potential disclosure requirements in Topic 8, the IASB may need to consider the use of terms like 'growth-oriented expenditure' and establishing some consistent language (and definitions) for some terms.

Feedback and developments since March 2025

March 2025 IASB meeting

23. IASB members commented on the priority and sequencing of the groups of topics.

24. IASB members generally agreed with addressing, as priority topics:

(a) accounting for intangible assets held for investment (Topic 1) in a principle-based way, looking at the purpose of holding these assets, possibly using some carbon credits and cryptocurrencies as test cases;

(b) updating the definition of an asset and associated guidance to make them easier to apply, particularly to newer types of intangible assets (Topic 4)—IASB members agreed this could be a good topic to start the project with; and

(c) improving disclosure requirements about recognised and unrecognised intangible assets and expenditure associated with them (Topic 8)—for example, this could provide timely improvements.

25. IASB members had more mixed views about whether to address, as priority topics, investigating whether more intangible assets should be reported on the balance sheet (Topic 5) and improving comparability of information about acquired and internally generated intangible assets (Topic 6).

26. Regarding recognition, some IASB members said that rather than investigating whether more intangible assets should be recognised, this topic might result in less intangible assets being recognised. The focus of this topic could be about better recognition (not necessarily more recognition) of intangible assets.

27. There was generally little appetite for prioritising other topics. In particular, many IASB members noted the broad spectrum of intangible items and suggested keeping the project manageable by excluding from its initial scope accounting for a broader range of intangible items (Topic 2) and accounting for intangible assets covered by other IFRS Accounting Standards (Topic 3).

28. Other themes to arise from the IASB's discussions were:

(a) user information needs—understanding users' needs will help to provide an 'anchor' for the project and the work, and may also help identify potential solutions;

(b) types of intangible items—it is important to get sector-specific feedback, focusing on the prevalent intangible items in those sectors to help inform the project (but not with the aim to provide sector-specific standards); and

(c) range of topics—it is difficult to discount any topics at this stage because the topics are interrelated, therefore the IASB may need to be flexible and reconsider the scope/prioritisation as the project progresses.

Feedback from the March 2025 ASAF meeting

29. At the March 2025 Accounting Standards Advisory Forum (ASAF) meeting, we received strategic advice on the project direction. ASAF members also provided comments on the topics to explore in the project and this feedback was generally consistent with their previous feedback which was considered in the analysis and initial staff thoughts in March 2025. In addition, when discussing improving disclosure requirements, a few ASAF members said user information needs vary by type of intangible asset and how they are used by an entity which was similar to IASB member comments about the need for sector-specific feedback and better understanding users' needs.

30. In providing strategic advice, some ASAF members:

    (a) suggested that the Intangible Assets project adopt a principle-based approach, emphasising the importance of establishing clear and consistent principles for accounting for intangible items.

    (b) advised the IASB to be ambitious in the project. An ASAF member encouraged the IASB to use the project as an opportunity to comprehensively review the fundamental principles of IAS 38.

31. ASAF members' views on the starting point for the project varied. During the discussion:

    (a) an ASAF member suggested starting with overarching principles and using test cases to test the principles.

    (b) a few ASAF members suggested starting with exploring the definition of an 'intangible asset'.

(c) an ASAF member suggested starting with improving disclosure requirements, arguing that the benefits of improved information for users would outweigh the costs of several possible changes to requirements for preparers. However, some ASAF members argued that disclosure should not be used as a replacement for reviewing the definition, recognition and measurement. A few ASAF members warned against assuming disclosure would be a quick and easy solution.

32. During the discussion of how to balance needs for timely improvements and a comprehensive review:

(a) some ASAF members said that, although it would be challenging, the project should provide improved requirements in a timely manner.

(b) a few ASAF members said high-priority topics with stakeholder consensus should be advanced first. One ASAF member argued the project will be lengthy, so starting with disclosure topics could help address users' needs sooner and highlight which topics can be omitted.

(c) some ASAF members suggested focusing on users' needs and highlighted the importance of prioritising understanding what information users find useful for decision-making.

(d) an ASAF member said that doing piecemeal standard-setting would not be quick or easy and suggested that the IASB omit peripheral issues and consider concentrating resources to accelerate progress.

(e) an ASAF member suggested that the IASB should develop new processes for agile standard-setting.

33. Some ASAF members said that it is important to have a clear boundary between financial statements and other reports to determine the appropriate location for the intangible items-related information and therefore what this project should address.

Comments from the March 2025 GPF meeting

34. Although we did not seek specific advice at the March 2025 Global Preparers Forum (GPF) meeting, GPF members provided some comments on the groups of topics the project could explore. Those comments were broadly consistent with what we previously heard from GPF members and therefore incorporated in our analysis and initial staff thoughts in March 2025. However, GPF members were stronger in their support for exploring intangible assets held for investment—in particular cryptocurrencies and carbon credits—in separate projects rather than in the Intangible Assets project.

CFA Institute report

35. In March 2025, the CFA Institute Research & Policy Center published its report *Investor Perspectives: Intangible Assets—Before Recognition, Improved Disclosures and Disaggregation Are Needed*. This report summarises the findings of a survey of CFA Institute members in portfolio management and investment analyst roles on their perspectives on intangibles broadly and the accounting for and disclosures of intangibles more specifically.[1] Approximately 800 individuals answered the first 16 questions on overall views of intangibles, and 450 individuals answered every survey question.

36. Key findings from the survey were that:

    (a) investors view intangibles as among the most valuable assets for many entities, but the existing accounting model does not recognise them—unrecognised intangible assets are a significant driver of the difference observed between the book and market values of equity for many listed entities.

    (b) the greatest level of agreement—more than 80% of respondents—in the survey was for better disclosures and more disaggregation of intangibles. Greater

[1] For this summary, we have used the terminology as used by the CFA Institute in their report, including ‘intangibles’ and ‘investors’.

disaggregation is needed for both the flow of investments in intangibles on the income statement and statement of cash flows and the stock of intangible investments on the balance sheet. Some examples of disclosures that received very high levels of support include information on the types and amounts of internally generated intangible assets and key performance metrics that management uses to monitor the performance and value of intangibles.

(c) investors support the recognition, initial measurement and subsequent measurement of acquired intangibles in the current accounting standards, but improvements to impairment testing are needed.

(d) many survey respondents (60%) want internally generated, identifiable intangible items to be recognised on the balance sheet, supporting a single model for internally generated and acquired intangibles. Many respondents (25%) disagree, however, seeing the potential for earnings management and because deferred recognition and amortisation may not provide any more useful information than immediate expensing.

(e) investors did not show a clear preference for whether, if recognised, internally generated intangibles should be recognised using cost incurred or fair value. Nearly equal numbers of respondents supported cost and fair value models for measuring internally generated intangible assets, if they were to be recognised on the balance sheet.

(f) investors see the financial statements as at risk of losing relevance without action by the FASB and IASB on intangibles, but they do not have a strong appetite for radical change. In contrast to the broad agreement among respondents about the economic importance of intangibles and for improved disclosures, they showed less support for bigger changes, such as a new balance sheet that shows the value of or created by intangibles.

37. In a recommendation to standard-setters and regulators, the CFA Institute said that improved disclosures and better disaggregation are needed before recognition.

38. Feedback from the CFA Institute survey was consistent with our user survey and the feedback from users we spoke to—most users indicated that financial statements do not provide sufficient information about most types of intangible items and asked for improved disclosure requirements about intangible items. Users were also united in their concerns about the effectiveness of impairment tests of intangible assets. The message from the CFA Institute survey that financial statements risk losing relevance without action, but that there is little appetite for radical change, is also consistent with our feedback.

39. However, there were some differences, including:

(a) most users we spoke to said that more recognition of internally generated intangible assets would not provide useful information because of concerns about reliability of measurement. However, the CFA Institute survey revealed stronger support for recognising more internally generated intangible assets—although many respondents also disagreed, expressing concerns about earnings management.

(b) many users we spoke to were sceptical about fair valuing intangible assets unless there is an active market for the intangible asset. However, there was generally more support for fair value information in the CFA Institute survey. For example, most CFA Institute survey respondents (75%) supported requiring disclosure of management's estimate of fair value for all intangibles. Furthermore, 29% of CFA Institute survey respondents said that internally generated intangibles should be initially recognised based on costs incurred to date and then subsequently measured at fair value, and 24% said that internally generated intangible assets should be initially recognised at fair value.

Review of user adjustments

40. In response to comments made by a few IASB members at the February 2025 IASB meeting, we performed a review of the adjustments users make to financial statements when performing their analysis based on the evidence gathered to date. A summary of

user adjustments we identified as a result of this review and reasons for those adjustments is included in Appendix A. Our review indicates that:

(a) users make adjustments for many different reasons, but two common themes emerge. First, adjustments can be aimed to better reflect users' view of the economic performance of the business. These include adjustments by users critical of business combination accounting and by those seeking to identify unrecognised internally generated intangible assets and future cash flows associated with them—our review does not indicate that any of these types of adjustments are significantly more common than others. Second, some users make adjustments—including fully disregarding information about intangible items—because entities provide insufficient information about intangible items. These themes also underline a broader user need for achieving better comparability—when valuing entities, assessing their relative performance or evaluating management's stewardship.

(b) users can make similar adjustments for different reasons. For example, some users add back amortisation to avoid what they view as double counting related to organically replaced assets; others do so to facilitate comparison of acquisitive and organically growing entities.

41. The differing ways users use and adjust information on intangible items suggests that there may be no single way to improve information for all and that exploration of various topics may be needed to deliver a package of improvements suitable for users.

Staff analysis and recommendations

42. Because this paper discusses the selection and prioritisation of groups of topics in the project, we have moved away from discussing scoping and subject area topics separately. This section provides our recommendations for:

(a) initial streams of work;

(b) later streams of work; and

(c) groups of topics to be considered as part of other groups of topics, or groups of topics to be excluded from the initial scope of the project or altogether.

Initial streams of work

Cross-cutting: Assessment of user information needs

43. Feedback from our user surveys, user outreach and the CFA Institute survey indicates that users view financial statements as the most important source of information about intangible items but that financial statements provide insufficient information about these items. Users provided a wide range of suggestions for information that they would find useful, indicating that there is no prevalent theme.[2] Our analysis of user adjustments also suggests that users adjust information in the financial statements in different ways for different reasons (see paragraph 40). The adjustments users make differ between industries, types of users (for example, credit analysts and equity analysts) and user approaches to analysis.

44. Various sources also show there are differences in users' opinions on some aspects of accounting for intangible assets. For example, as mentioned in paragraph 39, our user survey findings show differences to the CFA Institute survey in users' views on more recognition of internally generated intangible assets and attitudes to fair value measurement.

45. These differing views on what information would be useful might be because of different sectors and different intangible items users are considering and we think it would be helpful to investigate the underlying reasons further.

46. If the IASB is to achieve its objective of improving the usefulness of information entities provide about intangible items in their financial statements, then we think that a logical first step in this project would be to better understand user information

[2] See paragraph 44 of February 2025 Agenda Paper 17C and page 91 of the CFA Institute report *Investor Perspectives: Intangible Assets*.

needs. This would be a cross-cutting workstream that is not specific to any one of our groups of topics but would contribute to exploring all. We think that working on this stream would help us understand user needs and whether changes in definition, recognition, measurement or disclosure requirements (or a combination thereof) would be necessary to provide more useful information about recognised and unrecognised intangible assets and expenditure associated with them in the financial statements.

47. As part of this work, we could explore what information about intangible assets and associated expenditure users are trying to understand, what users are doing with that information and where users are getting that information today. We could also explore whether and how this information would differ depending on the type of intangible asset or sector that users are considering and the purpose of holding an asset. Our focus would be on financial statement elements, but to the extent that user requests relate to reporting on broader intangible items, this evidence may contribute to the IASB's decision on exploring accounting for broader intangible items.

Topic 4: Updating the definition of an intangible asset and associated guidance to make them easier to apply, particularly to newer types of intangible assets

48. We think the IASB should prioritise exploring this group of topics. It was one of the two most strongly supported topics, especially by preparers and users. Many of the issues raised by stakeholders related to newer types of intangible assets and new ways of developing and using them. With increasing digitalisation of the global economy, the urgency of addressing stakeholders' concerns and ensuring that IAS 38 remains suitable for accounting for newer types of intangible assets is increasing. We think that exploring why IAS 38 is difficult to apply to these assets and what could be possible solutions, could provide meaningful improvements to financial reporting and contribute to meeting the objective of updating IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them.

49. As mentioned in paragraph 10, we think that starting with this group of topics could be a good entry point into the project. It could allow the IASB to explore fundamental aspects of IAS 38, help start the project in a more manageable way and inform other aspects of the project. This is because considering the underlying causes of application issues and developing potential solutions would likely include exploring the definition of an intangible asset, related guidance and some aspects of the recognition criteria. Therefore, we think the IASB should begin the project with work on this group of topics.

50. The IASB could explore this group of topics by:

(a) exploring the definition and some aspects of the recognition criteria, including alignment with the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, for all intangible assets using a principle-based approach;

(b) exploring whether IAS 38 requirements provide a clear and sufficient basis for accounting for newer types of intangible assets using selected intangible assets associated with application issues stakeholders raised as test cases and then considering how any potential solutions would affect other intangible assets; or

(c) focusing on only resolving selected application issues raised by stakeholders.

51. We think the IASB should explore this group of topics using the second approach in paragraph 50(b) because:

(a) a more comprehensive review would be complex and lengthy because of the broad spectrum of intangible assets in the scope of IAS 38. Also, there was limited support for a comprehensive conceptual review of the requirements.

(b) the second approach could be more manageable and strikes a balance between resolving practical issues and developing principle-based concepts. This approach could help deliver timely improvements to the market for application issues stakeholders have highlighted while balancing the need to update the definition of an intangible asset and associated guidance in a principle-based way.

(c) any proposed solution arising from focusing only on resolving selected issues raised by respondents would not necessarily be suitable for other intangible assets, so the benefits of any improvements would be limited and without full consideration could have unintended consequences.

52. If the IASB agrees with pursuing the approach in paragraph 50(b), the IASB would:

(a) select test cases from application issues identified by stakeholders (such as cloud computing, data resources and agile software development).

(b) use those test cases to understand the underlying causes of the application issues and to develop possible solutions using updated concepts in the *Conceptual Framework* as a starting point. For example, for cloud computing arrangements, the underlying causes could relate to the definition of an intangible asset and related guidance, including the nature of the underlying resource (for example, whether it is a right to access or a right to use), the concept of control and the unit of account. For agile software development the IASB could consider some aspects of the recognition criteria such as the timing of recognition of development costs, which may also segue into broader recognition topics (see Topic 5).

(c) test whether identified solutions would work for a more traditional intangible asset or assets to avoid unintended consequences. For example, the IASB could use a broadcasting right to test possible changes to the concept of control from its review of issues related to cloud computing.

53. After completing the work on the assessment of user information needs and updating the definition, the IASB will be able to:

(a) assess whether there is an opportunity to make discrete meaningful improvements to IAS 38 or whether further work is needed before the IASB would consult on any changes to the Standard; and

(b) assess how its findings may affect other groups of topics and their prioritisation.

Recommendation and question for the IASB

54. Based on the analysis in paragraphs 43–53, we recommend that the IASB begin work on the Intangible Assets project by:

(a) performing an assessment of user needs for information about recognised and unrecognised intangible assets and expenditure associated with them in the financial statements; and

(b) exploring whether to update the definition of an intangible asset, associated guidance and some aspects of the recognition criteria, initially using, as test cases, application issues related to newer types of intangible assets and new ways of using them and then considering the effects of any potential amendments on the broader population of intangible assets.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 54?

Later streams of work

Topic 1: Accounting for intangible assets held for investment which could include some carbon credits and cryptocurrencies

55. Feedback from stakeholders and other evidence indicates that there is strong support for exploring this group of topics and it is a growing area of concern for stakeholders. Our evidence suggests that the prevalence of these types of assets is increasing. Some stakeholders expressed a view that IAS 38 requirements are insufficient or unsuitable for these assets—stakeholders suggested that measurement at fair value may be more suitable, and that these assets have different properties or are held for a different purpose compared to intangible assets used in an entity's operations. Therefore, we think the IASB could consider exploring this group of topics.

56. In considering whether and if so when to explore this topic in this project, the IASB would also need to consider its previous decisions on cryptocurrencies and PPMs.[3] The IASB's previous decisions do not suggest addressing these types of assets separately in this project. However, this does not preclude the IASB from exploring accounting for intangible assets held for investment using a principle-based approach in the Intangible Assets project. In general, stakeholders encouraged developing principle-based solutions, and a few stakeholders suggested that focusing on a principle-based approach based on use or purpose of holding an intangible asset would help futureproof IAS 38. Therefore, we think that if the IASB were to explore this group of topics, it should apply a principle-based approach based on the intended use or purpose of holding the asset. The IASB could use some carbon credits, cryptocurrencies and other assets as test cases to develop principle-based solutions.

57. Whether cryptocurrencies and carbon credits would be suitable test cases would depend on the outcome of the IASB's work on the definition of an intangible asset—these items might not be captured by a revised definition.

58. Projects on cryptocurrencies and related transactions and PPMs are included in the tentative list of potential projects to be described in the Fourth Agenda Consultation Request for Information (see March 2025 Agenda Paper 24). If supported by stakeholders:

    (a) the project on cryptocurrencies could comprehensively review accounting for a broad set of 'cryptoassets' and could consider whether these assets should be included within the scope of IAS 38.

    (b) the project on PPMs could comprehensively review accounting for all rights and obligations related to PPMs. We think in the Intangible Assets project the IASB should only consider looking at a small subset of these rights—assets held for investment purposes and therefore we do not think the IASB should

[3] During its Third Agenda Consultation, the IASB decided not to add a project on cryptocurrencies to its work plan. However, the IASB did note that the project on Intangible Assets will review the scope of IAS 38, including whether cryptocurrencies should remain within it. In January 2025, the IASB decided to defer a decision on adding PPMs to the work plan until the next agenda consultation.

look at, for example, carbon credits used to offset an entity's own carbon emissions.

59. Therefore, for the reasons outlined in paragraphs 55–58, we think that work on this group of topics should be deferred until the IASB has made significant progress in its early work on the definition of an intangible asset, to ensure these assets remain within the scope of IAS 38. This would also allow the IASB to consider the likely outcome of the Fourth Agenda Consultation and whether it is appropriate for these assets to be considered within the Intangible Assets project.

Topic 5: Broader aspects of the recognition requirements

60. Feedback from our outreach and surveys indicates that, generally, stakeholders do not favour more recognition. During the March 2025 IASB meeting, a few IASB members highlighted that some stakeholders would prefer less or more consistent recognition of intangible assets. We agree that a review of recognition requirements would not necessarily result in more intangible assets being recognised, and therefore from now on we will refer to this topic as 'broader aspects of the recognition requirements'.

61. Despite the low support (particularly from preparers and users) for investigating this group of topics, we think that exploring broader aspects of the recognition requirements is an important question that many stakeholders would expect to be considered in a comprehensive review of the accounting for intangible assets. The survey conducted by the CFA Institute also suggests that there may be stronger demand from users for reviewing the recognition criteria than suggested by our initial outreach, although the recommendation of the report is to start with disclosure requirements first. There is also some evidence of real effects for entities as a result of lack of recognition. Furthermore, IAS 38 is an old IFRS Accounting Standard, and testing the robustness of the recognition criteria and either confirming their suitability (or lack of a better alternative) or making improvements, could help meet the objective of updating IAS 38, in particular to make it more suitable for newer types of

intangible items and new ways of using them. Therefore, we continue to think that the IASB should explore the broader aspects of the recognition criteria in this project.

62. As noted in paragraph 93 of March 2025 Agenda Paper 17A, the IASB could consider two approaches to exploring the recognition requirements:

(a) the IASB could start with a blank piece of paper and consider recognition as if the current requirements did not exist; or

(b) the IASB could look at the current requirements and determine if the outcomes from these requirements are fundamentally flawed and therefore that the requirements require amendment.

63. We think that the first approach is likely to be more extensive, take longer, may be complex due to the broad spectrum of intangible assets and may not have buy-in from stakeholders due to their limited support for exploring this group of topics. We think the second approach would be more manageable and could deliver more targeted solutions in a timely manner while still considering this important aspect of the accounting for intangible assets. Therefore, at this stage we would suggest that the IASB follow the second approach. This could involve exploring how widespread specific concerns about recognition are to determine whether they indicate that there are fundamental flaws with the recognition requirements in IAS 38. Fundamental flaws could relate to either or both of:

(a) the prohibitions in paragraph 63 of IAS 38—which may lead the IASB to consider adopting a more principle-based approach applying the *Conceptual Framework*; or

(b) the recognition criteria—which may lead the IASB to consider, for example, whether the properties of intangible assets justify specific recognition criteria and whether the recognition criteria need to be updated for the revised *Conceptual Framework*.

64. Our work on application issues and user information needs could also help identify possible problem areas. For example, we heard concerns about newer intangibles,

diversity in recognition of development costs applying the six criteria in paragraph 57 of IAS 38 in some sectors, and concerns that some accounting outcomes do not reflect economic reality. Investigating concerns such as these could help the IASB assess the continued suitability and robustness of the recognition requirements in IAS 38.

65. In terms of timing of this work, we think that the IASB should consider broader aspects of recognition once it sufficiently progresses its work on the initial streams of work. This would give the IASB a chance to use the outcomes from reviewing the definition and some aspects of the recognition criteria for newer types of intangible assets, as well as additional evidence of user information needs. In addition, it would allow the IASB to consider the developments in the FASB's projects related to the recognition of intangible assets.[4]

Topic 8: Improving disclosure requirements about recognised and unrecognised intangible assets and expenditure associated with them

66. We think the IASB should explore improving disclosure requirements about recognised and unrecognised intangible assets and associated expenditure due to the strong support from our stakeholders—for example, the CFA Institute report strongly recommended that the IASB (and other standard-setters) begin with improving disclosures before looking at other topics such as recognition. Exploring this group of topics directly contributes to the objective of improving the usefulness of information entities provide about intangible items in their financial statements. Some stakeholders would argue that improving disclosure requirements is an expedient way to meet user information needs and that objective.

67. However, we agree with the concerns voiced by some of our stakeholders that disclosure should not be used as a replacement for reviewing the definition, recognition and measurement and a disclosure-focused project would not be

[4] The FASB has issued an Invitation to Comment *Recognition of Intangibles* and proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software.*

considered a comprehensive review. Given some stakeholders' concerns about additional disclosure requirements and the IASB's previous experience in developing disclosure requirements in other projects, we also agree with a few ASAF members' view that improving disclosure requirements would not necessarily be a quick and easy solution. Furthermore, multiple changes to disclosure requirements may be required if the IASB amends disclosure requirements before reviewing the definition, recognition and measurement requirements. Therefore, we think that the IASB should consider improving disclosure requirements at a slightly later stage of the project.

68. We think a good reflection point for the IASB would be once our analysis of user information needs is completed. At this point, the IASB could consider whether the information requested by users:

(a) should be provided in financial statements (that is, would be needed to meet the objective of financial statements); and

(b) if yes, could be provided through amending disclosure requirements in IAS 38, or whether it would be better to wait until further progress has been made on the IASB's work on the definition and recognition.

69. Although our work in this project will be anchored in the objective of financial statements in the *Conceptual Framework* and IFRS 18, some user requests (for example, for information about key intangible assets or for some key performance metrics that management uses to monitor the performance and value of intangible assets) may raise questions whether this information belongs in the financial statements—that is whether it is needed to provide useful information about an entity's assets, liabilities, equity, income and expenses. Deferring the start of work on disclosure requirements could also allow the IASB to consider the effects of entities implementing IFRS 18, IFRS S1 and the revised Practice Statement on Management Commentary and to consider progress in the ISSB's Human Capital project.

Topic 6: Improving comparability of information about acquired and internally generated intangible assets

70. Overall, the level of support for exploring improvements to comparability of information about acquired and internally generated intangible assets was medium. Although the comparability of accounting for acquired and internally generated intangible assets was commonly identified as a problem, some stakeholders said this problem could not be solved. Some others said it should not be solved because in their view the accounting for these assets should be different as they are different transactions with different economic characteristics.

71. We agree with stakeholders' concerns that developing feasible solutions for improving the comparability of information about acquired and internally generated intangible assets could be complex. The IASB may seek to make financial statements of entities that have grown organically and those that have grown via acquisition more comparable by:

    (a) recognising more internally generated intangible assets on the balance sheet. However, as already noted in paragraph 60, there was not much demand for recognising more intangible assets on the balance sheet. There also are concerns that increased recognition of internally generated intangible assets could distort the income statement with subsequent impairment and amortisation of those assets resulting in mismatched revenues and expenses. Furthermore, more recognition could result in increased complexity and cost for preparers, including identifiability of costs, subsequent measurement and auditing challenges.

    (b) recognising fewer separable intangible assets acquired in a business combination. A few IASB members highlighted concerns from some users about the complexity and costs related to business combination accounting requirements in IFRS 3 *Business Combinations*. On the other hand, many stakeholders (including respondents to the CFA Institute survey) did not indicate a desire to change the principles of business combination accounting.

(c) improving disclosure to enable users to understand the differences between entities that have grown organically and those that have grown via acquisition. However, we think the IASB will need to better understand user information needs and how (and why) users make adjustments to see whether improvements to disclosure requirements can be made that would provide significant improvement.

72. Therefore, based on the analysis in paragraphs 70–71, we think that before determining whether to explore improvements to the comparability of information about acquired and internally generated assets the IASB should wait until it completes (or makes significant progress in) its work exploring:

(a) user information needs—to understand whether and, if so, why users seek comparability of information about acquired and internally generated intangible assets and how they obtain this information currently;

(b) disclosure group of topics—to see if potential solutions for that group of topics could result in sufficient information to enable users to make comparisons; and

(c) broader aspects of recognition criteria—to see if as a result more internally generated intangible assets are to be recognised thus reducing the difference between acquired and internally generated intangible assets.

73. Not all feedback about acquired intangible assets was related to concerns about comparability. Therefore, separately, the IASB could explore improving the usefulness of information about intangible assets acquired in business combinations. For example, it could investigate whether that information is sufficient and useful to users, and assess the cost and effort associated with separately recognising intangible assets in a business combination. Our initial work on user adjustments shows that some users make adjustments related to business combination accounting—for example, by adjusting the acquired intangible assets figures or by allocating a larger portion of the purchase price to goodwill. However, we think the IASB should wait until it has completed its work on user information needs before the usefulness of information about intangible assets acquired in a business combination is explored.

Recommendations and question for the IASB

74. Based on the analysis in paragraphs 55–73, once work on the groups of topics listed in paragraph 54 has progressed sufficiently, we recommend that the IASB begin work to explore:

(a) accounting for intangible assets held for investment, based on the intended use or purpose of holding an asset and using test cases that could include some carbon credits and cryptocurrencies;

(b) broader aspects of the recognition requirements in IAS 38; and

(c) improving disclosure requirements about recognised and unrecognised intangible assets and expenditure associated with them.

75. We recommend that the IASB only consider whether to explore topics relating to improving the comparability of information about acquired and internally generated intangible assets and the usefulness of information about intangible assets acquired in a business combination once work on the groups of topics listed in paragraphs 74(b)–74(c) has sufficiently progressed.

Question for the IASB
2. Does the IASB agree with the staff recommendations in paragraphs 74–75?

Other groups of topics

Topics to be considered as part of other groups of topics

76. In our initial staff thoughts, we observed that exploring improving measurement of intangible assets (Topic 7) as a separate group of topics might not bring significant improvements. We received no new evidence to suggest that exploring measurement as a separate group of topics would be beneficial. We continue to think some aspects of the measurement requirements are likely to be considered in exploring other groups of topics (see paragraph 18), and therefore that the IASB should focus on resolving

measurement issues when those other topics are explored rather than specifically as a separate group of topics.

Topics to be excluded from initial scope of the project or altogether

77. Consistent with our initial staff thoughts, we continue to think that it would be beneficial to start the project by retaining the current scope of IAS 38 and excluding broader intangible items (such as assembled workforce or corporate culture) and intangible assets covered by other Standards (such as goodwill) from the initial scope of the project.

78. The IASB could consider whether there is a need to explore the accounting for a broader range of intangible items (Topic 2) once:

    (a) the IASB explores user information needs and other topics such as definition (which could clarify the scope of IAS 38) and disclosure requirements (which could satisfy some user information needs); and

    (b) the IFRS Foundation's other activities that might help meet users' needs for information related to broader intangible items (for example, the ISSB's Human Capital project) have progressed.

79. With regards to exploring the accounting for intangible assets covered by other Accounting Standards (Topic 3), feedback and evidence (including that obtained since the March 2025 IASB discussion which indicated general satisfaction with the principles for business combination accounting and lack of desire for amortisation of goodwill) do not suggest the need to revisit the accounting for goodwill.[5] Similarly, we have not heard demand for exploring any other intangible assets covered by other IFRS Accounting Standards. Therefore, we think that the IASB should not explore this group of topics in the Intangible Assets project. It is possible that the IASB may need to reconsider this decision in respect of the accounting for goodwill at a later

[5] See also pages 35–36, 63 and 69–73 of the CFA Institute report.

date if the IASB makes any decisions that affect how intangible assets are recognised in a business combination and this has a significant effect on goodwill.

80. We did not hear any new evidence of specific inconsistencies in labels causing issues for stakeholders (Topic 9) and continue to think exploring this topic is unlikely to bring significant improvements. Therefore, we think that the IASB should not explore consistency of labels for different intangible items as a separate group of topics in the Intangible Assets project. However, we note that development and use of clear terminology is a usual consideration in any IASB project.

Recommendation and question for the IASB

81. Based on the analysis in paragraphs 76–80, we recommend:

(a) the IASB explore improving measurement of intangible assets in the context of work on other groups of topics rather than as a separate topic;

(b) the IASB consider whether to explore accounting for a broader range of intangible items once work on other groups of topics has sufficiently progressed; and

(c) the IASB not explore accounting for intangible assets covered by other IFRS Accounting Standards or consistency of labels for different intangible items in the Intangible Assets project.

Question for the IASB
3. Does the IASB agree with the staff recommendation in paragraph 81?

Appendix A—Review of user adjustments

A1. To understand the types of and reasons for adjustments made by users, we reviewed:

(a) responses to the user survey and follow-up interviews with respondents who agreed to provide additional comments on their survey responses;[6]

(b) comments made at the outreach meetings with user groups; and

(c) relevant reports by national standard-setters, professional accountancy bodies, academics and user organisations.

A2. Our review indicates that the overarching motivation for users' adjustments is to enable meaningful comparisons between entities—both when making valuation-based investment decisions and when assessing entity performance and management's stewardship on an ongoing basis.

A3. Users have different ways of analysing entities and their approaches to valuation and performance analysis influence the adjustments they make to financial statements. For example, a report by an investment management company[7] explains why adjustments might be needed to improve valuations under various approaches. The report categorises an entity's results into earnings (a flow—a measure of results over time) and investments (a stock—a static measure at a point in time). According to the report, some valuation approaches rely on measures of flow, such as price-to-earnings multiples and discounted cash flows, while other valuation approaches rely on measures of stock, such as price-to-book ratios.[8] The report argues that adjustments to financial statements to better distinguish between earnings and investments—for example, by reclassifying a portion of selling, general and administrative expenses (a flow) as investments (a stock)—could help improve users' valuations.

[6] Of the 71 survey respondents, 38% were individual investors; 27%—buy-side investment professionals; 11%—sell-side investment professionals; 4%—credit rating agency analysts and 20% classified themselves as 'other (see Table A1 in Appendix A of February 2025 Agenda Paper 17C). We note that different users may have qualitatively different views.

[7] Mauboussin, M. and Callahan, D. (2022). 'Intangibles and Earnings—Improving the Usefulness of Financial Statements', Morgan Stanley Investment Management.

[8] A European equity research report shows that flow-based approaches dominate valuation techniques in most sectors. There are only a few sectors where stock-based approaches are more important (for example, real estate) or where stock-based approaches are used in conjunction with a measure of returns (for example, banks).

A4. Our research suggests that users' adjustments can be further guided by:

(a) proprietary analytical frameworks—a few users said they use proprietary models, such as HOLT framework[9] and Cash Return on Capital Invested (CROCI).

(b) entity- or industry-specific differences—a few users said they make adjustments based on their knowledge of a specific entity or on industry characteristics. For example, a user said they adjust advertising and marketing expenditures differently for retail brands and luxury brands. In addition, a report by an investment management company, based on recent academic research, showed that significant variation in adjustments to intangible-related expenditures might be needed between industries to accurately assess the business's capital intensity and future earnings potential.[10]

(c) investment perspectives—credit analysts and equity analysts may make different adjustments, with credit analysts often treating intangible assets in a more conservative manner. Credit analysts we interviewed said they focus primarily on cash flows for debt repayment and interest payments, and therefore on downside risks rather than potential upside. As one credit analyst explained, they tend to ignore balance sheet values of intangible assets until they are confident the estimated cash flows are reliable and prefer immediate expensing of intangible-related expenditure because it more closely reflects actual cash movements. This approach contrasts with the approach of equity analysts who may place greater value on intangible assets' contribution to future growth.

[9] HOLT uses a proprietary methodology to convert income statement and balance sheet information into cash flow return on investment (CFROI)—a measure intended to more closely approximate an entity's underlying economics. HOLT was initially proprietary to Credit Suisse but is now owned by UBS.

[10] Mauboussin, M., and Callahan, D. (2022). This report is based on analysis of entities applying US GAAP which requires all research and development expenditures to be expensed. The academic studies (Enache, L. and Srivastava, A. (2018). 'Should Intangible Investments Be Reported Separately or Commingled with Operating Expenses? New Evidence,' *Management Science*. 64 (7), 3446- 3468 and Iqbal, A., Rajgopal, S, Srivastava, A. and Zhao, R, (2022), 'Value of Internally Generated Intangible Capital,' *Working Paper*) show that estimates of the investment portion of intangible-related expenditures vary by industry.

A5. At a more granular level, based on our review, users' adjustments to reported figures can be split into two main types:

(a) adjustments made to reflect users' view of the economic performance of the business. These include:

(i) adjustments related to accounting for business combinations; and

(ii) adjustments for internally generated intangible assets; and

(b) adjustments made because users find information about intangible items provided by entities in the financial statements insufficient.[11]

Adjustments related to accounting for business combinations

A6. Our review indicated that some users make adjustments to help compare acquisitive and organically growing entities (although, a few users said they do not expect such entities to be comparable because the economics of their business strategy and related risks are different). The adjustments related to accounting for business combinations can include:

(a) adding back amortisation related to acquired intangible assets and estimating the appropriate amount of amortisation to include. As indicated by one user in the follow-up interviews, some users look for distortions to profit and loss related to entities' subjective judgements about intangible assets. The users may then recalculate amortisation based on what they consider more realistic assumptions about useful life or value.

(b) adding back amortisation only for acquired intangible assets that are organically replaced through the income statement (such as customer lists) but not for acquired intangible assets that users consider wasting assets (such as software or licences).

[11] An investment management report discussed another category of adjustments—adjustments for non-recurring and non-core items and pro-forma adjustments related to business scope. These adjustments might be related to intangible items (for example, adjusting for a one-off impairment) but we have heard little about them in our outreach meetings.

(c) using reported values of acquired assets but adjusting the expected future revenues from these intangible assets for uncertainties about the entity's ability to maximise the value of acquired intangible assets that they have not developed internally—for example, intellectual property. A few interviewees expressed scepticism about entities' ability to realise the full value of acquired intangible assets they did not develop themselves.

(d) allocating a larger portion of the purchase price to goodwill. A few users said that purchase price allocation is a very complex process, and they found the recognition of many intangible assets separately from goodwill to be subjective and not useful for their analysis. These users argued that a simple approach with fewer assets recognised separately from goodwill would be easier for users to process and analyse. They also said that they focus on returns-, organic growth- and profit and loss- based metrics rather than the specific allocation between goodwill and other intangible assets. One user said that assessing the value of separately identified intangible assets is difficult because often they cannot be sold separately or there is no active market.

A7. Responses to our survey indicated that 11% of users add back amortisation related to acquired intangible assets in their analysis. A further 17% of respondents remove all intangible assets and amortisation from their analyses. In follow-up interviews, a few users explained this approach by saying they disregard information about intangible assets because entities' disclosures are insufficient to help them understand financial statement amounts related to intangible assets, including goodwill (see paragraph A14). From the respondents who said they make 'other' adjustments, two users (3% of respondents) said they make adjustments to acquired intangible assets described in paragraph A6(b)–(c).

A8. A UK Endorsement Board (UKEB) survey of users asked respondents about their treatment of information about intangible items when comparing entities that have grown through acquisitions with those that have grown organically. The report found that only 26% of the respondents use reported figures without making any adjustments. 33% of users disregard intangible assets recognised on the balance sheet, while other users make adjustments related to internally generated intangible assets (see paragraph A10).[12] The main reason for these adjustments (and adjustments related to internally generated intangible assets), according to the UKEB survey, is to increase comparability between entities that grow organically and those that grow by acquisition.

A9. A Financial Reporting Council (FRC) survey of users' views on intangible assets and their amortisation found that most users (74%) add back amortisation charges on intangible assets acquired in a business combination when considering earnings-per-share ratios in some or all cases.[13] The report summarised the reasons for these adjustments, including:

(a) avoiding double counting—some users view amortisation of acquired intangible assets, while simultaneously expensing current spending to maintain these assets, as double counting;

(b) distinguishing between truly wasting intangible assets which they believe should be amortised (for example, patents) and assets that are organically replaced through ongoing business activities (for example, brands and customer relationships);

(c) reversing arbitrary separation and amortisation periods—some users believe the separation of intangible assets from goodwill is arbitrary, as is the amortisation period assigned to these intangible assets; and

(d) improving comparability—users add back amortisation to aid comparison of acquisitive and organically growing entities.

Adjustments for internally generated intangible assets

A10. Our review indicated that adjustments for internally generated intangible assets could include:

[12] 'Accounting for Intangibles: A Survey of Users' Views', (2024), UK Endorsement Board.

[13] 'FRC ARP Staff Research Report: Investor Views on Intangible Assets and their Amortisation', (2014), Financial Reporting Council.

(a) adding to reported intangible assets estimates of the expensed items that users consider to be growth-oriented;

(b) adjusting for the effects of intangible-related expenditures in the income statement but not in the balance sheet which those users consider irrelevant in terms of representing intangible value; and

(c) undoing the effects of what users view as distortions in the income statement arising from entities' subjective judgments in capitalisation versus expensing decisions.

A11. Twenty five percent of our user survey respondents said that they replace the amount of intangible assets on the balance sheet with their own estimate, for example, adding an estimate of expensed items that they think should be recognised on the balance sheet. A few respondents who said they make other adjustments in the survey and many of the 15 users in follow-up meetings gave examples of adjustments in paragraph A10.

A12. The UKEB survey found that:

(a) 26% of users that responded to the survey estimate internally generated intangible assets by using granular expenses (when reported);

(b) 11% of respondents use a portion of administrative costs to estimate internally generated intangible assets; and

(c) 17% of respondents said they make 'other' adjustments, examples of which were:

    (i) estimating unrecognised intangible assets by using comparable data from a competitor; and

    (ii) estimating unrecognised intangible assets using expenses and further assessing their potential role in generating additional income and cash flows.

A13. Our review indicates that the reasons users make these adjustments include:

(a) adjusting for the inconsistent accounting treatment of internally generated and acquired intangible assets—for example, the UKEB survey reported that 51% of respondents find the IAS 38 requirement to expense most internally generated intangibles useful, but 27% disagreed with this requirement;

(b) adjusting because some respondents view expensing of all internally generated intangible assets as going against the conceptual definition of an asset;

(c) undoing subjective capitalisation versus expensing decisions;

(d) reflecting what users view as an entity's true operating asset base at current cost by using an entity-specific approach to capitalise particular intangible assets based on potential returns, even if they are not capitalised under current accounting standards; and

(e) aligning the treatment of intangible investments with tangible ones, thereby offering a more consistent view of investment and return on investment.

Adjustments related to insufficient information about intangible items in the financial statements

A14. Our review indicated that some users make adjustments because information about intangible items provided by entities in the financial statements is insufficient. Such adjustments could include:

(a) estimating intangible items based on information gathered from sources outside the financial statements, for example, comparable data from a competitor;

(b) disregarding all intangible assets and amortisation in their analysis because the information is insufficient to understand what the core intangible assets are and how they can contribute to future cash flows—instead, users focus on estimating the overall value of the business; and

(c) adding back all amortisation of intangible assets if users cannot trace a specific asset back to an acquisition due to lack of disclosure.

Appendix B—Visual representation of recommended prioritisation of topics