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Staff paper

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Capital Markets Advisory Committee

Date	**November 2025**
Project	**Intangible Assets**
Topic	**Understanding investor information needs**
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Purpose of this session

Provide an **update on the project** since July 2024 (slides 7–12)

Seek CMAC members’ advice on:

- the needs of users of financial statements (investors) in relation to information about recognised and unrecognised intangible assets and expenditure associated with them, in particular whether and how those needs differ **by sector or type of intangible asset** (slides 13–21)
- any specific information needs related to **newer types of intangible assets** and new ways of using them (slides 22–23)

Use of terminology in this deck

Other reports and sources of information

- A broader set of intangible resources and related expenses including items that are not intangible assets, for example:

customer satisfaction | *employee networks* | *human capital*

Financial statements

Balance sheet

- Recognised **assets**, for example:

acquired brands | *capitalised R&D*

Income statement

- **Expenses** associated with recognised and unrecognised intangible assets, for example:

research costs | *advertising expenses*

'Intangible assets'

'Intangible items'

Questions for CMAC members (1/3)

Investor information needs related to intangible assets (slides 13–21)

Current sources of information (15 minutes)

1. In your experience, is there a significant variation in the level of information in annual reports about intangible assets by sector or by intangible asset type? If so, for which sectors / asset types are investors most / least satisfied with the information provided by companies and why?
2. Do our initial findings on information currently provided by companies (slides 19–20) reflect your experience? Where do you currently get most of the information you need to understand and value a company's intangible activity from?

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Questions for CMAC members (2/3)

Investor information needs related to intangible assets (slides 13–21)

Focus of the session – improvements to information in financial statements (40 minutes)

3. If there is a lack of information that significantly hinders your analysis, what information about intangible assets is missing? What could the IASB do to improve the usefulness of information about intangible assets (recognised and unrecognised) in **financial statements**? For example:
   a. is more disaggregated information as suggested on slide 21 needed and why?
   b. what expenditure related to intangible assets do you want to have more information about and why?
   c. is any other information missing in the financial statements that you need to understand how intangible assets contribute to a company's value creation?

   Please specify if your response is relevant to a specific sector(s) or type(s) of intangible assets

4. Is there information in the financial statements that you find unhelpful for your analysis or information that you ignore—for example, is the distinction between capitalised development costs and research expenses helpful, unhelpful or of little interest?

Questions for CMAC members (3/3)

Information needs related to newer types of intangible assets and new ways of using them (slide 23)

Modernising the Standard (15 minutes)

5. Are there significant deficiencies in information provided by companies about newer types of intangible assets and new ways of using them such as cloud computing arrangements, agile software development, AI and data resources? If so, what could the IASB do to improve the usefulness of information about newer types of intangible assets in **financial statements**?

Project update

May 2025 IASB decisions[1]

Objectives

- Improve the usefulness of information companies provide about intangible items in their financial statements
- Update IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them

Approach

Starting a comprehensive review in a targeted way

Regular reflection points to assess additional evidence

Topics the project will explore

☑ Investor information needs	*Initial streams*
☑ Potential changes to some aspects of the definition and recognition requirements (using test cases)	*Initial streams*
☑ Intangible assets held for investment	*Later streams (subject to change)*
☑ Broader review of recognition	*Later streams (subject to change)*
☑ Disclosure requirements	*Later streams (subject to change)*
☑ Comparability of information about acquired and internally generated intangible assets	*Later streams (subject to change)*
? Broader intangible items	*TBC*

[1] The IASB made decisions based on its initial research findings – see Appendix

Initial streams of work (1/2)

Investor information needs

Cross-cutting stream

Would contribute to all topics

- explore investor information needs in more detail particularly whether this differs by type of intangible asset
- consider whether changes to the definition, recognition, measurement and/or disclosure requirements would be necessary to provide more useful information

What the IASB is doing

Building on the input received to date

Exploring – by sector and by type of intangible asset:

- what information about intangibles assets and associated expenditure investors are trying to understand
- what investors are doing with that information
- where investors are getting that information today

Initial streams of work (2/2)

Potential changes to some aspects of the definition of an intangible asset, related guidance and recognition requirements

Good entry point

Explores fundamental aspects of IAS 38 and could inform other aspects of the project

- explore underlying causes of application issues based on test cases related to newer types of intangible assets and new ways of using them
- develop potential solutions using the *Conceptual Framework for Financial Reporting* as a starting point and consider the effects of any potential amendments on the broader population of intangible assets

Based on test cases

Cloud computing and agile software development

- most commonly raised by stakeholders
- the underlying causes are likely to be relevant for a wide range of newer types of intangible assets and new ways of using intangible assets

AI and data resources

- some concerns from stakeholders
- additional research to understand the concerns and how widespread they are, assess the effects on financial reporting and determine whether application issues related to AI and data resources would be useful test cases

Indicative timeline for the initial streams of work

Q3 2025	Q4 2025	Q1 2026	Q2 2026	H2 2026
• Identifying test cases • Developing outreach strategy and materials for both streams • Desktop research	**Consulting stakeholders**	• Analysis of themes of investor information needs (including whether that information belongs in financial statements), considering availability of that information • Developing potential solutions for test cases		

How will your input help?

Investor information needs

Potential changes to some aspects of the definition of an intangible asset, related guidance and recognition requirements

After completing work, the IASB will be able to:

- assess whether there is an opportunity to make discrete meaningful improvements to IAS 38 or whether further work is needed before the IASB could consult on any changes to IAS 38
- assess how its findings may affect other groups of topics and their prioritisation

Investor information needs

Investor information needs and the role of financial statements

Financial statements (and therefore IFRS Accounting Standards) seek to provide investors with:

- financial information to make decisions
- inputs into their financial analysis

However, there is a **financial reporting gap**:[2]

Financial statements show:

- History
- Cost
- Inventory of items / transactions
- Size

What really matters to investors:

- Future
- Value
- Information
- Competitive advantage

In the Intangible Assets project we aim to explore how **financial statements** could help meet investor information needs:

- this work is anchored in the objective of financial statements and focuses on information about a company's assets, liabilities, equity, income and expenses
- financial statements cannot provide all the information investors need about intangible assets. Some of the other information investors need might be found in other reports or alternative data sources

[2] Source: https://blogs.cfainstitute.org/investor/2018/08/27/franchise-quality-score-a-metric-for-intangibles/

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Initial feedback from investors

Investors rated a project on Intangible Assets as **high priority**

Financial statements are the most **important source** of information about intangible assets

But financial statements provide **insufficient information** about intangible assets

Investors provided **wide range of suggestions** for information they would find useful – **no prevalent theme**

Many investors **adjust financial statements** in relation to intangible assets. Their reasons vary, including:

- better reflecting their view of economic performance of the business
- adjusting because of insufficient information about intangible assets

Investors are primarily concerned about the role **intangible assets** play **as an input** into **how a business creates value** rather than as an output used for valuation

See Agenda Paper 17C for the IASB's February 2025 meeting for more information

Exploring investor information needs further

Companies use wide range of intangible items to create value and generate cash flows:

- Brands
- Customer relationships
- Patents
- Intellectual property (IP) and licenses
- Software
- Research and development (R&D)
- Data
- Human capital
- Franchise agreements
- Musical works

How and why do investor information needs vary?

Clear message from initial outreach—must consider investors information needs:

- by sector
- by type of intangible item

Staff's desktop research

Purpose

- The purpose of research is to support discussions with investors. In particular, we aim:
  - to present an overview of information about intangible assets that is currently provided in annual reports by companies in the intangibles-heavy sectors
  - to draw inferences on what **financial statement** information might be useful to investors and test these inferences with investors

Scope

- The staff have been reviewing samples of companies' annual reports from:
  - healthcare and technology sectors (completed)
  - consumer cyclicals and non-cyclicals and industrials (in progress)
- For each sector, the sample includes:
  - companies from various industries within the sector
  - companies of different sizes and different lifecycle stages
  - companies from different geographical regions

Limitations

- Each sample is limited in scope and may not fully capture the diversity of information about intangible assets provided by companies in each sector
- However, this research is meant to provide only preliminary insights and a starting point for discussions with investors

What we expect investor information needs to be

- Companies' 'intangible' activity aims to create value for the business—for example, by developing new products or maintaining demand for existing products—and can be represented by various intangible assets and associated expenditure (see slide 16) in the financial statements.
- We do not think investors want to know about those different types of intangible assets specifically but instead want to know about the **creation of value** holistically. For example, investors may be interested in assessing the **benefits generated by intangible assets and how they contribute towards the attractiveness of the business** from a competitive and long-term success standpoint.

Illustrations: Investors focus on **benefits** companies derive from intangible assets rather than the intangible assets themselves, for example:

Research ⇒ unique selling proposition	Patents ⇒ barriers to entry	Brands ⇒ pricing power

Findings to date (1/2)

Our earlier outreach with investors and desktop research performed to date[3] suggest that:

- **Much of the information** about intangible assets is provided in the **narrative sections** of annual reports.[4] Observations include the following:
  - **granularity and type** of information varies by company size, lifecycle stage and the nature of intangible assets. For example, larger companies often tend to provide more narrative about intangible assets but less product-specific detail due to portfolio size and diversity; less established companies often provide more product-specific information and discuss product development and strategy for growing the market
  - most information about intangible assets is **qualitative**, focusing on descriptions of main existing and potential products lines
  - most companies explain developments in the current period, but the amount of **forward-looking information** provided by companies varies. For example, healthcare companies seem to provide more forward-looking information about their pipeline compared to technology companies
  - some companies provide **non-financial key performance indicators** (KPIs) related to intangible assets, such as patent numbers or net promoter scores
  - some companies provide **financial measures with adjustments related to intangible assets/their amortisation**, such as EBITDA and free cash flow

[3] To date we have completed our limited review of healthcare and technology companies' annual reports and continuing work on other sectors (see slide 17)

[4] In this slide deck, we used 'narrative sections of annual reports' to refer to reports such as Management Commentary, Management's Discussion and Analysis (MD&A), Strategic Report, Environmental, Social and Governance (ESG) or Sustainability Reports.

Findings to date (2/2)

- **Information in financial statements** about companies' intangible assets is **limited**:
  - most information provided focuses on recognised intangible assets which are predominantly **related to M&A activity**
  - **capitalisation policies** vary among and within sectors. For example, pharmaceutical companies seem to have a widely accepted capitalisation threshold related to phase 3 clinical trials, but capitalisation rates of software development companies differ significantly
  - **disaggregated spending** (by product, programme, segment, or phase of project) is rare
  - information about **R&D expenses** is presented by most companies in a single line-item
  - **advertising** and **marketing** expenses are not always separately disclosed by companies, for example, in the healthcare sector they are often subsumed into general and administrative expenses
- It is often **difficult to connect detailed information in narrative sections** with the amounts included in the **financial statements** and hence it can be difficult to understand the relationship between expenditure on intangible assets (for example, R&D spend or advertising and marketing expenses) and expected future benefits, limiting the usefulness of both sets of intangible-related information.

Our inferences

- Despite some differences by sector and by type of intangible asset, a common theme seems to be the lack of disaggregated information in financial statements. We expect it would be **useful** to investors if companies provide **more disaggregated information** in financial statements—to better link intangible-related expenditure to the information provided in MD&A and assess how effective a company's spending is.[5,6] For example:

R&D expenses
- by same product/programme split as in MD&A
- by activity (research, patent protection, development, etc)
- by type of expense

Advertising and marketing expenses
- by activities to support new products / existing products

Recognised intangible assets
- by same product/programme split as in MD&A

- The IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* that provides updated requirements on disaggregation. The new requirements might affect the level of detail provided once companies start applying that Standard.
- In considering any further disaggregation requirements, the IASB will need to consider preparers' concerns about commercial sensitivity.

[5] We refer to MD&A where we talk about Management Commentary-type reports

[6] This project focuses on the information provided in the financial statements - ie on the company's assets, liabilities, equity, income and expenses. In 2025 the IASB revised its Practice Statement on Management Commentary - this report is intended to enhance investors' understanding of the company's financial performance and financial position reported in its financial statements.

Potential changes to improve IAS 38 for newer types of intangible assets

Our findings to date – newer types of intangible assets

- As explained on slide 10, the IASB is exploring application issues related to cloud computing arrangements, agile software development, AI and data resources
- Most of the identified issues relate to challenges in applying some aspects of the definition and recognition requirements (for example, determining control, unit of account or identifying development costs and distinguishing them from enhancement and maintenance costs)
- Our limited review of companies' annual reports suggested that:[7]
  - companies that obtain software and other computer resources through cloud arrangements rarely mention that in their financial statements, with only a few companies explaining whether costs related to their cloud arrangements are capitalised or expensed
  - companies generally do not disclose whether they develop software using waterfall or agile methodology and how this affects their capitalisation policy
- Many respondents to the IASB investor survey said that financial statements provide insufficient information about data (73%), while the responses about software were mixed (with 51% saying information is sufficient and 41% saying information is insufficient)[8]

[7] The staff reviewed 24 and 23 companies' annual reports respectively to understand their disclosures about cloud computing arrangements and agile software development

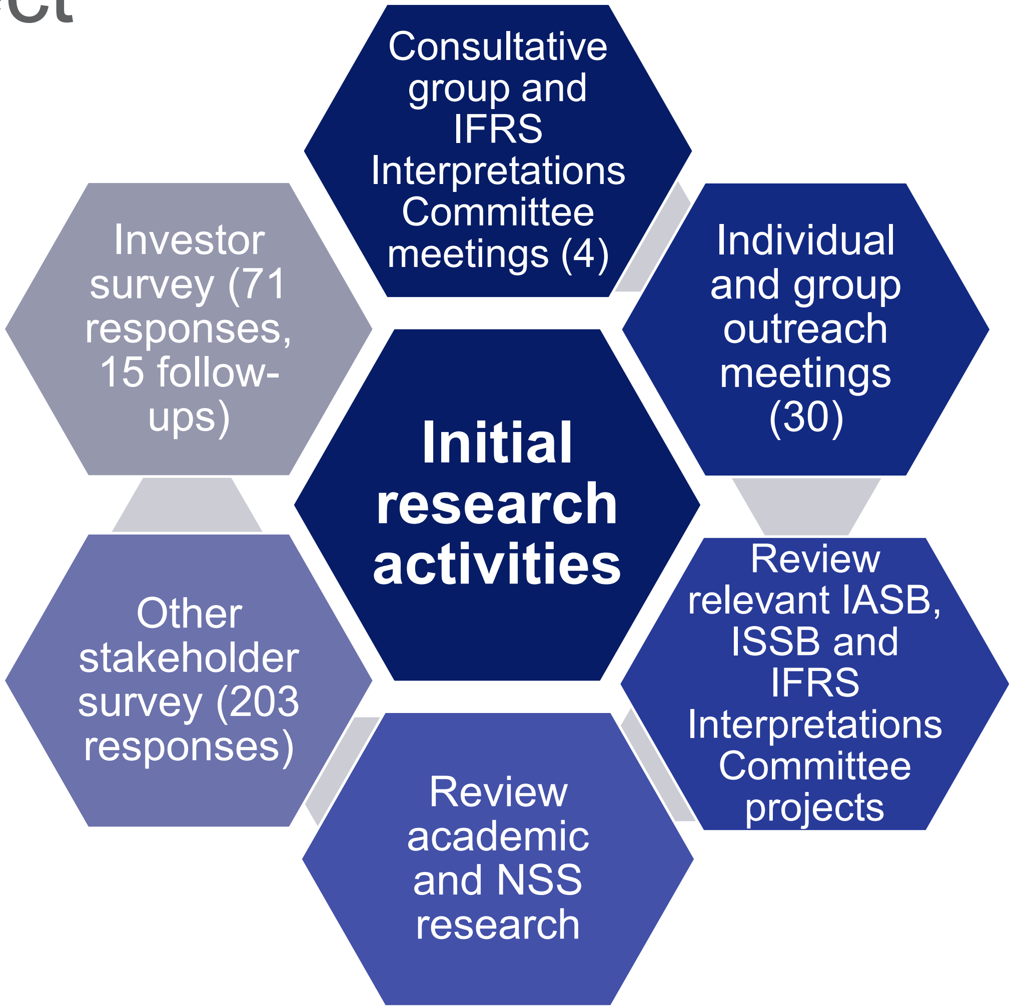
[8] In October 2024 the IASB launched a survey for investors to obtain feedback on the information about intangibles currently provided in the financial statements and on the problem to be solved in the Intangible Assets project, the scope of the project and the approach to work (see Agenda Paper 17C for the February 2025 IASB meeting)

Appendix—Initial research on the objective and scope of the project

Initial research on the project

Areas of focus

- Project started April 2024
- Initial research sought evidence on:
  - the problem the project should seek to resolve
  - the topics to explore
  - how best to stage work to deliver timely improvements



Key messages from initial research (1/2)[9]

No single overall problem

- Main themes:
  - IAS 38 *Intangible Assets* is out of date and requires modernisation
  - financial statements are not providing their users with enough information about intangible items
- Mixed views on whether the IASB should address:
  - lack of comparability between companies growing organically and through acquisitions
  - the gap between a company's market capitalisation and the book value of its net assets
- Mixed views on whether fundamental changes to the principles in IAS 38 *Intangible Assets* are needed

Call for timely improvements

[9] For more details on stakeholder feedback see March 2025 Agenda Paper 17A. Slide 15 provides an overview of investor feedback

Key messages from initial research (2/2)

Some level of support for exploring almost all topics

- Mixed views on topics to prioritise
- The strongest support for addressing:
  - application issues related to newer types of intangible assets and new ways of using them (such as cloud computing and agile software development)
  - presentation and disclosure topics (such as more disaggregated information about expenses and better information about unrecognised intangible assets)
- Mixed views on the need for and possible ways of improving comparability between acquired and internally generated intangible assets
- Limited support for exploring more recognition of intangible assets
  - but some calls for testing the robustness of the recognition requirements as part of a comprehensive review
- Strong support for addressing intangible assets held for investment, such as cryptocurrencies and carbon credits – either as part of this project or as a separate project
- Less appetite for expanding the scope of IAS 38 to capture a broader range of intangible items or for reconsidering the scope exclusions, such as goodwill

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