

# EFRAG Discussion Paper

## Better Information on Intangibles

– Which is the best way to go?

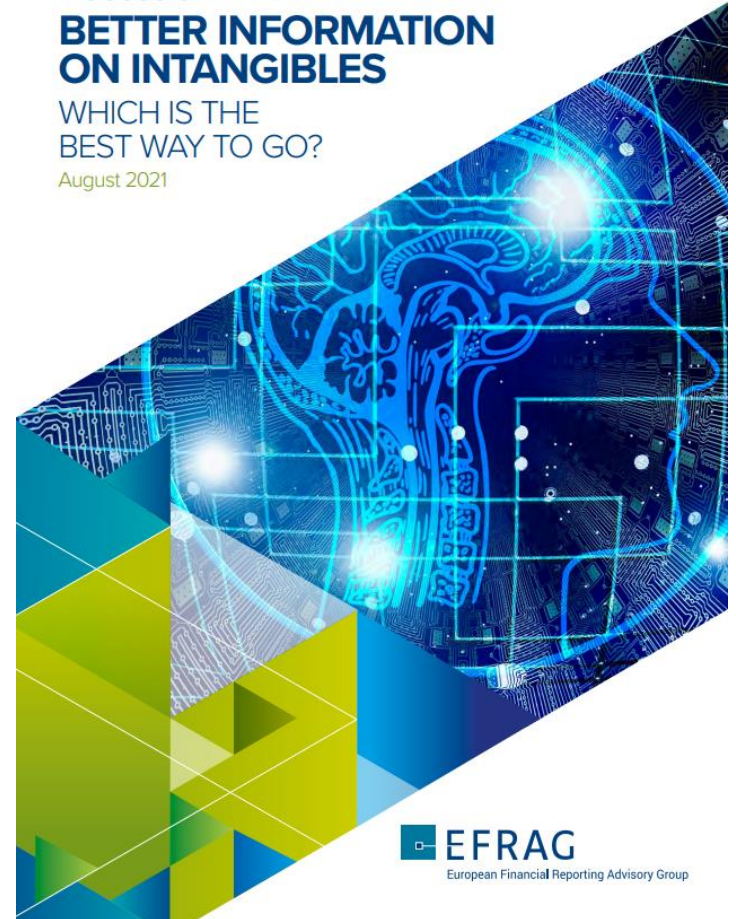
30 May 2022



DISCUSSION PAPER  
**BETTER INFORMATION  
ON INTANGIBLES**

WHICH IS THE  
BEST WAY TO GO?

August 2021



# DISCLAIMER

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The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

# Why this Discussion Paper?

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## 2018 EFRAG Research Agenda Consultation

A project on intangibles is very important. Internally generated intangibles play an increasingly important role for the performance of an entity and are not reflected adequately (and differently from acquired) in financial statements.

## 2019 Initial interviews with various types of stakeholders

Currently insufficient information in financial reports – but different solutions suggested.

## 2020 Literature review

Not much was known about how users use information on intangibles.

## 2020 Advisory Panel on Intangibles

To ensure that proposals would be based on identified user needs.

## 2021 Publication of Discussion Paper

# Scope

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## Does not present 'the solution'

Presents different approaches and assesses their advantages and disadvantages and asks for input on the way forward (for example combination – different approach for different types of intangibles).

## Considers 'intangibles'

Broader scope than intangible assets.

## Information to be presented in the financial report

EFRAG to further consider the interconnectivity with sustainability reporting.

# Current issues

## Some identified issues

- Financial statements do not reflect the underpinning drivers of value for intangible intensive businesses.
- Comparability between internally generated assets and acquired assets.
- Distorted performance measures
  - Return on assets ratios do not provide useful information;
  - Expenses not correctly matched;
  - Statement of performance is hit twice when acquired intangibles are replaced by internally generated intangibles.



# The three approaches considered

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How to provide better information on intangibles?

**Recognition and  
measurement**

**Disclosures in notes to financial statements or  
management report**

Chapter 3

**Recognition and  
measurement** in the  
primary financial  
statements

Chapter 4

**Information related to  
specific intangibles** in  
the notes to the  
financial statements or  
in the management  
report

Chapter 5

**Information on future-  
oriented expenses and  
risk/opportunity  
factors** in the notes to  
the financial  
statements or in the  
management report

# Recognition and measurement

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## Three questions

Which types of (internally generated) intangibles should be considered for recognition?

Those meeting the definition of an asset.

Under which circumstances should such intangibles be recognised?

- Recognising all;
- Recognition if criteria are met (threshold for recognition);
- Recognition when criteria are met (conditional recognition);
- No internally generated intangible assets are recognised .

Which measurement basis or bases should be considered?

Problems with both cost and fair value measurement.

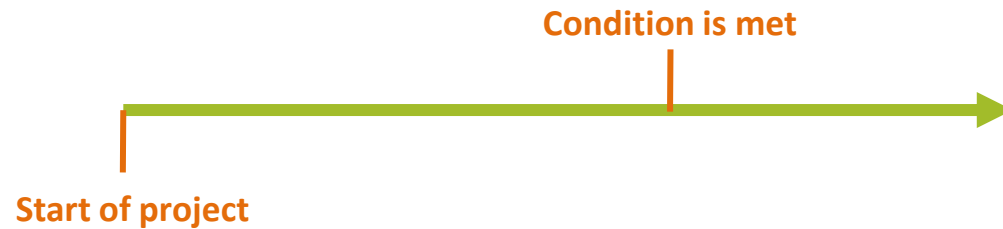
Factors to consider include:

- Whether an asset produces cash flows directly and could be sold independently;
- Whether the entity's business activities involve the use of several economic resources that produce cash flows indirectly by being used in combination.

# Recognition and measurement

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## Recognition approaches (1/2)



**Recognise as assets intangibles meeting the definition**

**Costs are capitalised**

**Threshold for recognition of an asset at the start of a project**

**Costs are recognised as an expense**

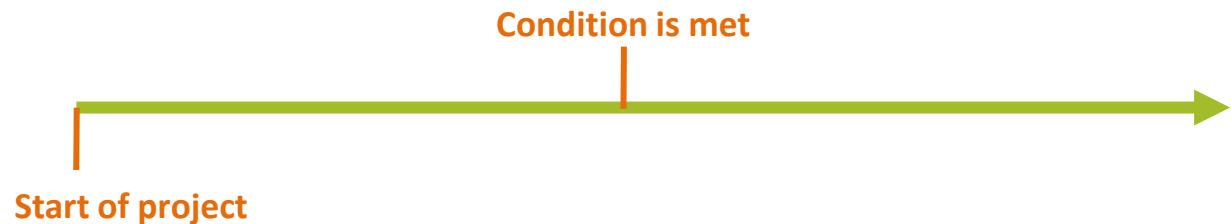
**No recognition of an asset**

**Costs are recognised as an expense**



# Recognition and measurement

## Recognition approaches (2/2)



### Conditional recognition of an asset:

a) Expensed in profit and loss until the condition is met

Costs are recognised as P/L expenses

Costs are capitalised from this point in time

b) Capitalised and fully impaired until condition is met

Costs are capitalised and fully impaired

Costs are capitalised from this point in time

c) Expensed in OCI until the condition is met

Costs are recognised as OCI expenses

Costs are capitalised from this point in time

Reversal of impairments

Accumulated OCI expenses are capitalised

# Information relating to specific intangibles

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## Intangibles considered

Intangibles that are key to an entity's business model.

## Type of information

- Qualitative and/or quantitative.
- Information about the contribution of the key intangibles to the value of the entity.

## Examples of information

- For a patent for a pharmaceutical company: expiration date, targeted population;
- For a customer list: the attrition rate;
- Information on intangibles that need or do not need replacement and how they will be replaced (by external acquisition or internally/through operation);
- Disclosure of the fair value of unrecognised intangible assets(?)

## Information relating to specific intangibles

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### Advantages

- Information on intangibles that are key to an entity
- Less subjective and less complex/costly compared to recognition and measurement

### Disadvantages

- May be difficult to determine the particular intangible the disclosure would relate to
- Not a solution to distorted IFRS performance measures
- Would not provide information on the value intangibles are creating together with other assets

# Information on future-oriented expenses

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## Purpose

Not to assess the value of individual assets, but to assess the financial performance of a period and for predicting future financial performance.

## Information

- Information on whether the costs of the period have been incurred to generate income in the period or in future periods.

## Example of information if the distinction should be made by users

- Marketing expenses (including information on spending on trademarks/brands);
- Staff training expenses (not included in research and development costs or sales and marketing costs).

# Information on future-oriented expenses

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## Advantages

- No need for a fixed terminology for intangibles
- Caters for the fact that often intangibles do not create much value on a stand-alone basis

## Disadvantages

- Information on the effectiveness of the investments not reflected
- IFRS figures will still be distorted
- Information not so useful for assessing stewardship

# Information on risk/opportunity factors

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## Approach suggested

- Limited to information that is material and specific to the entity.
- Limited to information material for the primary users of financial reports.
- Include a description of the risk/opportunity factors that could affect (the contribution of) both recognised and unrecognised intangibles, how it affects the entity (would also require the entity to describe its business model) relevant measures if relevant and how the risk/opportunity is managed and mitigated or taken advantage of.
- Possible location: management commentary.
- Anchor point to the sustainability reporting.

# Way forward, challenges and issues for possible solutions

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## Which is the best way to go?

Which, if any, of the approaches should be further considered?

How could the approaches be combined in a cost/benefit effective manner?

## Common terminology

Would it be beneficial to establish a common terminology on intangibles?

## Sensitive information

How can useful information be provided that would not require entities to disclose information that is commercially sensitive?

## Where should the information be provided?

Which information would be best placed in the notes to the financial statements and which information should be in the management report?

## Access to finance

Could the approaches affect an entity's access to finance?

## Removal of some current requirements

Can some of the current requirements be removed?



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Thank you for your attention –  
We are looking forward to receiving your input



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# Better information on intangibles

Input received to date

30 May 2022



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# Which is the best way to go?

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## Results from polls until now

Amending existing recognition and measurement requirements for intangibles	8 %
Providing disclosures on specific intangibles	16 %
Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance	13 %
A combination of the approaches	58 %
Another method	1 %
No need for improvements	3 %

# Recognition

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## Results from polls until now

Do you think that more internally generated intangibles should be recognised in the financial statements?	
Yes	54 %
No	46 %

From comments: consider a conditional recognition approach

# Measurement

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## Results from polls until now

Which of the following measurement approaches could you support	
<b>For a brand:</b>	
‘Cost model’	37 %
‘Revaluation model’	21 %
<b>For a company’s reputation:</b>	
None of the measurement approaches would provide useful information	48 %

## ‘Future-oriented expenses’

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- Preference for:
  - An approach to help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period. OR
  - An approach under which further specifications and breakdown of the expenses are provided plus an indication of the entity’s management’s views on expenses considered relating to benefits of future periods.

# Intangibles are different

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How do we distinguish them for reporting requirement purposes?

- One possible distinction:
  - ‘Intangible intangibles’
  - ‘Tangible intangibles’



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