SVENSKT NÄRINGSLIV

EFRAG
35 Square de Meeûs
Brussels
Belgium

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Discussion Paper
Better information on intangibles

Swedish Enterprise Accounting Group welcomes the Discussion Paper and believes it provides an interesting point of departure for a discussion on how accounting for intangibles may be improved to increase transparency on the value creation process of a reporting entity. We are however not convinced that users would benefit from the additional disclosure requirements regarding intangible values (in the management report or elsewhere) outlined in the discussion paper. Although we acknowledge that information of this type may valuable, it is not obvious that standard setting in this area would actually make this type of forward-looking information more comparable or increase users' ability predict future performance. Any additional disclosure requirements regarding intangibles need to be based on robust evidence of usability.

As a response to the increasing gap between book values and market capital as well as impaired comparability between entities with different growth strategies, we favour a pragmatic approach with amendments within the current accounting model. We believe that the recognition criteria for internally developed immaterial assets need to be adjusted to become fully compatible with modern project management practices and the technical development. We also believe that the obligation to separately recognise intangible assets in purchase price allocations should be relieved and that amortisation of goodwill should be reintroduced as a requirement. In combination, these amendments of the current standards would, at least partly, counteract some of the issues highlighted in the discussion paper.

Answers to the specific questions posed by Efrag in the DP is provided in the appendix below.

CONFEDERATION OF SWEDISH ENTERPRISE

Sofia Bildstein-Hagberg
Senior Adviser Financial Reporting
Secretary of the Swedish Enterprise Accounting Group

Appendix

QUESTION 1 – ISSUES WITH THE CURRENT INFORMATION

Chapter 2 summarises issues put forward with the current information on intangibles. Do you think the issues listed are relevant and valid? Are there additional issues with the current information on intangibles that are not listed? If so, what are these issues?

Generally, we agree with the issues put forward in the DP and that intangibles represent an increasing amount of enterprise value.

QUESTION 2 – WHICH WAY TO GO

Chapters 3, 4 and 5 present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles.
These different approaches represent different trade-offs between benefits and costs when considering the different needs of users of financial reports for better information on intangibles.
Do you think there is room for improvement regarding information on intangibles in financial reporting? If so:
a) Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs? If so, please describe such a combination.
b) If you do not think the different approaches described in the Discussion Paper could be combined in a manner that would meet (most of) the needs of users, which (if any) of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles:

- Amending existing recognition and measurement requirements for intangibles (see Chapter 3);
- Providing disclosures on specific intangibles (see Chapter 4);
- Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance (see Chapter 5); or
- An approach other than those described in the Discussion Paper (please explain this approach)?

We believe there is a need to review and improve existing recognition and measurement requirements for intangible assets. The recognition criteria for internally generated intangible assets are not up to date with current agile project management practices for development of software and other internally generated intangible assets. This lack of workable principles and guidance for recognition of investments in software development is in our opinion one of the causes behind the deteriorating information value of performance measures.

Regarding additional disclosures on intangibles, for example as suggested in chapter 4 and 5, we consider that such improvements should be developed in close dialogue with users of financial statements. We are not convinced that the approaches discussed in Efrags paper would be an actual improvement of the current means users have to assess the contribution of intangibles to the value creating process of a reporting entity or would provide a basis for meaningful comparisons between different entities.

QUESTION 3 – RECOGNITION

Chapter 3 considers whether and how internally generated intangibles could be recognised and measured in the financial statements and the benefits and limitations of the proposed approaches. In doing so, consideration is being given to the asset recognition in the statement of financial position but also to the effects in the statement of financial performance.

Do you consider that IAS 38 Intangible Assets should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)? (Please explain your answer). If your answer to this question is 'yes', please also answer sub-questions 1 to 3 below.

1 Paragraph 3.26 of this Discussion Paper explains that IAS 38 currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing. Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed? (Please explain your answer).

2 Paragraphs 3.10 to 3.71 of this Discussion Paper explore four possible approaches regarding the recognition of internally generated intangibles. Which of the following approaches would you support?

a) Recognise (as an asset) all defined intangibles; with no specified conditions or thresholds (see paragraphs 3.15 - 3.35 of this Discussion Paper);

b) Threshold for recognition of an asset (see paragraphs 3.36 - 3.48 of this Discussion Paper);

c) Conditional recognition of an asset (see paragraphs 3.49 - 3.59 of this Discussion Paper); if you prefer this approach, would you prefer an approach under which:

(i) Costs are expensed in profit and loss until the condition is met;

(ii) Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed;

(iii) Costs are expensed in other comprehensive income until the condition is met, at which point in time the expenses are 'recycled' and capitalised.

d) No recognition (that is, expensing all internally generated intangibles) (see paragraphs 3.60 - 3.67 of this Discussion Paper); and

e) None of the above or other suggestions (please explain).

Please explain the reasons for your preferences.

3 If you support 'Conditional recognition of an asset' or 'Threshold for recognition of an asset' in the previous sub-question, which criteria would you consider for recognition:

(a) Criteria based on the level of (un)certainty about the outcome of the intangibles (that is, the probability of expected benefit and the pattern of consumption of these future benefits);

(b) Criteria based on the identifiability of the expenditure related to the intangibles;

(c) Criteria based on the technical or commercial feasibility of the intangibles considered at inception of the development;

(d)Criteria based on separability of the assets, that is, the existence of a legal right and/or the ability to sell, transfer, licence or pledge the asset;

(e)All or a combination of the above depending on the nature of the intangibles (please explain);

(f) Other suggestions (please specify).

1. *While we think the conservative approach to recognition of intangibles should be maintained – for example the ground for scoping out the intangibles mentioned in paragraph 3.39 of the DP on the basis of identifiable remains in our opinion solid –*

we do believe that there is a need for amendments of the recognition criteria in IAS 38. We are specifically concerned that substantial investments in software fail to meet the recognition criteria. The IFRS Interpretation Committee Agenda Decisions, from March 2019 and April 2021 concerning cloud computing arrangements has highlighted the shortcomings of the current standard and calls for a response from the standard setter.

2. *Of the possible approaches to revising the recognition criteria we believe that the basics of the current threshold model should be kept. The model has its drawbacks but remains the most reasonable approach in terms of applicability and comparability. Conditional recognition of assets is an interesting alternative but may be administratively burdensome and costly to apply in practice. In addition, we fear that this model would increase volatility in earnings. We therefore favor maintaining the threshold approach.*

3. *Regarding recognition criteria we believe that a combination of criteria should be used for assessment of recognition, with certain emphasis on probability of expected future benefits. This approach will be a challenge for the standard setter but will nevertheless provide users with the best information.*

QUESTION 4 – POSSIBLE MEASUREMENT BASES

Paragraphs 3.72 to 3.100 of this Discussion Paper consider possible measurement bases for internally generated intangibles without suggesting a preferred approach. If you think that IAS 38 should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs), which of the following suggested measurement approaches would you support:
a) Initial and subsequent measurement at amortised cost with impairment ('Cost model');
b) Initial measurement at cost and subsequent measurement at fair value ('Revaluation model');
c) Initial and subsequent measurement at fair value ('Fair value model');
d) Initial measurement at fair value (as deemed cost) and subsequent measurement at amortised cost with impairment ('IFRS 3 model')?.

We are in favor of a conservative cost model as it is the most reliable approach.

QUESTION 5 – INFORMATION RELATING TO SPECIFIC INTANGIBLES

Chapter 4 discusses an approach under which information on specific intangibles, that are key to an entity's business model, is provided to help users assess the contribution of the intangible to the value of the entity.
1 To the extent that information relating to specific intangibles should be provided, do you agree that the information should be limited to the intangibles that are key to an entity's business model? If not, why?
2 Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information. Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?
3 Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 compared to recognition and measurement (see

Chapter 3) and information on future-oriented expenses (see Chapter 5)? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

1. *As this information is more likely to be of value to users, we believe that the information should be limited to the intangibles that are key to the business model. However, we are not convinced that the approach discussed in chapter 4 is suitable for standard setting.*

2. *We agree with this view. The reporting entity´s own estimation of the fair value of key intangibles would not be of much help for users.*

3. *While we agree that intangibles are significant drivers of an entity's value, we are not convinced that the suggested disclosures would provide an actual improvement to the understanding of the value creation process of external users. One reason for this is that entities that rely heavily on intangibles already has developed their own means of communicating their business model and key values to investors. It is not evident that standardisation of this information would be an actual improvement. We understand that there is a demand for additional information about intangibles and drivers of future value, but we are not convinced that the additional disclosures that reporting entities would be able to provide would respond to those needs.*

QUESTION 6 – INFORMATION ON FUTURE ORIENTED EXPENSES

Chapter 5 proposes various elements of information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses').
1 Do you consider that requiring such information could be useful? If so:
a) Should the information mainly complement information on specific intangibles (see Chapter 4) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?
b) Should the information mainly:
(i) Reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods)? Or
(ii) 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?
2 Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

1. *We consider that this information may be of some use, but we are concerned that the information may be hard to compare across entities as the assessments of what expenses that are future oriented may be highly subjective. Subjectivity would be avoided if users would be able to make their own assessments. However, it would likely require an extensive amount of information for users to do so. Thus, we believe that an*

approach where disclosures reflect management's own assessments is preferable if this method is pursued further.

2. *Generally, we agree with the description of advantages and disadvantages of information on future-oriented expenses as described in chapter 5, with emphasis on subjectivity as the main disadvantage.*

QUESTION 7 – INFORMATION ON RISK/OPPORTUNITY FACTORS AFFECTING INTANGIBLES

Chapter 5 proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPI's used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.
Do you agree with this proposal? If not, what information on risk/opportunity factors affecting intangibles should be provided?

No, we don't agree with this proposal. We don't see the point in separating information on risk/opportunities in connection to intangibles from general descriptions of risks and opportunities. This may give rise to artificial categorisations that may distract the overall description of the business model.

QUESTION 8 – ISSUES TO BE CONSIDERED

Chapter 6 discusses challenges and issues to be considered when finding a manner to provide better information on intangibles. It mentions that it could be beneficial to introduce a common terminology on intangibles and that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive.
1 Do you consider that it would be useful to introduce a common terminology on intangibles?
2 Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?
3 Are there additional issues than those listed in Chapter 6 you think should be taken into account when considering how to provide better information on intangibles?

1. *No, we do not see the need for a common terminology. Referring to our answer to question 7, we believe that this may lead to forced distinctions that the reporting entity would not make otherwise. We believe that it is important that the reporting entity uses its own narrative for the description of the business model and that this provides the best information to users.*

2. *Yes, we agree.*

QUESTION 9 – PLACEMENT OF THE INFORMATION

Chapter 6 presents an approach under which information discussed in Chapter 4 and Chapter 5 would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed? Should they be placed all in the same section or in different sections of the financial report and why?

If additional information about intangibles other than the intangible assets recognised in the financial statements should be required, we believe the management report is the more appropriate place.