Norsk RegnskapsStiftelse

30 June 2022

EFRAG
Email: commentletters@efrag.org

Dear Sir/Madam

Better information on intangibles – which is the best way to go?

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit comments on your discussion paper *Better information on intangibles – which is the best way to go?*

The Technical Committee has only briefly discussed the content of the DP in our meetings. However, together with EFRAG we organised an outreach event on 24 May for our constituents. In the following pages, we will summarise comments received during the meeting. NASB does not express any opinion on these comments. Nevertheless, we assume the comments may be useful for EFRAG in its work on this highly important topic.

The NASB acknowledges that a lot of time and resources are required to arrive at standards that address all issues raised in the discussion paper. We suggest that to divide the project into several projects with different timelines might be necessary. In order to gain insights from users, a project on improved disclosures for intangibles could be the first step.

Please, do not hesitate to contact us for further discussion of the comments raised in this paper.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

Postboks 2914 Solli, 0230 Oslo
Telefon +47 23 36 52 00 – Organisasjonsnummer: 975 550 753 MVA
E-mail: nrs@revisorforeningen.no – Web: www.regnskapsstiftelsen.no

The outreach event of 24 May

The event was held as a physical meeting only, and all presentations and discussions were held in Norwegian. Close to 40 persons attended the meeting, which is a satisfactory participation-rate for such events in Norway. The participants represented mainly accounting firms, preparers, and academia; few users attended.

Didrik Thrane-Nielsen and Rasmus Sommer from EFRAG presented the discussion paper. We had also invited the head for group financial reporting of a large Norwegian financial institution. She presented her thoughts on the challenges for preparers related to accounting of intangibles. In our summary below, we include some of her prepared comments.

We encouraged the audience to comment during the meeting, and we received many good comments. Below we summarize these comments.

The audience was also asked to answer specific questions by the use of Slido. We understand that EFRAG have full access to the answers, and we have not included them in our summary. We also refer to EFRAG's summary from the meeting, which includes some viewpoints not included in our summary.

Prepared comments from a preparer

The preparer's presentation included some of her thoughts on the challenges related to accounting of intangibles, especially technology used for retail payments and savings in banks:

- In general, intangibles generated from IT-related project in one way or the other are important for financial institutions. This is due both to the significant need for modernisation of (old) core systems and by digital competition for the customers. In this landscape, intangibles raise many accounting issues and in lack of an updated standard, we spend a lot of time in assessing projects to assure appropriate application within IAS 38.
- Technology is important for banks to attract new customers and keep existing customers, and it is important to be first in the market with new/improved solutions. This requires speedy processes for the development of solutions. Such agile development projects have characteristics that are different from "traditional" development projects that go through the different phases, which seem to form the basis for the thinking in IAS 38.
- Apps are becoming increasingly important for banks, and these must be continuously improved. The apps are "never" completed. It can be difficult to distinguish between maintenance (including bug fixing) and development of new functionality.
- Many services are now in the cloud, which challenges the control requirement in the definition of assets.
- What is useful life for intangibles?

Comments from the audience

In the following, we summarize some of the comments received from the audience. We have sorted the comments under three headings following the structure of the discussion paper. However, some comments relate to several headings, but are included only once.

Issues with the current information

- In general, it seemed that the audience supported the view that current practice makes it difficult to compare entities that grow organically with those growing by means of acquisition
- IAS 38 is for the most part an R&D standard, other intangibles are hardly addressed
- Today, many users of financial statements may consider capitalised intangibles a red flag. This might be because few intangibles are capitalised, and capitalising intangibles is therefore considered as aggressive accounting.
- Companies are already today required to give additional information on intangibles when it is relevant information. Why don't they?
- Both current IAS 38 and EFRAG's discussion paper refer to *economic benefit* as a condition for recognition. However, this is a vague concept. Will any future cash inflow (or reduced outflow) be an economic benefit? Or must cash inflow be larger than cash outflow? Or must the cash inflow be large enough to generate a satisfactory return? Is this criterion the same or different from the Framework or other standards such as IAS 16?
- Intangibles is a very broad group of assets or resources that may only share one characteristic: the lack of physical substance. If regulated, it may be necessary to separate requirements based on characteristics such as function in the entity's business model, nature of the intangible asset or resource and likely several other relevant characteristics.

Recognition and measurement

- In chapter 3, EFRAG refer to "condition is met" as a threshold for recognition. It is probably hard to agree on conditions since companies and industries are very different
- The alternative "Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed" will probably be inconsistent with the Framework and other standards
- Hard to distinguish development phase and maintenance phase, especially when comparing different industries and different business models.
- It might be hard to measure the cost of internally generated intangibles, including allocating costs to specific intangibles.
- It is common, and even planned, to have unsuccessful projects as part of the bigger process of developing a successful intangible. How should one deal with expenses related to unsuccessful projects? The distinction between normal and abnormal cost may pose difficulties.

Information

- Expenditures on R&D might be presented separately. The Primary Financial Statement project suggests a separate *investing* category in the statement of profit or loss. R&D might be a separate line within this category. Such a presentation may be challenging when using classification based on nature, but should work fine when using classification based on function or in mixed models (if this will be allowed). [We recognise that the investing category as currently described restricts such investments to those with a separate and individual cash flow. This will often not be the case for many intangibles.]
- Why not apply a management approach (as in IFRS 8) for deciding what information that should be disclosed? – Relevant information for management's decision making is probably also relevant information for the users.
- Information on intangibles is important, but intangibles in the balance sheet cause noise.
- If disclosing a value on intangibles, this value may depend on future expenditures. How should future expenditures be disclosed?
- There is commercial sensitive information that companies want not to disclose
- Due to the complexity of the matter, it may not be possible to develop a new/revised comprehensive standard within a reasonable time period that addresses all the issues raised in the discussion paper. An alternative approach may be to separate such an undertaking into a disclosure project (phase 1) first. At a later stage, based on stakeholder feedback on improved disclosures from phase 1, develop an improved recognition and measurement standard, if required (phase 2).
- The 80/20-rule: When requiring disclosures, it would probably be manageable to provide useful information on 80 % of the values without undue cost and effort, while it is cumbersome to provide information on the last 20 %.
- An indicator-approach: when accounting numbers show abnormal profit, the explanation might be intangibles that are not recognised as assets or not amortized. It could be a requirement for companies to explain abnormal profit, whether it relates to market conditions, intangibles or other, and if it is intangibles, provide disclosures on these intangibles.