

EFRAG survey on its Discussion Paper: Better Information on Intangibles - Which is the best way to go?

2. General information

First name:

Jed

Last name:

Wrigley

Profession:

User, investor, analyst

Please describe your profession:

Role in your organisation:

Senior Advisor

Name of your organisation:

Eight Roads

Industry of your organisation:

Investment

Country where you are located:

Italy

Your email address:

Can we contact you in case of any follow-up questions?

Yes, I want to be contacted.

Please note that your comments (except for your email address and whether you can be contacted) will be posted on EFRAG's website unless you request confidentiality. Such requests will not normally be granted unless supported by good reasons, for example, that the information that you provide is commercially sensitive. Please see our website for details on this and how we use your personal data [here](#).

If you want to request confidentiality, please indicate this below and provide your reason. Otherwise, please skip the next question.

Do you want to request confidentiality?

Please provide your reason for requesting confidentiality:

3. Introduction

Issues with the current information

[Chapter 2](#) of the DP summarises issues put forward with current information on intangibles.

1. Which of the following issues with the current information on intangibles do you consider relevant and valid?

Financial statements do not reflect the underpinning drivers of value for intangible intensive businesses;
Performance measures are distorted since the statement of performance is 'hit twice' in the same period if an entity acquires an intangible asset (which is capitalised and amortised) and replaces this over time with an internally generated asset which cannot be recognised and for which the costs are therefore recognised in the financial statement at the same time as the amortisation costs of the acquired intangible assets;
Comparability is adversely affected as most intangible assets are not recognised if they are internally generated, but they are recognised if they are acquired;
Information (also narrative information) on intangibles is difficult to compare and use as the boundaries between different intangibles are not (well) defined and are interpreted differently.

Please explain your view:

The cash generating characteristics for most intangible assets are hugely interconnected within a business and rarely separable. We already have defined categories where capitalisation can be made organically. The interconnections makes recognition of components of business value over and above "tangible assets" highly subjective and unreliable. Financial statements should have more information about drivers which support the value of the business - but this does not mean I support recognition. Analysis of business value through forecasting future cash flows implicitly assesses the sustainability of the business' model which will embed the value of the aggregate intangibles. There is no need for the balance sheet to reflect this value to enable capital markets to function efficiently and optimise capital allocation.

Are you aware of additional issues with the current information on intangibles that are not listed?

No

Please explain what these issues are:

Which way to go?

Chapters 3, 4 and 5 of the DP 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.

For further background information please see [ES4-ES8](#) of the DP.

2. Do you think there is room for improvement regarding information on intangibles in financial reporting?

Yes

Please explain:

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?

Yes

Please describe such a combination:

Options ES8 B & C make sense to me. There is plenty of scope to widen disclosure in the notes to explain what the business is doing in areas that build long term value. The connections between the notes and management commentary need to be explored. This disclosure should be done at a segment level in most cases - differential allocation of capital across segments is fundamental to assess most businesses especially with regard to governance and effectiveness of management use of shareholder capital.

If you do not think the different approaches described in the DP could be combined in a manner that would meet (most of) the needs of users - which of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles?

Please explain:

4. The three accounting approaches

Please indicate whether you want to provide input on all three accounting approaches or not:

I want to provide comments on all three approaches.

If you do not want to comment on all of the three approaches, please select to which of the three approaches you want to give input: (please note that more than one choice is available)

5. Recognition and Measurement

3. 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)?

No

Please explain:

The threshold for recognition is OK. See earlier comments around lack of separability of components of business value. Disclosure on expenditure - especially about what tests / analysis was done to justify the spend - would be very helpful.

[Paragraph 3.26](#) of the DP explains that IAS 38 *Intangible Assets* 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:

[Paragraphs 3.10 to 3.71](#) of the DP explore four possible approaches regarding the recognition of internally generated intangibles.

Which of the following approaches would you prefer?

Please explain your preference for the selected approach:

Please describe such an approach:

Which specific approach would you prefer?

Please explain your preference for this conditional recognition approach:

Which criteria would you consider for recognition?

Please explain your preference for this/these recognition criteria:

Please explain such a combination:

Please describe these criteria:

Possible measurement bases

[Paragraphs 3.72 to 3.100](#) of the DP consider possible measurement bases for internally generated intangibles without suggesting a preferred approach.

Which of the following measurement approaches suggested in the DP would you support?

Please explain your selection:

6. Information relating to specific intangibles

4. 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?

Yes

Please explain:

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?

Yes, disclosure of quantitative and qualitative information is more helpful.

Please explain:

No analyst would use management's measure of a fair value so it makes little sense to disclose it. I would also reiterate how the boundary and separability of an intangible asset make such an allocation of future cash flows highly subjective.

Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 of the DP compared to recognition and measurement (see Chapter 3 of the DP) and information on future-oriented expenses (see Chapter 5 of the DP)?

A table with the advantages and disadvantages identified in the DP can be accessed [here](#).

Yes, I agree with the advantages and disadvantages.

Please explain which aspects you disagree with:

Do you have identified additional advantages and disadvantages that should be included?

No

Which additional advantages/disadvantages should be added?

7. Information on future-oriented expenses

5. Do you consider that requiring such information could be useful?

Why is the information not useful?

Should the information mainly complement information on specific intangibles (see Chapter 4 of the DP) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?

Please explain:

Should the information mainly:

Please explain:

Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5 of the DP?

A table with the advantages and disadvantages identified in the DP can be accessed [here](#).

Please explain which aspects you disagree with:

Do you have identified additional advantages and disadvantages that should be included?

Which additional advantages/disadvantages do you have identified?

Information on risk/opportunity factors affecting intangibles

Chapter 5 (paragraphs 5.28 to 5.32) of the DP 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.

6. Do you agree with this proposal?

Yes, I agree.

Please explain what information on risk/opportunity factors affecting intangibles should be provided instead:

8. Additional considerations

7. Do you consider that it would be useful to introduce a common terminology on intangibles?

Yes

Please explain:

Common terminology will increase comparability and with the use of more generic terms it is likely that less commercially sensitive information needs to be disclosed. Clearly this comes at the cost of providing more accurate and predictive measures for the entity but that is probably an acceptable trade-off when considering efficient markets as a totality.

Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?

Yes

Please explain:

Shareholders do not want disclosure of information that destroys shareholder value. The threshold should be set high - do not have the word "very" in brackets - and we should always bear in mind that competitors usually have good information about the reporting entity from a vast array of sources and shareholders should have access to similar insights through reporting and narrative disclosure.

There are several issues on providing better information on intangibles listed in Chapter 6 of the DP:

Terminology (see paragraphs 6.5 to 6.6)

Sensitivity of the information provided (see paragraph 6.7)

Placement of information (see paragraphs 6.8 to 6.13)

Relevant and comparable information (see paragraph 6.14)

Potential effects on the ability to receive finance (see paragraph 6.15)

Removal of some of the current requirements (see paragraph 6.16)

Do you think there are additional issues that should be taken into account when considering how to provide better information on intangibles?

No

Which issues?

Placement of the information

Chapter 6 (paragraphs 6.8 to 6.13) of the DP presents an approach under which information discussed in Chapter 4 and Chapter 5 of the DP 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.

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

Placement is less important than disclosure - analysts will find the information. Management reports are not uniformly enforced globally and therefore mandating disclosure in the financial statements may be necessary. I also reiterate my earlier comment that disclosure at a segment level will add significant value as well when measuring management decision making around investing for the future growth of the business.

9. Thank You!

Thank you for taking our survey. Your response is very important to us.