

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

2. General information

First name:

Gregorio P.

Last name:

Gil

Profession:

User, investor, analyst

Please describe your profession:

Role in your organisation:

Chair of IEAF Commission on Financial & ESG Reporting

Name of your organisation:

IEAF - Spanish Institute of Financial Analysts

Industry of your organisation:

Financial

Country where you are located:

Spain

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 return on assets ratios do not provide useful information as the 'assets' part is not properly reflected;
Performance measures are distorted as costs incurred to build an intangible are not capitalised, income of a period is therefore not correctly matched with the related expenses;
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;
Comparability is adversely affected as intangible assets acquired outside a business combination are only recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. For intangible assets acquired in a business combination these criteria are always considered to be met; and/or
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:

We agree the issues listed are relevant and valid. We consider there are some additional issues with the current information on intangibles, such as, asymmetry existing between the information available by entities' management and the information available to investors or analysts.

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

Yes

Please explain what these issues are:

Entities by, publishing more information on intangibles can put their own value at risk if the competition may take advantage of that disclosed information. Also, redundant disclosures provoke those analysts can be tempted to dismiss to value certain intangibles as the information might not be useful for measurement.

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:

We think there is room to improve the objective of getting better information on intangibles by combining the different approaches described in the Discussion Paper, mainly, by providing disclosures on specific intangibles (as mentioned in Chapter 4) when this information is key for the business model of that particular entity. Nevertheless, redundant disclosures on non-significant intangibles must be avoided.

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)?

Yes

Please explain:

We consider the IAS 38 Intangible assets should be amended to permit the recognition of certain internally generated intangible assets as well as intangibles acquired that can generate future cash flows and create value for the entity. We also think that recognizing internally generated intangibles should be subject to meeting certain preconditions. Recognizing however other types of intangibles such as an item that an entity does not owe, as proposed in the DP, should not be considered. Intangibles should be separated only when they provide useful information.

[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?

Yes

Please explain:

We consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed, only if additional information is disclosed. Therefore, preparers of financial statements should state the reason to register significant intangible assets, the model to measure them and the ongoing value of them.

[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?

Recognise (as an asset) all defined intangibles; with no specified thresholds or conditions (see paragraphs 3.15 - 3.35 of the DP);

Please explain your preference for the selected approach:

We support the recognition (as an asset) of all intangibles which meet the definition of assets with no specific conditions or thresholds (as mentioned in paragraphs 3.15 - 3.35 of this Discussion Paper. The recognition of an intangible, which is already difficult, should not become more complicated.

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?

Initial measurement at fair value (as deemed cost) and subsequent measurement at cost with amortization and impairment ('IFRS 3 model').

Please explain your selection:

Indeed, we consider the goodwill should also be amortized in a basis according to each entity's business model.

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:

We agree it is less helpful for users but only when this information is key for the business model of that particular entity. Nevertheless, redundant disclosures on non-significant intangibles must be avoided.

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?

Yes

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?

Information should mainly complement information on specific intangibles; or

Please explain:

We consider that requiring such information could be useful but this information should mainly complement by information on specific intangibles (as mentioned in Chapter 4) when this information is key for the business model of that particular entity.

Should the information mainly:

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?

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](#).

Yes, I agree with the identified 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 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:

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:

We agree that preparers of financial statements should not be required to disclose information on certain intangibles that could be commercially sensitive.

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?

Yes, there are additional issues.

Which issues?

There are additional issues we think should be taken into account when considering how to provide better information on intangibles, such as, to incentive the reduction of the asymmetry existing between the information available by entities' management and the information available to investors or analysts.

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?

We think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed mainly in the notes to the financial statements. Nevertheless, some pieces of information related to the business model and the liaison with the intangibles could be placed into the management report as part of a further explanation by managers.

9. Thank You!

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