Think Ahead ACCA

Do financial statements provide sufficient information about intangibles?

Survey issued by the IASB in October 2024

Response from ACCA
19 November 2024

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Further information about ACCA's comments on the matters can be requested from:

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's invitation to take part in its short survey on the requirements for reporting on intangibles in financial statements.

We commend the IASB's effort in assessing whether the requirements in IAS 38 *Intangible Assets* remain relevant and continue to reflect current business models, as well as considering potential links to the management commentary project and the work of the International Sustainability Standards Board (ISSB).

Our response was developed based on our research into the capitalisation[1] and reporting[2] of research and development (R&D) in financial statements that were prepared using the IFRS Accounting Standards. We also supplemented our comments with anecdotal feedback from past roundtables supporting our numerous corporate reporting-related projects.

We hope our response will help the IASB to determine:

- the problem that needs to be solved,
- the scope of the project, and
- the phasing of the work in the IASB's Intangible Assets project.

We have submitted detailed comments to the specific questions in the survey for companies and other stakeholders. A copy of our response is enclosed for reference.

[1] ACCA (2019), *The capitalisation debate: R&D expenditure, disclosure content and quantity, and stakeholder views*

[2] ACCA (2023), *Reporting of R&D: Disclosure without recognition?*

RESPONSES TO SPECIFIC QUESTIONS RAISED

Responses to questions 1 – 4 are not shown as they relate to demographic information.

5. Which of the following sources provide the most useful information related to intangibles? RANK these sources from the **MOST USEFUL** to the **LEAST USEFUL.**

ACCA response

1 Other required components of regulatory reporting (Management commentary/Financial Highlights sections of annual reports)

2 Sustainability reports

3 Voluntary company sources (Earnings press releases, Management Q&A, Investor presentations)

4 Financial statements

5 Third party sources (eg news articles, subscription-based private research reports, external data providers)

6. For what type of intangibles do financial statements provide sufficient/insufficient information?

ACCA response

	Sufficient information	Insufficient information	I don't know
Carbon credits	○	●	○
Cryptocurrencies	○	○	●
Customer-related intangibles (eg brands)	○	●	○
Data	○	○	●
Human capital	○	●	○
IP and licences	○	●	○
Research and development	○	●	○
Software	○	○	●

7. Are there any other types of intangibles for which financial statements provide <u>insufficient</u> information?

ACCA response
Innovation, system, workforce, social and relationship capital.

8. If you answered that financial statements provide <u>insufficient</u> information for any types of intangibles, please explain what information is missing.

ACCA response

Information about:

- nature and origin of the carbon credit, the jurisdiction of the applicable emission trading schemes, the measurement approach and inputs when value is estimated.

- value of customer-related intangibles and its contribution to brand reputation and its potential to produce economic benefits (eg future revenue).

- the skills among human capital (eg employees) and entity's investment into training to develop human capital.

- how IP and licences affect (positively or negatively) other aspects of the business, eg its human, manufactured, social and relationship and natural capital.

- research expense was not disclosed despite description of R&D in front-half of annual report. Cost associated with research were reported according to the underlying nature of those costs (eg staff cost, materials, electricity, etc) instead of being allocated and accumulated as research expense. The segment that is conducting R&D, or which segment would benefit from R&D is not known. The stage a R&D project has reached, the cumulative expenditure, and the estimated future costs for completing it is not disclosed. No link to current and anticipated potential to produce economic benefits (financial, environmental or social effects).

9. Would you consider information about intangibles more useful if it was provided in the financial statements compared to other sources? (*Choose all that apply*)

ACCA response

- [x] Yes, because the information in financial statements would be audited
- [x] Yes, because the information in financial statements would be provided by all companies, when material
- [x] Yes, because the information in financial statements would be provided in a consistent manner
- [x] Yes - other reason
- [ ] No

10. If you answered 'Yes - other reason' or 'No', please explain.

ACCA response

Entities are more likely to be required by legislation to prepare financial statements than other forms of corporate reports, so information about intangibles would be available to users even when they have no ability to compel the entity to provide such information (eg minority shareholders). The IASB needs to ensure the definition of materiality continues to be appropriate and there is guidance to support application in this area. Also, the information needs to be verifiable or auditable.

11. What is the most pressing issue in relation to information about intangibles reported in the financial statements? (*Choose one answer*)

ACCA response

- ( ) Financial statements provide insufficient information about companies' intangibles. Financial statements should provide better information about intangibles (for example, by capitalising more intangibles on the balance sheet or improving disclosures about capitalised and expensed intangibles).
- ( ) The market value of companies differs significantly from the book value of their assets because some intangibles are not capitalised on the balance sheet or are measured at cost instead of fair value. Financial statements should reflect the value of all intangibles.
- ( ) Financial statements do not provide information on new types of intangibles and new ways to use them. Financial statements should be modernised to provide information on these new intangibles.
- ( ) Information in financial statements is unhelpful for comparing companies that internally generate intangibles and companies that acquire intangibles. Financial statements should enable comparisons of companies with different growth strategies.
- ( ) None, financial statements provide sufficient information for investment decisions.
- (•) Other

12. If you answered ‘Other’, please explain what the issue in your view is.

ACCA response

Financial statements provide insufficient information about companies’ intangibles, including those that are not capitalised or unclear if they should be accounted for as intangibles, such as innovation, process, system, social and relationship capital, crypto assets, crypto currencies. Financial statements should provide better information about intangibles, such as capitalising intangibles that meet the definition of asset in the conceptual framework, and improving disclosures about capitalised and expensed intangibles, including the nature, carrying amount, and potential financial effects.

13. Should the IASB aim to address the reporting on the following intangibles in the financial statements? (*Choose the answer that applies*)

ACCA response

	Yes, in the Intangible Assets project	Yes, but in a separate project	No need to address / not relevant to me
A broader range of intangibles, such as assembled workforce or customer satisfaction	◉	○	○
Intangible assets held for investment, such as cryptocurrencies and emission rights	◉	○	○
Intangible assets covered by other Accounting Standards, such as goodwill or exploration and evaluation expenditures	◉	○	○

14. Which of the following will help improve information on intangibles <u>in the financial statements the most</u>: (*Please select **UP TO THREE** answers*)

ACCA response

- [x] Update the definition of an intangible asset and associated guidance to help make them easier to apply, particularly to new types of intangibles such as software as a service.
- [x] Investigate whether more intangibles should be reported on the balance sheet
- [ ] Improve comparability of information about acquired and internally generated intangible assets
- [x] Improve consistency in measuring intangible assets (for example, by providing guidance on how to assess the cost or fair value of some intangible assets or how to estimate useful lives).
- [ ] Improve disclosure about capitalised and expensed intangibles (for example, by requiring disaggregation of expenses related to intangibles or information on how key intangibles create value for the company).
- [ ] Make it easier to find and compare information about intangibles by introducing consistent labels for different intangibles (for example, a single label for customer relationships, customer base and customer lists)

15. What is, in your view, the biggest constraint in providing information on intangibles? RANK the answers from **BIGGEST** to **SMALLEST** constraint

ACCA response

1 Lack of consistent terminology for the same type of intangibles

2 Uncertainty and risks associated with intangibles (for instance, attributing costs to individual intangibles or assessing future benefits)

3 Commercial sensitivity

4 Cost to provide information

5 Cost to audit information

16. Are there any other constraints in providing information on intangibles?

ACCA response

- Outdated requirements in IAS 38 on recognising intangibles as intangible asset, ie paragraphs 51 – 64.
- Outdated requirements that prohibit capitalising certain intangibles as asset, eg paragraphs 15 and 63 of IAS 38.
- Outdated or no definition of terms, eg ‘research’, ‘development’, ‘intangible’.
- Outdated disclosure requirements that do not provide information about nature of intangibles and how it will produce economic benefits.

17. Which approach do you prefer the IASB takes for the project? (*Choose one answer*)

ACCA response

◉ The IASB should address all the aspects in a single project. It is more important to have a comprehensive and coherent set of proposals, even if it requires a longer time to complete the project.

○ The IASB should prioritise the topics. It is more important to address issues in a timely manner, even if this requires splitting the project in separate sub-projects to be completed in a different timeframe.

○ Not relevant to me

18. Do you have any additional comments?

ACCA response

The existing IAS 38 provides insufficient guidance on providing useful information about intangibles and the relationship with other aspects of the business, including its human, manufactured, intellectual, social and relationship and natural capital. Based on our research and anecdotal experience, more information about intangibles were found in the front-half of annual reports and during presentations to investors, rather than in the financial statements. Understanding the nature of an intangible, its relationship with other forms of capitals and its potential to produce economic benefits are vital considerations for investors, which could contribute to confidence and growth at a more macro level, eg for the industry or the jurisdiction.

The various aspects of the intangibles project, such as scope, definition, recognition, measurement approach and disclosures are all inter-related. Breaking them into separate sub-projects would not be able to consider the different aspects holistically. It's not ideal for individual parts to become effective on different dates. It will also be tough on stakeholders (preparers, auditors, regulators and investors) to provide feedback on a large-scale consultation. Therefore, we suggest engaging with stakeholders in several phases (or stages) over different timeframe, though it's a single project, and all changes will be effective at the same time when the IASB has completed the entire project. It's also important to have mostly the same IASB members and staff working on the project until its completion.

We also suggest working in collaboration with the ISSB, entities undertaking R&D and new forms of intangibles, as well as national/regional standard setters to critically review and update the definitions, taxonomy, and terms used in IAS 38, as well as the recognition and measurement requirements. The disclosure requirements in IAS 38 need to be enhanced (this was deprioritised in Q13 because the interventions to provide decision useful information about intangibles need to go beyond disclosures).

Consider providing application guidance and illustrative examples to support consistent application of the new or enhanced recognition, measurement and disclosure requirements, as well as the application of materiality in this area.

We believe the IASB and ISSB should develop an overarching conceptual framework for corporate reporting soon, that incorporates and builds on the principles of the Integrated Reporting Framework, helping entities to clearly demonstrate (through its disclosures on past performance, current position and future prospects) how the interaction of various resources and capitals leads/has led to sustainable value creation and how the entity intends to create more value in the future. An overarching conceptual framework for corporate reporting would be essential to driving connectivity and coherence in reporting financial and sustainability-related information within and across an entity's general purpose financial reports.