

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG Research Project

Better Information on Intangibles

Cover Note

Objective

- 1 The objective of this session is to discuss the issues and approaches that could be addressed in the research project.

Background

- 2 Following EFRAG's public agenda consultation, EFRAG has added Research Project *Better Information on Intangible Assets* (the research project) to its research agenda. The purpose of the research project is to investigate possible ways to improve the information on intangible assets provided in financial statements and explore how they contribute to entities' value creation and prospects for future cash flows.
- 3 It was specified that the research project would not focus on how to make the book value of an entity and the entity's market capitalisation equal. However, the possible solutions may include amending IAS 38 *Intangible Assets*. At this stage, the research project will not focus on debating recognition and measurement versus disclosure. This may be considered in a later phase.
- 4 In April 2019, EFRAG TEG and User Panel members received an update on the project regarding the interviews conducted by the EFRAG Secretariat. EFRAG TEG and User Panel members had mixed views on the objective of the research project. They indicated that providing information on how companies create and sustain long-term value, and providing more information on future cash flows, would be useful.
- 5 At the July 2019 EFRAG TEG meeting, members received a presentation on the feedback received from users in a range of outreach activities (limited outreach conducted by the EFRAG Secretariat, responses from the 2018 EFRAG Research Agenda Consultation; responses to UK FRC Discussion paper etc...) which outlined that users generally supported improving the quality of reporting on intangibles. Members suggested that the research project should focus on considering whether information about how an entity creates, maintains, expands and/or preserves value could be provided in a way useful for making investment decisions. They also discussed possible working definition of intangibles.
- 6 At its 17 September 2019 EFRAG TEG meeting, EFRAG TEG members discussed the draft academic literature review commissioned by EFRAG. The study was intended to review literature that would be useful for understanding:
 - (a) intangibles from a macro perspective;

- (b) unrecognised intangibles and their impact on the value relevance of financial reporting;
 - (c) specific unrecognised intangibles and their impact on entity performance, market value, and the information's impact on users;
 - (d) intangibles and intellectual capital and their effects on entity performance, market value and the information's impact on users; and
 - (e) frameworks and models for measuring and reporting on intangibles and their consequences on entity performance, market value and impact on users.
- 7 The first draft of the literature review has been reviewed by members of the EFRAG Academic Panel. Their comments are being considered by the academic team. The final version of the literature review is expected to be published in Q4 2019.
- 8 In this session, EFRAG TEG members will discuss possible approaches to implement the recommendations made by EFRAG TEG in previous meetings. Members also will discuss the issues that could be addressed in the research project.

Next steps

- 9 The EFRAG Secretariat plans to issue the following deliverables in further stages of the research project:
- (a) *Problem Description*: The report will cover current practices around reporting of intangibles and the extent to which they meet the needs of users. EFRAG Secretariat plans to issue that paper in H1 2020.
 - (b) Input for the EFRAG comment letter on the IASB's project regarding management commentary. This input should be finalised by H2 2020 to be ready for the expected Exposure Draft in H2 2020.
 - (c) *Key Information Solution*: researching possible solutions to the defined problems. This phase is expected to be finalised by the end of Q3/2020.
 - (d) *Testing*: testing the identified solutions on different entities including, if possible, testing with the European Corporate Reporting Lab. This phase is expected to be finalised in 2021.
- 10 The EFRAG Secretariat will regularly update EFRAG TEG on the project status and seek its views as the research project develops.

Agenda Papers

- 11 In addition to this cover note, Agenda Paper 06-02 - *EFRAG Research on Intangibles - Framing the Project - TEG 19-09-26* has been provided for the session.