Intangible Assets

Cover Note

Objective

1   The objective of the session is to obtain input from EFRAG FR TEG-CFSS members on specific aspects of the IASB's Intangible Assets project in preparation for the ASAF meeting that will take place in July 2024.

IASB project

2   A research project on Intangible Assets was added to the IASB research project pipeline following its Third Agenda Consultation. Stakeholders highlighted deficiencies in the reporting of intangible assets and raised matters relating to all aspects of IAS 38 Intangible Assets, including its scope, its recognition and measurement requirements (including the difference in the accounting for acquired and internally generated intangible assets), and the adequacy of the information companies are required to disclose about intangible assets. The project was activated in April 2024. The press release refers to intangibles in general. Therefore, although the title of the project refers to intangible assets, the IASB might consider whether the project should address intangibles more broadly.

3   In the initial research phase of the project, the IASB needs to define the problem the IASB is trying to solve, the scope of the project and how best to stage work to deliver timely improvements. After collecting feedback, the IASB will make initial decisions on these issues.

The problem to be solved

4   The IASB provides in slides 7 to 10 of AP 09-02 some background information regarding potential issues to be solved including matters raised by National Standard Setters (NSS) and Academics. A summary of the issues outlined in those slides follows:

   (a)   Users of financial statements need better information about recognised and unrecognised intangible assets;

   (b)   IAS 38 is an old accounting standard that needs to be modernised for:

      (i)   increasing importance of intangible assets in today's business models; and

      (ii)   new types of intangible assets (e.g. cryptocurrencies) and new ways of accessing intangible assets (e.g. software as a service (SaaS));

(c)   IAS 38 is too restrictive about when internally generated intangible assets are recognised and when intangible assets are measured at fair value using the revaluation model;

(d)   Lack of comparability due to differing requirements for internally generated and acquired intangible assets;

(e)   Financial statements do not provide sufficient information about unrecognised internally generated intangible assets and hence do not reflect key drivers of how an entity creates value;

(f)   Inconsistency between accounting requirements for acquired and internally generated intangible items and the effect this inconsistency has on comparability; and

(g)   whether the 'active market' restriction in IAS 38 is appropriate.

The scope of the project

5   The IASB provides in slides 12 to 20 of AP 09-02 an initial list of topics that the IASB could explore and could be included in the scope of the project. The IASB seeks views on whether the list is complete and on the topics that should be prioritised. A summary of these topics follows:

Scope

6   IAS 38 sets out requirements for intangible assets and for expenses from expenditure on intangible items. Should the IASB consider only financial statement elements—assets and expenses—or should it consider intangible items more broadly?

7   IAS 38 excludes some types of intangible assets, such as those within the scope of another IFRS Accounting Standard (see paragraphs 2-7 of IAS 38). Should the IASB reconsider those scope exclusions?

8   Should intangible assets held for investing (for example, cryptocurrencies and emission rights held for investing) be included in the scope of the project and IAS 38?

Definition

9   What are the properties of intangible assets?

10   Should the definition of an intangible asset, and the associated guidance, be updated for the revisions to the Conceptual Framework?

11   Do specific practice issues arising from applying the definition of an intangible asset, and the associated guidance, suggest a need to revise the definition? For example, do issues relating to software as a service arrangements and arrangements linked to digitisation suggest a need to improve IAS 38, particularly to clarify what is the underlying resource that an entity controls?

12   Is there a need to develop more consistent labels and terminology?

Recognition

13   Are the recognition criteria still appropriate? More specifically:

(a)   Do the properties of intangible assets justify specific recognition criteria for intangible assets?

(b)   Should the recognition criteria be updated to reflect new types of intangible items and new ways entities are accessing and using intangible items?

(c)   Should the recognition criteria be updated for the revisions to the Conceptual Framework?

14   Should the prohibitions on recognition in IAS 38 be reconsidered—for example, the prohibitions in paragraph 63 of IAS 38 on recognising intangible assets for internally generated brands, mastheads, publishing titles, customer lists and items similar in substance?

15   Should there be a recognition difference between acquired intangible assets and internally generated intangible assets, and how could, and should, the IASB help comparisons between entities that grow organically and those that grow through acquisition?

16   Should the recognition criteria for intangible assets acquired as part of a business combination be amended?

Measurement

17   Can the cost of internally generated intangible assets be reliably measured?

18   Can amortisation periods be estimated?

19   Is it necessary for the fair value of intangible assets that are accounted for using the revaluation model to be measured by reference to an active market?

20   Because intangible assets often work together with other assets to generate value, can a fair value be linked to a specific intangible asset?

Presentation and Disclosure

21   What information about recognised and unrecognised intangible assets do users of financial statements need? Where should the information be disclosed—financial statements or management commentary?

22   Should requirements be developed to disaggregate particular expenses that are associated with unrecognised intangible assets?

23   Should disclosure of qualitative and quantitative information about intangible items that reflects how an entity creates value and generates cash flows be required? Where should the information be disclosed—financial statements or management commentary?

The approach to staging the work.

24   The IASB staff has developed three possible approaches on how to stage the work in the project. The IASB seeks input on which approach would best address stakeholder concerns and allows for timely progress, and whether there are other approaches that the IASB should consider. A summary of the three approaches is included below. Additional details, including advantages and disadvantages is included in slides 22 to 25 of AP 09-02

All-in-one Project Approach

25   All topics identified by stakeholders are further researched by the IASB to identify underlying problems and, if feasible, potential solutions.

26   All the IASB's decisions published in a single consultation document which would be published after all topics are fully considered. Once finalised, a new or amended IFRS Accounting Standard would be issued.

Early evaluation project approach

27   Initial outreach used to assign priorities to the topics identified by stakeholders.

28   Only topics that meet a specified threshold would be further explored to identify problems and, if feasible, potential solutions. Priority topics could be based on urgency, prevalence, likelihood of feasible solution, likelihood of benefits outweighing costs and so on.

29   IASB's decisions published in a single consultation document and would relate to those priority topics only, as would any new or amended requirements subsequently issued.

Phased Project Approach

30   The project is split into phases (for example, disclosure, recognition and measurement, or by intangible asset type, and so on).

31   Consultation documents would be published and final requirements would be issued for each project phase, covering all topics included in that phase.

32   The IASB would complete phase one before moving on to phase two, and so on.

EFRAG research project

33   In 2018, following the input received from the EFRAG research agenda consultation, EFRAG added a research project to its agenda on better information on intangibles. The Discussion Paper [Better Information on Intangibles – Which is the best way to go?](#) (the 'DP') issued in 2021 was the result of this project. The DP analysed different approaches to obtain better information on intangibles, based on input from members of the EFRAG Advisory Panel on Intangibles, without providing recommendations on the selection of any particular approach.

34   The scope of the research addressed 'intangibles' which were defined broadly as intangible sources of possible economic benefits. This included items that would not meet the definition of an asset in the IFRS literature. The DP only considered information to be included in the financial statements (including the notes) and the management commentary. The approaches presented, focused on how to provide better information to the primary users of financial reports on intangibles used in an entity's operations.

35   In April 2023, EFRAG published the [Recommendations and Feedback Statement](#) which included EFRAG's tentative recommendations for developing IFRS requirements on intangibles used in the entity's operations. These recommendations were based on the input EFRAG received from comment letters, electronic surveys, outreach activities and supported academic studies. Based on this information the recommendations were developed by the EFRAG FR TEG and the EFRAG FRB.

EFRAG Secretariat proposed responses

36   Based on EFRAG's DP and the resulting feedback and recommendations statement, the EFRAG Secretariat recommends that the IASB focus on:

    (a)   Providing better information on intangibles that would enable users of financial statements to better understand and assess the value of an entity and the

development of its intangibles. The objective of the project should not be to consider how the book value of an entity should equal its market capitalisation. The IASB should consider a combination of different approaches (recognition and measurement, information on expenses and information on specific intangibles) to obtain better information on intangibles. The most suitable approach to obtaining better information on one type of intangibles could be very different from the best approach to obtaining better information on another;

(b) Reconsider whether acquired intangible assets should be accounted for differently from internally generated intangible assets;

(c) Deal with some current issues related to IAS 38 where divergence exist in practice (e.g. it is not always clear whether an asset is a pre-payment or an intangible asset); and

(d) Make requirements that would also provide guidance for assets such as crypto currencies.

37 On the topics to be considered by the IASB, the following would be amongst the most important:

(a) Scope – the IASB should assess whether intangible items should be considered more broadly and whether they should also cover assets held for investing;

(b) The properties of intangible assets and align the definition used in IAS 38 with the definition the Conceptual Framework;

(c) Research and development as the current guidance may not guidance in the light of evolving development. EFRAG heard that the current requirements in IAS 38 are more suited for traditional R&D linear process with definable milestones and less suited to modern research and development processes, such as iterative development approaches;

(d) Software as a service arrangements;

(e) What information is needed on intangibles (disclosures) and develop requirements on how to disaggregate particular expenses;

(f) Disclosures on how an entity creates value; and

(g) The placement of the information.

38 On how the IASB should stage the work, we are of the view that a phased approach should be followed. We are not particularly concerned about what is considered first. However, we would recommend consider making the amendments for different types of intangibles – so that all relevant requirements are considered simultaneously for each type of intangible. An important distinction is how the intangible is used in by the entity (for operation or for trading) and how easily the intangible can be identified.

Questions for EFRAG FR TEG-CFSS

39   What are the issues your stakeholders encounter with the accounting for intangibles today – what problem should the IASB seek to solve?

40   Considering the list of topics that could be included in the project's scope (see paragraphs 5 to 23 above) and your response to the previous question:

      (a)   Which topics are the highest priority and why?

      (b)   Is there anything missing or anything that should be excluded?

41   Considering the three possible project approaches outlined in paragraphs 24 to 32 above:

      (a)   Which approach would best respond to stakeholder concerns and allow timely progress?

      (b)   Are there other project approaches that the IASB should consider?

Agenda Papers

42   In addition to this cover note, agenda paper *09-02 – ASAF meeting Intangible Assets - Project scope and approach ASAF_July* – has been provided for the session.