Accounting

Staff paper

Agenda reference: 10

Accounting Standards Advisory Forum meeting

Date	**July 2024**
Project	**Intangible Assets**
Topic	**Project scope and approach**
Contacts	**Tim Craig** (tcraig@ifrs.org) **Deborah Bailey** (dbailey@ifrs.org)

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Purpose of this session

A research project on Intangible Assets was added to the International Accounting Standard Board's (IASB) research project pipeline following its Third Agenda Consultation. The IASB started work on the project in April 2024.

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. **The IASB is consulting** with its advisory bodies and other stakeholders to help inform these decisions.

The purpose of this session is therefore to obtain your input to help the IASB consider:

1. The problem that needs to be solved;
2. The scope of the project; and
3. The approach to staging the work.

Once stakeholder feedback has been collected, the IASB will consider stakeholders' views and make initial decisions on these three items.

Contents

Questions for ASAF members

Questions for ASAF members

1. What are the issues your stakeholders encounter with the accounting for intangibles today – **what problem should the IASB seek to solve**?
2. Considering the list of topics that could be included in the project's scope (see slides 14–20) and your response to Question 1:
   - Which topics are the **highest priority** and **why**?[1]
   - Is there anything **missing** or anything that should be **excluded**?
3. Considering the **three possible project approaches** (see slides 23–25):
   - Which approach would best respond to stakeholder concerns and allow timely progress?
   - Are there other project approaches that the IASB should consider?

[1] We suggest members consider their top and bottom 3–4 topics.

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Background—feedback and evidence on IAS 38 *Intangible Assets*

Background—Third Agenda Consultation feedback on Intangible Assets

Stakeholders, especially users of financial statements, rated a project on Intangible Assets as **high priority.**

Users of financial statements need better information about recognised and unrecognised intangible assets.

IAS 38 is an **old accounting standard** that needs to be modernised for:

- increasing importance of intangible assets in **today's business models.**
- new types of intangible assets (for example, cryptocurrencies) and new ways of accessing intangible assets (for example, software as a service (SaaS) arrangements) **not envisaged** when IAS 38 was developed.

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.**

Lack of comparability due to differing requirements for **internally generated and acquired** intangible assets.

See Agenda Paper 17 to the IASB's April 2024 meeting for more information.

Background—Research by National Standard-Setters (NSS)

- Research NSS have performed highlights a **range of stakeholder concerns** about accounting for intangibles, particularly that 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**.
- There are mixed views on the best way to remedy this concern:

Recognition of more internally generated intangible assets by reconsidering:	Improving disclosure requirements about unrecognised internally generated intangible assets, for example:
• the **recognition criteria** in IAS 38; or • the **prohibitions** in IAS 38 on the recognition of many internally generated intangible assets.	• **qualitative and KPI information** about intangible items key to the entity's business model; and • **disaggregation of expenses** on intangible items (including future-oriented expenditure).

Background—Research by National Standard-Setters (NSS) (continued)

- **Improving disclosure requirements** was often the **suggested starting point**, particularly by investors. However, stakeholders said that qualitative and KPI information may be **commercially sensitive**.
- Many stakeholders highlighted the **inconsistency** between accounting requirements for **acquired and internally generated intangible items** and the effect this inconsistency has on **comparability**, but there were mixed views on whether to address this.
- Stakeholders questioned whether the **'active market' restriction** in IAS 38 was appropriate.
- There were also requests for **consistent terminology**, without which some say a precise understanding of the nature of the intangible item is impeded.

See Agenda Paper 17A to the IASB's April 2024 meeting for more information.

Background—Academic Research

- Mixed views on how well financial statements show **value of internally-generated intangible assets** – some suggest changes to Accounting Standards needed to maintain value relevance of financial statements; others suggest sufficient information presented in the income statement about unrecognised internally generated intangible assets.
- General agreement on **the need to improve information disclosed.**

Recognition	Measurement	Disclosure
• **Unrecognised internally generated intangible items** are **linked to future benefits.** • **Initial recognition** at cost is value relevant but **subsequent measurement** less useful. • **Properties of intangible assets** should be considered when considering recognition criteria. • Limited academic evidence on whether there should be a recognition difference between **acquired and internally generated intangible assets**. • Identifiable intangible assets **more value relevant** than goodwill.	• Can cost / fair value be **reliably measured** for internally generated intangible assets? • Applying **fair value** to intangible assets is **uncommon** due to difficulties in confirming market values. • **Active market requirements** contribute to market value and book value difference. • Fair value measurement provides useful information for **cryptocurrencies** acquired for investment purposes.	• High-quality information can **raise an entity's market value.** • Recognition and disclosure **complement one another.** • Benefits of **expense disaggregation** in income statement versus revealing **commercially sensitive information.** • **Location** of information (value creation reports vs integrated reports vs management commentary vs notes to financial statements).

See Agenda Paper 17B to the IASB's April 2024 meeting for further information.

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Project Scope

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Project Scope—Introduction

- Based on stakeholder feedback in the Third Agenda Consultation and other research, we have developed an initial list of topics that the IASB could explore and could be included in the scope of the project (slides 14–20).
- These topics have been categorised into five areas:
  - Scope of IAS 38 (and the project);
  - Definition of an intangible asset;
  - Recognition of an intangible asset;
  - Measurement of an intangible asset; and
  - Presentation and disclosure of intangible items.
- For each topic we have provided some further explanation and possible considerations.

Project Scope—Introduction (continued)

- Please note that although the topic descriptions are expressed as questions that the IASB could consider in the project, we are not asking for your views on solutions to these topics at this stage. We are seeking your input on whether the initial list of topics is complete and which topics the IASB should prioritise based on your view of what problem the IASB should solve.
- Some of the topics are cross-cutting in nature. For example, whether the revisions to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) should be reflected in the definition of an intangible asset and the recognition criteria for an intangible asset.
- Some of the topics are interrelated. For example, exploring the recognition criteria for intangible assets would likely need the question of whether the cost of internally generated intangible assets can be reliably measured to be considered.
- Members may want to consider each topic individually or in a connected manner across topics.

Possible project topics: Scope		Further explanation and possible considerations
1	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**?	Should the IASB focus on information about financial statement elements (for example, the useful lives of recognised intangible assets) or should it also explore a broader range of information (for example, customer numbers, footfall, net promoter scores, and so on)? What intangible items should the IASB explore providing information about: recognised intangible assets, unrecognised intangible assets or intangible items that don't meet the definition of an asset? Should the IASB explore the recognition of intangible items that don't meet the definition of an asset (for example, assembled workforce)?
2	IAS 38 excludes some types of intangible assets, such as those within the scope of another IFRS Accounting Standard (see slide 27 for more information). Should the IASB reconsider those **scope exclusions**? Should any of the excluded items be considered in the project?	For example, should goodwill remain out of the scope of IAS 38 and the project? Note that the IASB has already comprehensively reviewed the subsequent accounting for goodwill in its Business Combinations—Disclosures, Goodwill and Impairment (BCDGI) project.

Possible project topics: Scope (cont.)		Further explanation and possible considerations
3	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?	Should the IASB explore further scope exclusions from IAS 38 for intangible assets that might be better addressed in another IFRS Accounting Standard? If the IASB does not modify the scope of IAS 38, should the IASB specifically consider the accounting requirements for cryptocurrencies and emission rights in the project? Note that in its Third Agenda Consultation, the IASB decided: • not to undertake a project on cryptocurrencies; and • to add a project on Pollutant Pricing Mechanisms to its reserve list of projects (see Third Agenda Consultation).

	Possible project topics: Definition	Further explanation and possible considerations
4	What are the **properties** of intangible assets?	How should the properties of intangible assets be incorporated into the definition of intangible assets?
5	Should the definition of an intangible asset, and the associated guidance, be updated for the revisions to the ***Conceptual Framework***?	IAS 38 is an old Accounting Standard and has not been updated for consistency with the revised *Conceptual Framework*. For example, the IASB revised the definition of an asset in the *Conceptual Framework* to focus on rights an entity controls that have the potential to produce economic benefits and provided more explanation about 'rights', 'control' and 'the potential to produce economic benefits'.
6	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?	IAS 38 defines an asset as a resource controlled by an entity as a result of past events and from which future expected economic benefits are expected to flow to the entity. It defines an intangible asset as an identifiable non-monetary asset without physical substance. It also provides guidance on identifiability, control of an intangible asset and future economic benefits flowing from an intangible asset. Some stakeholders are concerned that the requirements in IAS 38 cannot cope with new ways to access and use intangible items leading to accounting that, in their view, does not faithfully represent the economics of these transactions.
7	Is there a need to develop more **consistent labels and terminology**?	Academic research has highlighted diversity in labels and terminology used by entities in their financial statements to describe their intangible assets.

Possible project topics: Recognition		Further explanation and possible considerations
8	Are the **recognition criteria** still appropriate? More specifically: • Do the properties of intangible assets justify specific recognition criteria for intangible assets? • Should the recognition criteria be updated to reflect new types of intangible items and new ways entities are accessing and using intangible items? • Should the recognition criteria be updated for the revisions to the *Conceptual Framework*?	IAS 38 permits an intangible asset to recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. Should the recognition criteria be revised? How should the properties of intangibles be incorporated in the recognition criteria for intangible assets? Should more internally generated intangible assets be recognised? If more internally generated intangible assets are recognised, what effect would this have on the Income Statement and Statement of Cash Flows? In discussing recognition in the *Conceptual Framework,* the IASB changed the focus of the recognition criteria to whether recognition provides useful information to users of financial statements rather than on the probability of whether future economic benefits would flow to the entity.
9	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?	Can expenditure on the items listed in paragraph 63 of IAS 38 be distinguished from the cost of developing the business as a whole (internally generated goodwill)? Can a more principles-based approach for the recognition of internally generated intangible assets be developed?

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Possible project topics: Recognition (cont.)		Further explanation and possible considerations
10	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?	Are the transactions to acquire or develop an intangible asset economically different? Should intangible assets that can be recognised in a business combination be recognised if they are developed internally? Are there other ways (other than recognition) that comparability can be improved?
11	Should the recognition criteria for intangible assets acquired as part of a **business combination** be amended?	In the earlier stages of the BCDGI project, the IASB received feedback that questioned whether all intangible assets recognised in a business combination provide useful information.

	Possible project topics: Measurement	Further explanation and possible considerations
12	Can the **cost of internally generated intangible assets be reliably measured**?	For example, can advertising expenditure be clearly distinguished between advertising relating to sales made in the current period and that relating to future potential sales? When does capitalisation of expenditure stop? For example, when is a brand fully developed and when does any future expenditure represent maintenance expenditure? Is fair value measurement an alternative for those intangible assets for which costs cannot be reliably measured?
13	Can **amortisation periods** be estimated?	Can amortisation periods be estimated that faithfully represent the useful life of intangible assets? How easy is it to determine whether an intangible asset has a finite or indefinite life? Do amortisation expenses provide useful information for users of financial statements?
14	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**?	IAS 38 permits an entity to use the revaluation model only if the fair value of an intangible asset can be measured by reference to an active market. In contrast, IAS 16 *Property, Plant and Equipment* does not contain such a restriction—it permits an entity to use the revaluation model if the fair value of property, plant and equipment can be measured reliably, without the need to reference to an active market. Is IAS 38 too restrictive?
15	Because intangible assets often work together with other assets to generate value, can **a fair value be linked to a specific intangible asset**?	For example, is the fair value of an entity's brand independent to the fair value of the property, plant and equipment used to make its products, the fair value of the assembled workforce that develop, make and service its products, the fair value of the customer contracts and relationships to sell its products, and so on.

Possible project topics: Presentation and Disclosure		Further explanation and possible considerations
16	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?	Does the information users of financial statements require belong in financial statements? If the information does not belong in financial statements, should it be part of the IASB's project, or should this be within the remit of the International Sustainability Standards Board?
17	Should requirements be developed to **disaggregate particular expenses** that are associated with unrecognised intangible assets?	Do the same problems in identifying the costs associated with specific intangible assets for recognition and measurement purposes exist for these potential disclosure requirements? Are consistent terms or labels needed to ensure information provided by entities is consistent?
18	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**?	Should qualitative information about intangible items that reflects how an entity creates value and generates cash flows or that are key to an entity's business model be disclosed in management commentary? Would the information be commercially sensitive? If the information does not belong in financial statements, should it be part of the IASB's project, or should this be within the remit of the International Sustainability Standards Board?

Project Approach

Project Approach—Introduction

- A comprehensive review of IAS 38 will be a large and complex project for the IASB and its stakeholders.
- The IASB Technical Staff have developed three possible project approaches, to help facilitate discussion and obtain feedback on how to stage the work in the project:
  - All-in-one (slide 23);
  - Early Evaluation (slide 24); and
  - Phased (slide 25).
- Although not an exhaustive list of approaches, we think these alternatives highlight the main items that could be performed differently when the IASB decides on how to stage work in the project. We consider each approach to represent a comprehensive review of the accounting for intangibles.
- We are seeking your input on which approach would best address stakeholder concerns and allow for timely progress, and whether there are other approaches that the IASB should consider.

All-in-one Project Approach

Description of Approach	Pros	Cons
• All topics identified by stakeholders further researched by the IASB to identify underlying problems and, if feasible, potential solutions. • **All the IASB's decisions published in a single consultation document** (such as a discussion paper or exposure draft) and, once finalised, a new or amended IFRS Accounting Standard is issued. • Therefore, although the discussion of topics would be sequenced (so that topics are tackled in a logical order), the consultation documents would be published, and a final IFRS Accounting Standard (or amendment) would be issued, only after all topics have been fully considered.	• All topics further researched – less risk of not identifying an improvement to IFRS Accounting Standards. • Easier to consider the interaction between various topics.	• Significant amount of time until improvements to IFRS Accounting Standards implemented. • Resource may be expended on a topic that ultimately does not result in improvements to IFRS Accounting Standards.

Early Evaluation Project Approach

Description of Approach	Pros	Cons
• **Initial outreach used to assign priorities to the topics identified by stakeholders.** • Only topics that meet a specified threshold explored further in the project. Identifying topics to explore further could be based on urgency, prevalence, likelihood of feasible solution, likelihood of benefits outweighing costs and so on. • Topics meeting the threshold would be further researched by the IASB to identify underlying problems and, if feasible, potential solutions. • 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.	• Improvements made on a timelier basis. • High priority topics dealt with—efficient use of IASB and stakeholder resources. • Other topics could be investigated later if sufficient stakeholder demand.	• Not all stakeholders' concerns further researched. • Might not meet stakeholders' expectations of a comprehensive review of the accounting for intangibles. • Time and resources spent on prioritising topics—might be more than expected if consensus is difficult to achieve. • Risk of not pursuing a topic that should be explored because of simplicity of the process—for example, a topic might not be explored on the basis that it is unlikely a feasible solution can be developed, but further research might have identified a feasible solution. • Developing a solution for a topic that is ring-fenced could be complex.

Phased Project Approach

Description of Approach	Pros	Cons
• **The project is split into phases (for example, disclosure, recognition and measurement, or by intangible asset type, and so on).** • Consultation documents would be published and final requirements would be issued for each project phase, covering all topics included in that phase. • For example, based on the feedback and research collected to date, the IASB could focus initially on improving the information that entities disclose about (recognised and unrecognised) intangible assets. • The IASB would complete phase one before moving on to phase two, and so on.[1]	• Improvements made expediently for some topics. For example, users of financial statements appear to have identified improved disclosure requirements as the most likely way of satisfying their information needs. • All topics eventually explored. • Information from the research on disclosure requirements might inform research on other topics.	• Not all stakeholders may agree that the priority is disclosure (for example). • There may also be more than one high priority topic. • Risk that disclosure requirements (for example) need to be reconsidered when other topics are considered. • Completion of the whole project would take longer than the 'all-in-one' approach because of the need for multiple consultation documents. • Some stakeholders might lose interest in the project after the first phase if the first phase deals with their biggest concerns.

[1] Although, with more project resource, phases could be worked on concurrently (similar to the development of IFRS 9 *Financial Instruments*), this has not been specifically considered because the ability to work on topics concurrently is equally applicable to the other approaches – the more resource allocated to the project, the greater the scope there is for working on topics concurrently whichever approach is followed.

Appendix

Appendix: Scope of IAS 38 *Intangible Assets*

IAS 38 excludes some types of intangible assets, such as those within the scope of another IFRS Accounting Standard. It does not apply to:

- financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*);
- expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
- intangible assets held for sale in the ordinary course of business (see IAS 2 *Inventories*);
- deferred tax assets (see IAS 12 *Income Taxes*);
- leases of intangible assets accounted for in accordance with IFRS 16 *Leases*;
- assets arising from employee benefits (see IAS 19 *Employee Benefits*);
- goodwill acquired in a business combination (see IFRS 3 *Business Combinations*);
- contracts within the scope of IFRS 17 *Insurance Contracts* and any assets for insurance acquisition cash flows as defined in IFRS 17;
- non-current intangible assets classified as held for sale (or included in a disposal group classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- assets arising from contracts with customers that are recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*; or
- some intangible assets that are part of a tangible asset (for example, a computer operating system).

See paragraphs 2–7 of IAS 38 for more information.

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