EFRAG DP

Better information on Intangibles

User's perspective

OUTREACH EVENT 29 MARCH 2022

SUMMARY REPORT

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.

Background

EFRAG and EFFAS organised a joint webinar to discuss users' guidelines for better information on intangibles on 29 March 2022.

In August 2021, EFRAG published the Discussion Paper 'Better Information on Intangibles – Which is the best way to go?' which is available here. The Discussion Paper (the 'DP') examines different approaches to enhance the current IFRS reporting and provide better information on intangibles:

- Through recognition and measurement in the financial statements.
- Through disclosures of information related to specific intangibles in the notes to the financial statements or in the management report.
- Through disclosures of information on future-oriented expenses in the notes to the financial statements or in the management report.
- Through disclosures on risk and opportunity factors.

These different approaches have all been identified based on input from users of financial statements. In the webinar users and a few preparers of financial statements provided their views on these possible approaches. Before the discussion, EFRAG representatives presented the DP The audience provided their views on the alternatives to provide better information on intangibles through online polling surveys, comments and questions to the speakers.

The programme of the event can be found here. The biographies of the speakers and panellists can be found here. Finally, the slide-deck used during the event is available here.

Welcome

Javier de Frutos, Chairman of the Commission on Financial Reporting of the European Federation of Financial Analysts' Societies (EFFAS), introduced the topic to be discussed during the webinar and underlined the importance of the topic for users of financial statements.

Saskia Slomp, EFRAG CEO, welcomed all the participants to the webinar. She highlighted intangibles as an element of interconnectivity between financial and sustainability reporting as well as the appropriateness of the timing of the webinar due to the intense activity in sustainability reporting.

1. Presentation of EFRAG's Discussion Paper Better Information on Intangibles – Which is the best way to go?

Chiara del Prete, EFRAG TEG Chairwoman, and **Rasmus Sommer**, EFRAG Senior Technical Manager, introduced the DP and the different alternative outlined in the DP, including their advantages and disadvantages, to provide better information on intangibles.

2. Discussion of the panellists

Welcome

Serge Pattyn, Vice-President of EFRAG Financial Reporting Board, introduced the panellists. He highlighted the increasingly importance of internally generated intangibles in today's businesses. Throughout the discussion he addressed the different questions to the panellists and discussed the results of the polling questions.

Recognition and measurement requirements

Would "recognition" be the best solution? In that case, which intangibles could be useful to recognise? How important is it that the financial statements of entities growing organically can be compared with entities growing by acquisitions?

Marisa Mazo, Deputy head of research at GVC Gaesco, considered recognition not to be the best solution to improve information on intangibles. She noted that the impact of recognising additional intangibles would be a higher value of assets, net worth, and present earnings while having lower future earnings. As there would not be an impact on current or future cash flows, she questioned whether additional recognition would create value for stakeholders.

She acknowledged that in today's economy intangibles were crucial to the generation of future cash flows. She also recognised that, absent recognition of additional intangibles, companies that grew organically could not be compared to those that do not. However, she noted that she prioritised the comparison of businesses over comparison of companies.

In her view, financial statements were less useful not only because of the change in the way our economies function, but also because users went from more static analysis relying more on ratios to more dynamic analysis relying more on cash flows. However, she noted that there were a wide range of users who had different needs depending on the methodology they used to value a company. While an equity analyst focused on the cash flow ('CF') generation, users that looked at the credit risk analysis were more focused on scorings and analyses where ratios were more relevant. Nonetheless, in her view, even though solvency ratios would look better if intangibles were recognised, the capacity of an entity to pay its debt would be the same regardless of the recognition of more intangible assets.

With regard to the type of internally generated intangibles that should be recognised, she expressed support for the intangibles that IAS 38 *Intangible Assets* ('IAS 38') allowed. She considered that recognising other type of intangibles like brands or customer lists would be very subjective and would not improve the comparability between entities as the value of those intangibles would heavily rely on underlying internal assumptions.

She also pointed out that the fewer intangibles that were recognised the less the differences between the statement of profit and loss and the statement of cash flows and the better for her analysis as a user.

If more intangibles were to be recognised, how should they be measured?

Jeremy Stuber, global equity analyst at Newton Investment Management, pointed out that between the choices of historic cost and fair value, intangibles should be measured at historic cost. In his view, the financial statements would be more relevant if intangibles were recognised at historical cost. Thus, the raw material that users had for building their valuation model would be better and therefore their valuation model would be more relevant.

He was not concerned if the book value of an entity was smaller than its market value, as in his view these were two completely different things. The book value was the invested capital while the market value was the value of all future cash flows. From a practical standpoint, he would like to have a good definition of return on invested capital, which should be how much an entity had spent in the capital base rather than how much it was worth. He shared the view that measuring intangibles at historic cost would be more consistent with the way entities measured internally generated intangibles such as software while measuring intangibles at fair value would be very confusing. He also noted that if intangibles were measured at fair value, it would be difficult for entities to separate the value and the cash flows of an intangible from other parts of the business. It would also be very time consuming and expensive for preparers to go through this exercise. Finally, he noted that as an equity analyst he could decide whether to buy a particular equity or not. Even if there was a perfect valuation of an intangible, it would not be useful for him because he could not buy that particular intangible – but a part of the entire entity.

What would the challenges be by recognising and measuring "internally generated" intangibles? What are the practical considerations in relation to measurement at cost and at fair value?

Laurine Lemon, responsible for DSM's global accounting policies, did not have many disagreements with the opinions expressed by the two previous panellists. She noted that preparers usually dislike subjectivity and prefer relating accounting figures to invoices because they do not have to make estimates and it has a low level of subjectivity. When turning to complex valuation models, because you can put a value on everything, the elements of complex models are subject to so many assumptions that it defeats the purpose of putting a value on an intangible that you would separate. She noted that historically DSM's purchase price allocations usually result in 30% being allocated to separated intangible assets. This is aligned to what analysts and investors would expect.

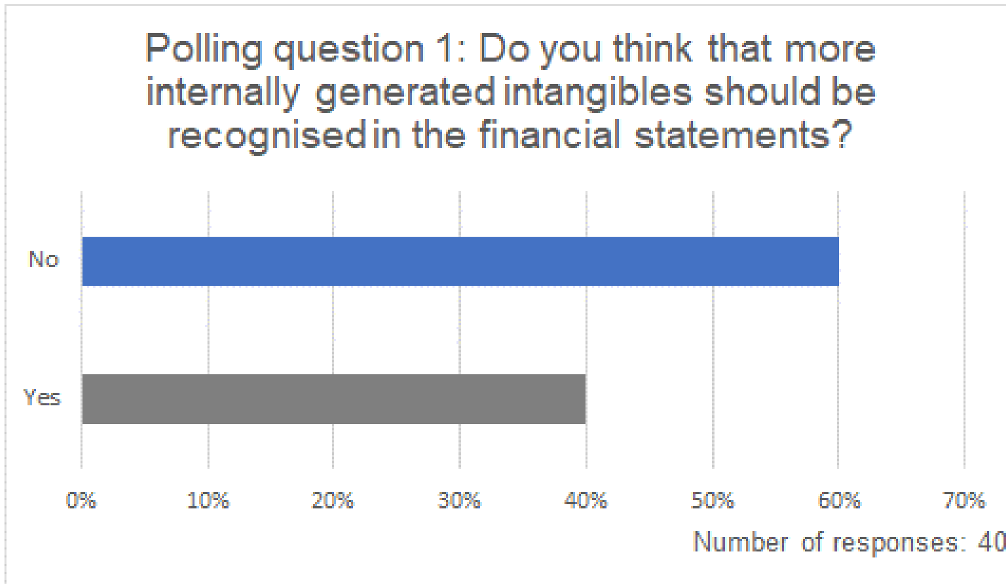
In addition, she pointed out that DSM had high research and development (R&D) expenses as this is part of the business model, which also means that they have development projects that could meet the IAS 38 capitalisation criteria. Thus, the requirement to capitalise development costs is very important to the company to communicate externally on this. In her view, the practical indicators in IAS 38 are adequate to identify whether there is an asset developed that will generate future revenue, though IAS 38 could be updated further.

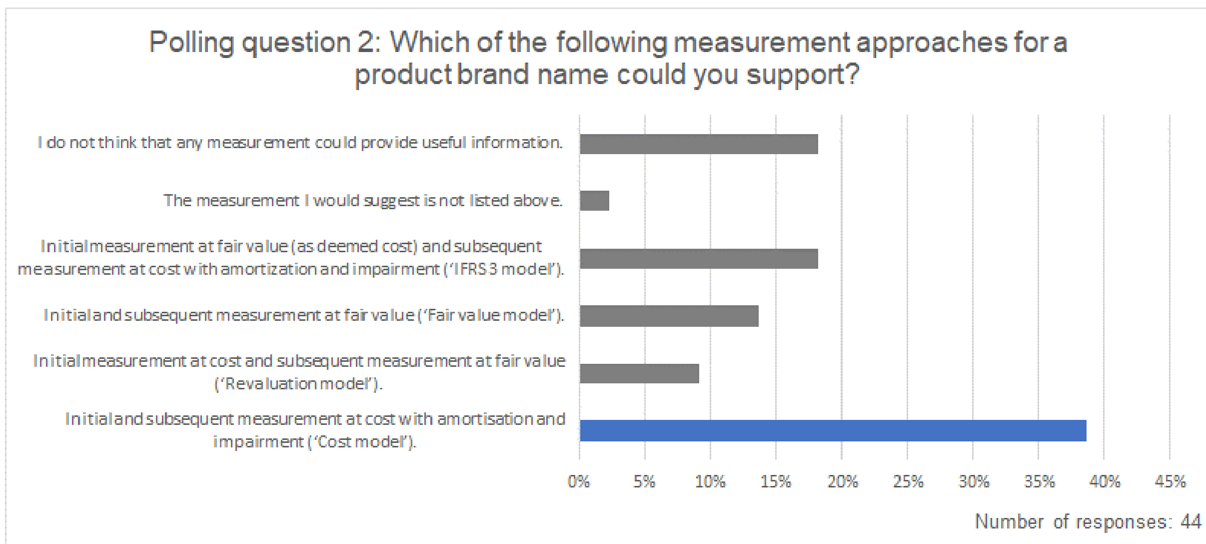
If entities should recognise more intangibles, there would be costs related to the accounting and auditing, demonstrating that the recognition of these intangibles is in accordance with the requirements.

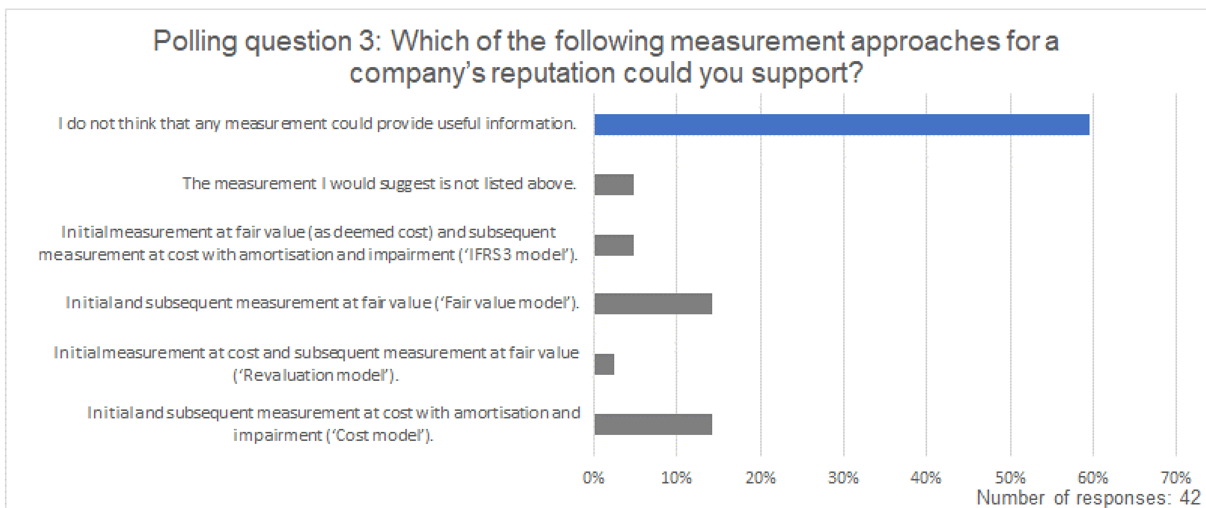
In addition, in case that additional intangibles will be measured at fair value instead of at cost, most entities will be required to hire an external valuator (as this kind of expertise is not usually available within the company) to help them place a value on the intangibles. Entities will also need to educate their own management on the management reporting impact of recognising additional intangibles as well as involve its auditors to audit the external valuator's work. The entity's auditors and the valuator will be having expert valuation discussions to reach a conclusion on the perceived value that goes beyond practical management steering information. This would come with a cost increase as entities would need to pay for the additional valuation as well as for having the valuation audited.

In her view, entities would be spending a lot of money on something that will not be used by management internally. In addition, after hearing from previous users that recognising additional intangibles was not very useful, she wondered why this extra burden should be put on entities. To be clear, she supports identifying internally generated intangibles as currently in IAS 38 as capitalising R&D expenditures provide relevant information in relation to a specific company as DSM or others that integrate developing new technologies into their business model from which they earn future profits. However, she did not see merits in recognising other internally generated intangibles such as brand names or internal domains as there was no added value for users of financial statements. In addition, recognising more internally generated intangibles in the financial statements would not be useful given the subjectivity involved.

She noted, that although capitalising R&D expenditures would result in useful information, it was also important to provide more narrative information on these.


Polling question 1: Do you think that more internally generated intangibles should be recognised in the financial statements?
No
Yes
0%
10%
20%
30%
40%
50%
60%
70%
Number of responses: 40


Polling question 2: Which of the following measurement approaches for a product brand name could you support?
I do not think that any measurement could provide useful information.
The measurement I would suggest is not listed above.
Initial measurement at fair value (as deemed cost) and subsequent measurement at cost with amortization and impairment ('IFRS 3 model').
Initial and subsequent measurement at fair value ('Fair value model').
Initial measurement at cost and subsequent measurement at fair value ('Revaluation model').
Initial and subsequent measurement at cost with amortisation and impairment ('Cost model').
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
Number of responses: 44


Polling question 3: Which of the following measurement approaches for a company's reputation could you support?
I do not think that any measurement could provide useful information.
The measurement I would suggest is not listed above.
Initial measurement at fair value (as deemed cost) and subsequent measurement at cost with amortisation and impairment ('IFRS 3 model').
Initial and subsequent measurement at fair value ('Fair value model').
Initial measurement at cost and subsequent measurement at fair value ('Revaluation model').
Initial and subsequent measurement at cost with amortisation and impairment ('Cost model').
0%
10%
20%
30%
40%
50%
60%
70%
Number of responses: 42

Additional disclosures on specific intangibles

Is it useful to provide information on specific intangibles when these often do not create value on their own but in combination with other intangibles? Which types of information for specific intangibles that would be key to an entity would be useful?

Jean Philippe Desmartin, Co-chair of EFFAS Commission on Environment, Social and Governance, remarked that the majority of investment in corporates was in intangibles, and that a lot of companies had intangibles scorecards.

Jean Philippe's initial approach would be to have more and more information, including key performance indicators (KPIs), in the management report. He noted that there might be specific KPIs related to unique intangibles like brands but there might also be other metrics like expenses related to training (human capital), client satisfaction (relational capital), net promoted score or IT expenses (organisational capital). The World Intellectual Capital Initiative (WICI) proposed a list of 50 general metrics, which dealt with intangibles of all sectors and countries, as well as specific KPIs for specific sectors. He pointed out that, when gathering data from specialised search engines like Bloomberg, there was more and more data on human capital, poor data on relational capital and a complete desert on organisational capital.

He also noted that there was currently a debate to distinguish intangibles linked to sustainability (human capital and rational capital) and intangibles not linked to sustainability (organisational capital mainly). In his view, investors needed both types of information and it would be better if it was placed in one single place. Finally, he highlighted the importance of having international collaboration as there were different organisations (like the IASB or the SEC) working on this issue.

Can the users be overloaded with information if we would go for a disclosure solution?

Marisa Mazo noted that each quarter she received for each of the 10 large banks she followed a financial report that is 500 pages long, one or two presentations of around 100 pages, a spreadsheet with around 30 sheets and a production relevance report with over 500 pages. She pointed out that she was a sell side analyst and that she followed a limited number of entities, even though, she was overloaded with information that did not allow her to distinguish the forest from the trees.

She observed that when it came to smaller entities the problem was the opposite. If they were asked to release a lot of information, their workload would increase without being sure whether that would add any value. However, in some cases it would enhance transparency and promote a better understanding of the company and, accordingly, better market valuation.

Finally, she expressed the view that it was necessary to think carefully about increasing the amount of paper that users receive and that they are not able to read.

What would be the issues for the preparers if additional information on specific intangibles should be provided?

Hanno Wulbrand, Head of accounting in the pharmaceutical division of Bayer AG, opined that there were probably some benefits of additional disclosures. However, he also highlighted some practical issues for preparers such as complexity, cost and commercial sensitivity that should be taken into consideration when assessing costs and benefits of additional disclosures.

He started by sharing some thoughts on the complexity around the preparation of disclosures. First, he reminded that disclosures needed to meet some qualitative characteristics. They had to be relevant and reliable, which made the preparation of disclosures on intangibles a complex activity, similar to recognition and measurement.

To provide an idea of this complexity, he went through the different steps a preparer would need to go through when preparing disclosures for specific intangibles. The starting point was the identification of the key intangibles. For many entities this identification was clear. However, in some cases, it might be less clear as intangibles were often interrelated, for example, the reputation of a company could be linked to various intangibles like the brand name and the employee satisfaction. In that case, it would be more difficult to provide disclosures on specific intangibles because disclosures did not overcome the fact that intangibles sometimes work on an interrelated basis. Furthermore, he pointed out that identifying key intangibles could be a very judgemental assessment. Thus, entities would need clear guidance on how to identify the key intangibles to ensure consistency and comparability across their industries.

He also noted that collecting the information of key intangibles within the company could be a complex step as not all the information may be easily available. In some cases, it may already be included in the internal management report (for example R&D costs) but in other cases the information may need to be prepared just for the purpose of the disclosures. In addition, if the intangible was deeply linked to the business model, many departments of the organisation would be involved and that would require a lot of resources.

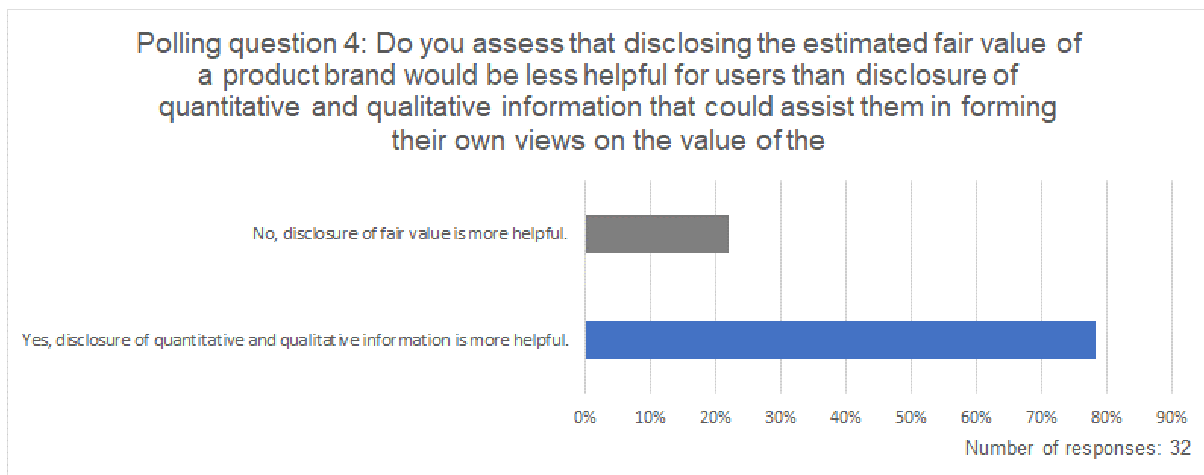
With regard to the process of bringing the data into the financial report, it was sometimes possible to do it automatically by deriving some data from your contract management system. However, in some other cases, entities would need to do it manually and ensure that nothing got lost in the process. Consequently, checks and internal control processes would need to be implemented.

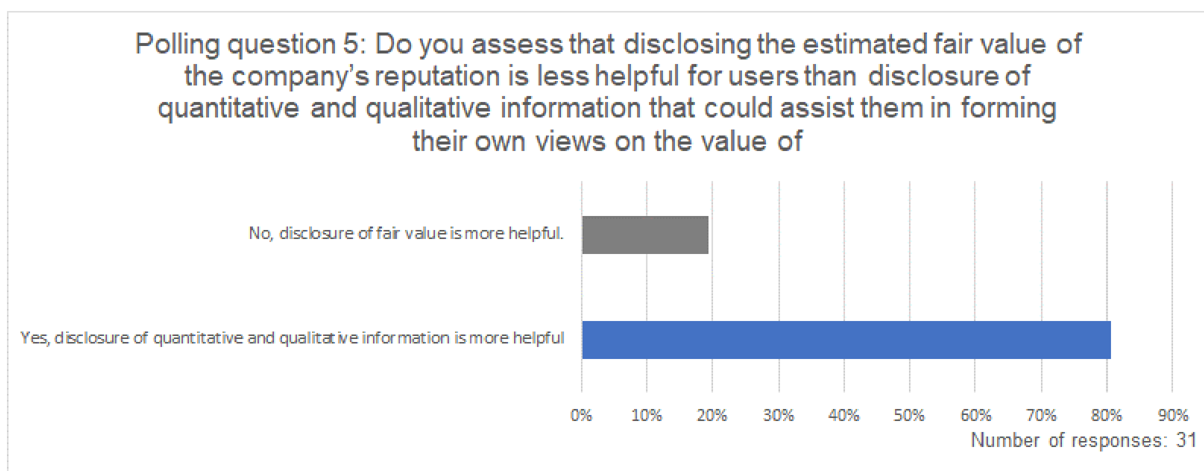
Finally, the information needed to be internally verified and externally audited. Thus, entities would need to provide evidence of the disclosures, show that their internal control systems worked properly and ensure that the information is understandable.

In relation to the costs incurred, he noted that additional disclosures would always come with additional costs, including audit costs. In his view, the main cost driver would be the availability of the information. If the information was already included in the internal management report, it would probably be less costly to provide. However, if entities needed to determine the fair value of their internally generated intangibles, it would result in higher costs which would be similar to recognising and measuring intangible assets at fair value. To summarise, disclosures could be less costly than recognition and measurement, especially if these are not provided on a quarterly basis, but it would depend on the specific disclosures.

With regard to commercial sensitivity, he noted that entities did not necessarily want to disclose too much information on intangibles as it could have severe adverse effects internally and externally. For example, if an entity was going to implement a new marketing plan, it could indicate a shift in the workforce, but it could also affect competitors' behaviour. Consequently, commercial sensitivity was a serious issue in terms of disclosures.

Finally, he indicated that one of his key takeaways from the meetings held with the EFRAG Advisory Panel on Intangibles was that different users had different needs. Accordingly, it was not possible for preparers to provide all the information that every user considered to be relevant. It would cause information overload and it would reduce the understandability of disclosures.





Information on future-oriented expenses

Would information on future-oriented expenses be useful for all types of intangibles? If information on future oriented expenses should be provided, should it be based on management's assessment, or should the objective be to provide additional information to help users make their own assessments?

Jeremy Stuber noted that intangible factors could be divided into two types: intangible intangibles (for example, reputation) and tangible intangibles (for example, brands).

Intangible intangibles were factors that users would not include in their invested capital calculation. They were difficult to link to historic costs. However, they were usually reflected in entities' valuations in different ways, for example through future revenue or the discount rate. The most important intangible intangibles was management trust – it was about calibrating individual confidence when meeting with entities' management. Another type of intangible intangibles was corporate culture, whether the company was cautious, for instant focused on cost-cutting, or innovative, or focused on growth; there was no right or wrong side but understanding where entities stood was important for users. Another category of intangible intangibles was employees. For this category, there was very little information in the financial reports. Users wanted to understand the business, like: who did that, in which country or how much they were paid. Having more information on employees was also important when there was an acquisition (for example, employee attrition at the different levels of the organisation). Entities often disclosed information on top level management but not on the regional leaders and people within divisions. If a company was acquired and it was subsequently realised that half of the employees were leaving the company, half of the potential intangible assets were leaving as well.

The last category of intangible intangibles was supply chain or supply concentration and what your customers think about you (customer perception). That provided insights of the entity's business model.

For factors related to intangible intangibles, users would need non-financial disclosures, though with regard to supply chain and employee information, there was an overlap with Environmental, Social and Governance ('ESG') information. In relation to the placement of this information, he opined that this information would fit in the management commentary and in the non-financial disclosures.

The tangible intangibles category contained those factors he would like to put inside his invested capital definition because they were more easily related to historic costs. It provided a much better reflection of the underlying economics of businesses and allowed users to better forecast future cash flows and value entities. He shared two examples of tangible intangibles.

The first example was the problem of the missing intangibles, the brand value. Internally generated brands were not recognised in the balance sheet while the advertising expenditures of the current year were recognised in the income statement. However, the purpose of the brand was to build an asset that allowed to charge a premium to customers, thus, it was economically an asset. If users were told the amount that companies spent on advertising, they could capitalise the amount and include it in the invested capital. This adjustment lowered the return of capital and the depiction of the quality of the business was much closer to the reality. In addition, when it comes to forecasts and the fade of return of capital, if an entity made an investment (without additional maintenance) in a non-capitalisation scenario, the return of capital would be higher at the beginning and would decrease more steeply than in a capitalisation scenario. In such scenario, the return of capital would not be as high at the beginning but the decrease would be more steady.

The second example of tangible intangibles was a growing business where performance was understated. For example, a software company that spent a significant amount of their sales in marketing to attract new customers and on R&D. Both of these expenses impacted the performance of each year. However, if all of these expenses were included in invested capital the company would look like a very good business, with a higher return on capital. Users therefore split these expenses between maintenance and growth, which enables a much better reflection of the business.

For the tangible intangibles, he considered that it would be necessary to have a better disaggregation of expenses as users did not always get sufficiently detailed information on cost of sales and marketing expenses. In addition, advertising and promotional costs were not consistently defined across companies. Ideally, there could be a full matrix where users had all these expenses by function and by nature. In addition to R&D, sales costs, marketing, investments in training and IT expenses, any expense items that had potential future-oriented value should be included as it would be useful for users to separate how much was future oriented growth and how much was maintenance.

Is it an issue that no direct information about the effectiveness of the expenses related to the future is provided? Is it an issue that expenses that are previously considered to be future oriented are not matched with the revenue they are generating in a future period?

Jean Philippe Desmartin remarked that investors were very open to different solutions, especially when referring to factors related to intangible intangibles and tangible intangibles. Having said that, he highlighted that users needed past, present and future data on intangibles. They also needed classification of intangibles (whether they fell into the R&D category, employee category…). In addition, he noted that it would be good to add some narrative in the management report in order to better understand entities' business model. Finally, with regard to the additional costs and workload that further disclosures would bring, he opined that corporates and investors could reduce financial reporting by approximately 10% or 20%. In his view some bureaucracy could be reduced, while adding a few pages on intangibles.

What are the issues with providing information on future oriented expenses and risk and opportunity factors?

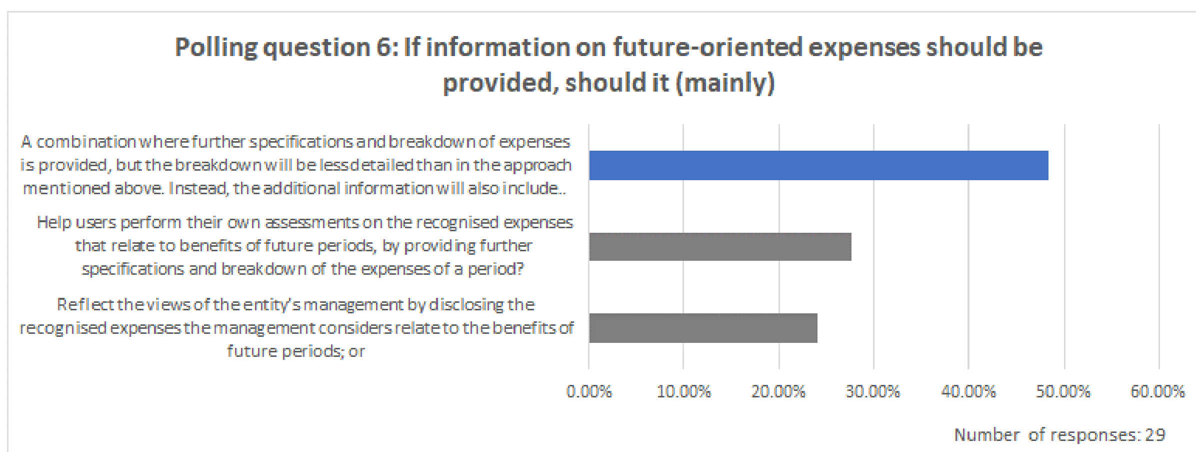
Laurine Lemon noted that she understood the need of having more information in the profit and loss account because the current guidance was very limited and what was disclosed was in a very aggregated way, though some of the disclosures (for example employee expenses) came from IFRS Standards other than IAS 38. However, entities had already established reporting procedures and changes to those procedures may have a huge impact. For example, it is industry standard that her company and other peers split P&L by function. Accordingly, all the systems were set up to report in that manner. Therefore, if they were requested to disclose expenses in a different way, they would incur a lot of costs in developing new processes as well as in investing in new systems. Nonetheless, taking into consideration technology developments, it might be less of a problem in the future.

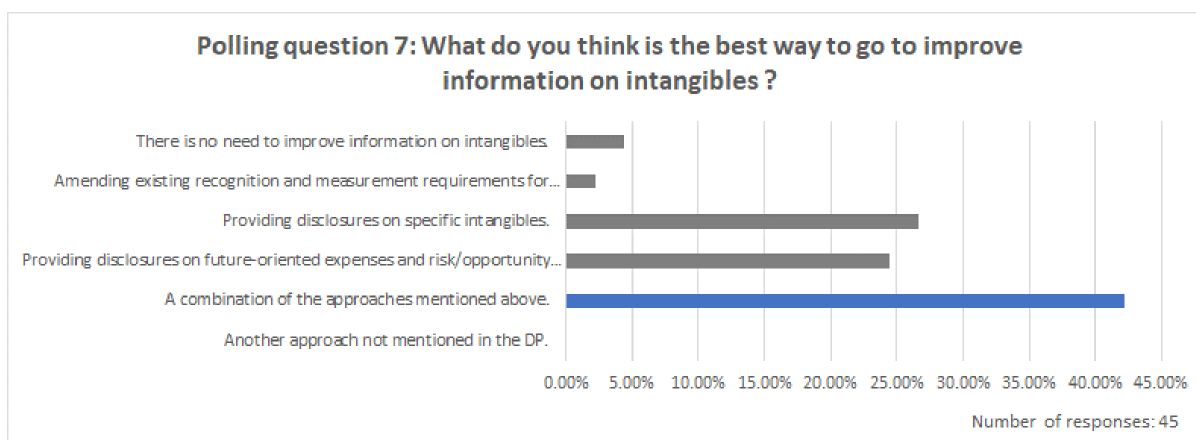
In addition, there was a practical challenge as different people may interpret the same things in a different way. For example, in the EU taxonomy, entities were required to report certain sales, OPEX and CAPEX and while sales and CAPEX had some clear references to IFRS, it was not the same with OPEX. It was very challenging for them because they had to link the definition that was provided to the information included in their systems. To do that they needed to interpret and assume many things. Thus, they needed clear definitions. She shared the view that, unless prescribed, there would be many different views on what future-oriented expenses and non-future oriented expenses were.

On top of that, there will be issues with the level of aggregation, as material amounts are composed of many immaterial amounts (they would need to compile the data), and with commercial sensitivity of the information. If disclosures were required at a detailed level, there will be some tension in what entities can disclose taking commercial sensitivity into account.

Hanno Wulbrand agreed with the issues highlighted by Laurine Lemon in relation to this kind of disclosures. He also highlighted some concerns in terms of reliability and understandability. For example, in the pharmaceutical industry, these disclosures could be misleading as entities did not always know when benefits from their R&D pipeline could be realised or whether they could be realised at all. There might also be some cases where a reduction in future oriented marketing expenses did not necessarily mean that there would be lower future sales as entities might spend the money wiser.

In addition, there was much room for management judgement as it was sometimes really difficult to make the split between expenses related to the current period and expenses related to future periods. For example, when the sales force was trying to sell products for the current period but it was also aiming at improving customer relationships which led to improvements in the trademark.





3. Audience comments and Q&A

A user noted that before EFRAG's DP was issued, the CFA Institute had surveyed CFA members and asked whether additional intangibles should be recognised. The CFA Institute had received around 800 responses and the answer was unequivocally yes. The user agreed with Marisa Mazo that investors wanted better information on cash flows, although the categorisation used in the statement of cash flows was inconsistent with the current practice because many of the things that users considered should be capitalised, were in the operating section. Therefore, she agreed that cash flows needed to be improved along with a better disaggregation of the financial statements so investors could determine how cash flows had been spent. Consequently, these projects were flagged in the CFA's comment letter to the IASB and the FASB's agenda consultation.

She would like to see intangibles disclosed and working their way towards recognition in the financial statements. There was a general consensus that the statement of financial performance would change in many instances. She understood all the measurement uncertainties and costs highlighted by preparers but at the end of the day investors were paying for all these costs. Regarding measurement uncertainties, there needed to be a change in mindset as many auditors believed that there was one right answer while investors believed that there was a range of answers. In the view of the user, there was so much that was not in the financial statements and was useful in users' analysis. Consequently, companies were not disclosing their key assets, especially in technology companies. As not all intangibles were the same, the improvements would need to begin with additional disclosures, having a consensus on the definition of intangibles, agreeing on what intangibles could be separated, identified, measured and so on.

Audience question: *The problem with recognition of organic intangibles appears to be reliability, comparability, inter-relationships and mechanisms for cost to flow through P&L. The same is the problem for acquired intangibles – for acquired brands, for example - if thresholds to recognise brands (organic) are not met, how it can be that they are met for an acquired brand? Should these be revaluated too?*

Jeremy Stuber replied that the acquired brand was often ignored in users' analysis by adding back the amortisation. If a company acquired a brand and that brand was amortised, there would also be advertising and marketing expenses to maintain the acquired brand, so there would be a double counting in the statement of profit and loss as you were amortising the acquired brand but you were also expensing your advertising for that period. If there was an impairment on a brand or a similar asset, it would not be very useful for users.

Laurine Lemon noted that from an IFRS 3 perspective entities meet the requirements to recognise an intangible as part of the purchase price allocation (PPAs). You recognised the asset in the balance sheet and the entity will have an impairment issue at some point if the acquisition is not successful but it would be the only impact. In general, the process for recording the asset as either an intangible asset or goodwill depends on the insights at the time of the acquisition and this is something that should be borne in mind when it comes to recognising more intangible assets.

Hanno Wulbrand thought there was a difference in terms of reliability between internally generated intangibles and acquired intangibles because the value of an acquired intangible was somehow backed-up by a third-party transaction. However, he agreed that there were also a couple of issues with PPAs.

Laurine Lemon pointed out that there was not an issue with finding references of values as entities would always find similar transactions or data from peers that could be put in a valuation model, However, this would be based on assumptions and today's assumptions might be different to next year assumptions.

Audience question: *Can disclosures alone meet the needs for users - and how far back should expenditures (like advertising or research) go back to show what costs have been incurred to deliver future value?*

Jeremy Stuber noted that users would need the disaggregation of expenses which would be a mixture of growth and maintenance expenses, the timeline between the expenditure and the benefit and the economic life of the assets. With regard to how far back we should go, that would be the sum of usual economic life of the asset and the expected timeline between the expenditure and the benefit. In general terms, five years would cover many of these intangibles, but it may be longer in certain industries. He pointed out that this would be the ideal information, but users would manage just with the disaggregation of expenses.

Laurine Lemon noted that it would be very difficult for users to develop their own assessments without having access to the internal details.

Audience question: *Do the users think that there could be differences in views on whether additional intangibles should be recognised based on user background e.g., would there be differences between credit providers and equity investors and differences between professional investors and less professional investors?*

Marisa Mazo indicated that equity analysts were the investors that usually asked for more information because their exposure towards risk was higher than for other types of users who usually required less information. On top of that, each user had its own view to analyse a company and might have different information needs. The problem was that management needed to fulfil the information needs of all users with a single financial report.

Serge Pattyn noted that it would be difficult for standard setters to develop different frameworks for different type of users. Therefore, it would be necessary to strike a balance.

A user noted that the CFA Institute had a wide range of users. Therefore, they always informed their position based on the user with the most information needs because if those users have the financial information they need, everyone else in the stream would have the necessary information to make informed decisions.

Audience question: *Do you think that digitalisation reduces the need to worry about information overload on intangibles?*

Laurine Lemon noted that digitalisation was very important and that current developments allowed to provide more information and timely information which led to better disclosures. However, people tended to forget that there were legacy systems that you needed to work with. If you worked in a multinational company that had an acquiring strategy you may have a lot of different systems that you needed to migrate. Digitalisation developments would allow entities to make much more in terms of external and internal reporting as better information meant better steering and monitoring and less dependency on financial reporting people. She hoped that current limitations would be less in the future though they would not be able to provide all the information that users wanted because there were economic restrictions.

A user indicated that Investors wanted everything, and everything was very expensive to provide but in the user's view the analysis needed to be more refined. From the commercial sensitivity perspective, investors did not want entities to disclose commercially sensitive information that could reduce the value of the company or to disclose the business model when it would be considered harmful, but they wanted enough information to make an informed analysis. Some of the ESG discussions were about disclosures that the financial statements did not provide like human capital or climate. She observed that people were going outside of the financial statements because it was not possible to include this narrative in the financial statements but this should be possible.

Audience question: *I hear arguments we have heard before against recognition and measurement that seem to be a call to abandon accrual accounting and return to pure cash accounting. And yet a key principle of financial accounting is that management have access to better information than external parties and the value of financial statements is to make visible that internal "knowledge". Is the actual problem that users don't trust management?*

Jean Philippe Desmartin thought that it was not a matter of trust but a matter of understanding whether or not entities managed internally generated intangibles (client satisfaction, engagement with employees, future investments in IT..) and whether these were managed in a good way.

Jeremy Stuber agreed that not trusting management was not an issue. He indicated that the problem was that he did not have enough information to capitalise intangibles, and this was why he would like to have the disaggregation of expenses to differentiate between maintenance and growth.

A user added that although the CFA Institute was in favor of accrual accounting, they wanted better information on cash flows and disaggregated expenses. In the view of the user, users judged management's behaviors (whether they were conservative, aggressive, crosscutting, investment oriented…) and after making that assessment, they assessed - every time that they obtained a new set of financial statements - whether what was happening in the period related to what management said about the future outlook in the previous periods. In her view, it was not about trust, but about having enough transparency to see a sufficient level of disaggregation.

4. Closing of the event

Javier de Frutos identified the main messages heard during the webinar. He pointed out that on the three aspects that were discussed (recognition and measurement, disclosures and future-oriented expenses) the same issue, which was disclosures, came across. In his view, it was a matter of how the information was provided, the quality of the information and materiality. In addition, he highlighted the cohesion between the cash flows and the financial statements and the intangible intangibles and tangible intangibles approach suggested by Jeremy Stuber. This approach reflected the way analysts valued not only management but corporate culture and many other things around entities.

He also relayed the comment from preparers that they would incur additional costs in providing new information, but in his view, this was not about how much companies were reporting but about what they were reporting. Regarding recognition, he noticed that there were two sides: one that rooted for more recognition and another which did not look for additional recognition but for better information on cash flows. Finally, he noted that users were interested in the value that entities put on acquired intangibles even if they ended up making some adjustments. This would imply having additional disaggregated information.