

EFRAG SURVEY ON ITS DISCUSSION PAPER: BETTER INFORMATION ON INTANGIBLES – WHICH IS THE BEST WAY TO GO?

Overview

EFRAG's Discussion Paper *Better Information on Intangibles - Which is the best way to go?* presents different approaches to better information on intangibles. The Discussion Paper was published in August 2021 and is open for comments until 30 June 2022. The feedback on the questions included in the Discussion Paper can be provided in writing or by completing this survey.

The survey consists of six separate sections. The first two sections are concerned with general information and introductory questions. The third, fourth and fifth section each consist of different questions concerning the three approaches identified in EFRAG's discussion paper, which are:

- Recognition and measurement of intangibles in the primary financial statements (see [Chapter 3](#) of the Discussion Paper);
- Providing information on specific intangibles in the notes to the financial statements or in the management report (see [Chapter 4](#) of the Discussion Paper); and
- Providing information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report (see [Chapter 5](#) of the Discussion Paper).

The final section of the survey contains questions regarding additional considerations in relation to these approaches.

Completion of the survey can be stopped and resumed at a later point in time if necessary. In order to ensure that you can resume the survey please provide your email address in the section for general information.

Additional background information on the Discussion Paper can be accessed [here](#). The survey can only be completed as or after the Discussion Paper has been read.

In the following sections, the survey makes reference to EFRAG's Discussion Paper by using the term 'the DP'.

If you have any questions or suggestions, please do not hesitate to contact us by writing to Intangibles@EFRAG.org.

Survey questions

- Multiple choices are possible
- Single choice available
- * Mandatory field

General Information

In this first section, we would like you to provide some general information.

Please provide your:

First name: * _____

Last name: * _____

Profession:

- Academic
- Accounting firm, professional organisation or body of accountants, auditor
- Association of preparers
- Regulator
- Standard-setter
- User, investor, analyst
- Other: _____

Role in your organisation: _____

Name of your organisation: _____

Industry of your organisation: _____

Country where you are located: _____

Your email address: _____

Can we contact you in case of any follow-up questions?

- Yes, I want to be contacted.
- No, I do not want to be contacted.

Please note that your comments (except for your email address and whether you can be contacted) will be posted on EFRAG's website unless you request confidentiality. Such requests will not normally be granted unless supported by good reasons, for example, that the information that you provide is commercially sensitive. Please see our website for details on this and how we use your personal data [here](#).

If you want to request confidentiality, please indicate this below and provide your reason. Otherwise, please skip the next question.

Do you want to request confidentiality?

- I want to request confidentiality

Please provide your reason for requesting confidentiality:

Introduction

EFRAG's commissioned literature review, published in February 2020, identified academic studies showing that the value relevance of financial statements is decreasing and that this could be due to financial statements not reflecting information about intangibles, which has become more important for more entities than previously. Insufficient information on intangibles could affect the company's market value due to information asymmetry, result in an inefficient capital allocation in society and make assessment of the management's stewardship difficult.

In the following section we would like you to identify current issues with intangibles in financial reporting.

Q1 - Issues with the current information:

[Chapter 2](#) of the DP summarises issues put forward with current information on intangibles.

Q1.1: Which of the following issues with the current information on intangibles do you consider relevant and valid?

- Financial statements do not reflect the underpinning drivers of value for intangible intensive businesses;
- Performance measures are distorted since return on assets ratios do not provide useful information as the 'assets' part is not properly reflected;
- Performance measures are distorted as costs incurred to build an intangible are not capitalised, income of a period is therefore not correctly matched with the related expenses;
- Performance measures are distorted since the statement of performance is 'hit twice' in the same period if an entity acquires an intangible asset (which is capitalised and amortised) and replaces this over time with an internally generated asset which cannot be recognised and for which the costs are therefore recognised in the financial statement at the same time as the amortisation costs of the acquired intangible assets;
- Comparability is adversely affected as most intangible assets are not recognised if they are internally generated, but they are recognised if they are acquired;
- Comparability is adversely affected as intangible assets acquired outside a business combination are only recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. For intangible assets acquired in a business combination these criteria are always considered to be met; and/or
- Information (also narrative information) on intangibles is difficult to compare and use as the boundaries between different intangibles are not (well) defined and are interpreted differently.

Please explain your view:

Q1.2: Are you aware of additional issues with the current information on intangibles that are not listed?

- Yes
- No

Follow up question for 'Yes': **Please explain what these issues are:**

Q2 – Which way to go?

Chapters 3, 4 and 5 of the DP present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles.

For further background information please see [ES4-ES8](#) of the DP.

Q2.1: Do you think there is room for improvement regarding information on intangibles in financial reporting?

- Yes
- No

Follow up question for 'No' in Q2.1: **Please explain:**

Q2.1.1: Follow up question for 'Yes' in Q2.1: **Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs?**

- Yes
- No

Follow up question for 'Yes' in Q2.1.1: **Please describe such a combination:**

Follow up question for 'No' in Q2.1.1: **If you do not think the different approaches described in the DP could be combined in a manner that would meet (most of) the needs of users - which of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles?**

- Amending existing recognition and measurement requirements for intangibles (see the details in Chapter 3 of the DP);
- Providing disclosures on specific intangibles (see Chapter 4 of the DP);
- Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance (see Chapter 5 of the DP); or
- An approach other than those described in Chapters 3, 4 and 5 of the DP. Please describe such an approach:

The following three sections include more specific questions regarding the three different approaches outlined in EFRAG's DP.

Please indicate whether you want to provide input on all three accounting approaches or not:

- I only want to provide comments on one or two of the three approaches.
- I want to provide comments on all three approaches.

Follow up question for 'I only want to provide comments on one or two of the three approaches': **If you do not want to comment on all of the three approaches, please select to which of the three approaches you want to give input (please note that more than one choice is available):**

- Recognition and measurement of intangibles in the primary financial statements (see Chapter 3 of the DP);
- Providing information on specific intangibles in the notes to the financial statements or in the management report (see Chapter 4 of the DP); and/or
- Providing information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report (see Chapter 5 of the DP).

Recognition and Measurement

Q3 – Recognition

[Chapter 3](#) of the DP considers whether and how internally generated intangibles could be recognised and measured in the financial statements and the benefits and limitations of the proposed approaches. In doing so, consideration is being given to the asset recognition in the statement of financial position but also to the effects in the statement of financial performance.

For further background information please see [ES9-ES15](#) of the DP.

Q3.1: Do you consider that IAS 38 *Intangible Assets* should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)?

- Yes
- No

Please explain:

[Paragraph 3.26](#) of the DP explains that IAS 38 *Intangible Assets* currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing.

Q3.1.1: Follow up question for ‘Yes’ in Q3.1: Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed?

- Yes
- No

Please explain:

[Paragraphs 3.10 to 3.71](#) of the DP explore four possible approaches regarding the recognition of internally generated intangibles.

Q3.1.2: Follow up question for 'Yes' in Q3.1: **Which of the following approaches would you prefer?**

- Recognise (as an asset) all defined intangibles; with no specified thresholds or conditions (see paragraphs 3.15 - 3.35 of the DP);
- Threshold for recognition of an asset (see paragraphs 3.36 - 3.48 of the DP);
- Conditional recognition of an asset (see paragraphs 3.49 - 3.59 of the DP);
- No recognition (that is, expensing all internally generated intangibles) (see paragraphs 3.60 - 3.67 of the DP); or
- An approach other than those described in the DP.

Q3.1.2a: Follow up question for 'Recognise (as an asset) all defined intangibles; with no specified thresholds or conditions' and 'No recognition (that is, expensing all internally generated intangibles)' in Q3.1.2: **Please explain your preference for the selected approach:**

Q3.1.2b: Follow up question for 'An approach other than those described in the DP' in Q3.1.2: **Please describe such an approach:**

Q3.1.2c: Follow up question for 'Conditional recognition of an asset' in Q3.1.2: **Which specific approach would you prefer?**

- Costs are expensed in profit and loss until the condition is met;
- Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed; or
- Costs are expensed in other comprehensive income until the condition is met, at which point in time the expenses are 'recycled' and capitalised.

Please explain your preference for this conditional recognition approach:

Q3.1.2d: Follow up question for 'Conditional recognition of an asset' and 'Threshold for recognition of an asset' in Q3.1.2: **Which criteria would you consider for recognition?**

- Criteria based on the level of (un)certainly about the outcome of the intangibles (that is, the probability of expected benefit and the pattern of consumption of these future benefits);
- Criteria based on the identifiability of the expenditure related to the intangibles;
- Criteria based on the technical or commercial feasibility of the intangibles considered at inception of the development;
- Criteria based on separability of the assets, that is, the existence of a legal right and/or the ability to sell, transfer, licence or pledge the asset;
- All or a combination of the above depending on the nature of the intangibles (essay field; "Please explain such a combination"); and/or
- Other criteria than those described in the DP. Please describe these criteria:

Please explain your preference for this/these recognition criteria:

Q4 – Possible measurement bases

[Paragraphs 3.72 to 3.100](#) of the DP consider possible measurement bases for internally generated intangibles without suggesting a preferred approach.

Q4.1: Which of the following measurement approaches suggested in the DP would you support?

- Initial and subsequent measurement at cost with amortization and impairment ('Cost model');
- Initial measurement at cost and subsequent measurement at fair value ('Revaluation model');
- Initial and subsequent measurement at fair value ('Fair value model'); and/or
- Initial measurement at fair value (as deemed cost) and subsequent measurement at cost with amortization and impairment ('IFRS 3 model').

Please explain your selection:

Information relating to specific intangibles

Q5 – Information relating to specific intangibles

[Chapter 4](#) of the DP discusses an approach under which information on specific intangibles, that are key to an entity's business model, is provided to help users assess the contribution of the intangible to the value of the entity.

For further background information please see [ES16-ES20](#) of the DP.

Q5.1: To the extent that information relating to specific intangibles should be provided - do you agree that the information should be limited to the intangibles that are key to an entity's business model?

- Yes
- No (essay field; 'Please explain')

Follow up question for 'No' in Q5.1: **Please explain:**

Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information.

Q5.2: Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?

- Yes, disclosure of quantitative and qualitative information is more helpful.
- No, disclosure of fair value is more helpful.

Please explain:

Q5.3: Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 of the DP compared to recognition and measurement (see Chapter 3 of the DP) and information on future-oriented expenses (see Chapter 5 of the DP)?

A table with the advantages and disadvantages identified in the DP can be accessed [here](#).

- Yes, I agree with the advantages and disadvantages.
- No, I do not agree with the advantages and disadvantages.

Follow up question for 'No' in Q5.3: **Please explain which aspects you disagree with:**

Q5.4.: Do you have identified additional advantages and disadvantages that should be included?

- Yes
- No

Follow up question for 'Yes' in Q5.4: **Which additional advantages/disadvantages should be added?**

Information on future-oriented expenses

Q6 – Information on future-oriented expenses

[Chapter 5](#) of the DP proposes various elements of information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses').

For further background information please see [ES21-ES24](#) of the DP.

Q6.1: Do you consider that requiring such information could be useful?

- Yes
- No

Follow up question for 'No' in Q6.1: **Why is the information not useful?**

Q6.1.1: Follow up question for 'Yes' in Q6.1: **Should the information mainly complement information on specific intangibles (see Chapter 4 of the DP) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?**

- Information should mainly complement information on specific intangibles.
- Requirements on future-oriented expenses should be introduced instead of requirements on information on specific intangibles.

Please explain:

Q6.1.2: Follow up question for 'Yes' in Q6.1: **Should the information mainly:**

- Reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods; or
- Help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period?

Please explain:

Q6.1.3: Follow up question for 'Yes' in Q6.1: **Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5 of the DP?**

A table with the advantages and disadvantages identified in the DP can be accessed [here](#).

- Yes, I agree with the identified advantages and disadvantages.
- No, I do not agree with the advantages and disadvantages.

Follow up question for 'No, I do not agree with the advantages and disadvantages.' in Q6.1.3: **Please explain which aspects you disagree with:**

Q6.1.4: Follow up question for 'Yes' in Q6.1: **Do you have identified additional advantages and disadvantages that should be included?**

- Yes
- No

Follow up question for 'Yes' in Q6.1.4: **Which additional advantages/disadvantages do you have identified?**

Q7 – Information on risk/opportunity factors affecting intangibles

[Chapter 5](#) (paragraphs 5.28 to 5.32) of the DP proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPI's used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.

Q7.1: Do you agree with this proposal?

- Yes, I agree.
- No, I disagree.

Follow up question for 'No, I disagree' in Q7.1: **Please explain what information on risk/opportunity factors affecting intangibles should be provided instead:**

Additional considerations

Q8 – Issues to be considered

[Chapter 6](#) of the DP discusses challenges and issues to be considered when finding a manner to provide better information on intangibles. It mentions that it could be beneficial to introduce a common terminology on intangibles and that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive.

For further background information please see [ES25](#) of the DP.

Q8.1: Do you consider that it would be useful to introduce a common terminology on intangibles?

- Yes
- No

Please explain:

Q8.2: Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?

- Yes
- No

Please explain:

There are several issues on providing better information on intangibles listed in Chapter 6 of the DP:

- Terminology (see paragraph 6.5 to 6.6)
- Sensitivity of the information provided (see paragraph 6.7)
- Placement of information (see paragraphs 6.8 to 6.13)
- Relevant and comparable information (see paragraph 6.14)
- Potential effects on the ability to receive finance (see paragraph 6.15)
- Removal of some of the current requirements (see paragraph 6.16)

Q8.3: Do you think there are additional issues that should be taken into account when considering how to provide better information on intangibles?

- Yes, there are additional issues.
- No

Follow up question for 'Yes, there are additional issues.' in Q8.3: **Which issues?**

Q9 – Placement of the information

[Chapter 6](#) (paragraphs 6.8 to 6.13) of the DP presents an approach under which information discussed in Chapter 4 and Chapter 5 of the DP would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

Q9.1: Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 of the DP should be placed? Do you think all of the information should be placed in the same section or in different sections of the financial report and why?
