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Better Information on Intangibles

Academic Literature Review

Cover Note

Objective

- 1 At its 17 September 2019 meeting, EFRAG TEG received a presentation of a draft version of a commissioned academic literature review on intangibles and considered the review's preliminary conclusions. At the meeting, EFRAG TEG concluded that it would be useful to have an additional session to understand the literature review.
- 2 The EFRAG Secretariat circulated the latest draft of the literature review on 20 November 2019 and asked for EFRAG TEG member's questions. The purpose of this session is accordingly to receive the answers to these questions from the authors of the literature review.

Background

Objective and Scope of the Project

- 3 The aims of the EFRAG research project *Better Information on Intangibles*, as discussed in July 2019 by EFRAG TEG, are:
 - (a) to explain how entities, report on creating, maintaining and/or improving their value;
 - (b) to explain how users, consume information on creating, maintaining and/or improving value, and the extent to which current reporting addresses their needs; and
 - (c) to provide suggestions on how information on creating, maintaining and/or improving value can be provided in financial reports in a manner that is useful for decisions on providing resources to the entity.
- 4 It was specified that the research project should not focus on how to make the book value of an entity and the entity's market capitalisation equal. However, the possible solutions may include amending IAS 38 *Intangible Assets*. At this stage, the research project will not focus on debating recognition and measurement versus disclosure. This may be considered in a later phase.
- 5 At the September 2019 EFRAG TEG meeting, members supported focusing the research on specific industries, rather than specific types of intangibles, and to follow a two-step approach, with a first assessment on more developed industries (i.e. more "intangible-intensive" industries) and then testing the solutions on less developed industries.

Academic Literature Review

- 6 At its 17 September 2019 meeting, EFRAG TEG discussed the draft academic literature review commissioned by EFRAG. The study was intended to review literature that would be useful for understanding:
 - (a) intangibles from a macro perspective;
 - (b) unrecognised intangibles and their impact on the value relevance of financial reporting;
 - (c) specific unrecognised intangibles and their impact on entity performance, market value, and the information's impact on users;
 - (d) intangibles and intellectual capital and their effects on entity performance, market value and the information's impact on users; and
 - (e) frameworks and models for measuring and reporting on intangibles and their consequences on entity performance, market value and impact on users.
- 7 The literature review includes literature regarding how information on intangibles affects the decisions of users of financial statements. The literature review focuses on the results (including limitations in generalisation of the results) and is written in a manner that would be understandable for non-academics.
- 8 The EFRAG TEG members welcomed the academic literature review and provided some comments.
- 9 The first draft of the literature review was also reviewed by members of EFRAG Academic Panel. Their comments have been addressed by the academic team.
- 10 The final version of the literature review is expected to be published in the following months.

Agenda Papers

- 11 In addition to this cover note the following agenda papers have been provided for this session:
 - (a) Agenda paper 09-02 Zambon et al – Executive summary of an academic literature review on reporting on intangibles – 19-12-05;
 - (b) Agenda paper 09-03 Zambon et al – A Literature Review on Intangibles – latest version – 19-12-05 (for background only); and
 - (c) Agenda paper 09-04 Discussions on intangibles in relation to the IASB 2020 Agenda Consultation – 19-12-05 (update paper for background).