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EFRAG Research Project Better Information on Intangibles Assets Cover Note

Objective

- 1 The objective of this session is to provide an update on the EFRAG research project *Better Information on Intangible Assets* to the EFRAG TEG and EFRAG User Panel members and to collect their views about the project plan and the timeline of the EFRAG research project.

Background

- 2 During the discussion regarding 2018 EFRAG Research Agenda Consultation, the EFRAG Board considered that:
 - (a) accounting for intangible assets has gained prominence in the past few decades due to changes in the business environment; and
 - (b) it is debated whether IFRS-based financial reports provide a full picture (i.e. relevant and consistent) of the value drivers of businesses.
- 3 In August 2018, following the input received from constituents in response to the EFRAG Research Agenda Consultation, the EFRAG Board decided to add a research project on better information on intangible assets to EFRAG's research agenda. The following project aims were identified:
 - (a) To address some aspects in relation to internally-generated intangibles assets. The aspects that may be considered include a categorisation and description of the different types of assets (marketing, technological, social, reputational or human capital) and how their different features are relevant in terms of financial reporting.
 - (b) To investigate how to consider uncertainties that exist both in relation to the entity's ability to access future benefits and their amount and timing; this includes, for example, considering the ability of competitors to duplicate the entity's resource, barriers for usage and spillovers.
 - (c) To develop metrics to express earning potential and value through measurement or disclosures.
- 4 The purpose of the research project is not to consider how the book value of an entity could equal the entity's market capitalisation.
- 5 To reach the objectives and to obtain a better understand of the issue, the EFRAG Secretariat:
 - (a) has selected an academic team to conduct a literature review, that is expected to be finalised by Q3 2019; and

- (b) has conducted interviews to collect the information and opinions on current practises and eventual solutions or ways forward.
- 6 The interviews revealed mixed views of users, preparers, auditors, valuers, and standard setters' staff and a range of possible changes to the practice. *Agenda paper 06-02* provides the summary of the interviews to help EFRAG TEG and User Panel members in the discussion.
- 7 Initially, the focus of the project will not be to debate recognition and measurement versus disclosure in the notes. This may be considered at a later stage.
- 8 Firstly, EFRAG Secretariat will consider the entire population of assets that would meet the definition of intangible assets under IFRS. At a later phase, we may consider limiting the scope of differentiating requirements for different types of intangibles.
- 9 Moreover, the EFRAG Secretariat will not specifically focus on the initial recognition and measurement of intangible assets in business combinations.

Project plan

- 10 To address the aim described above and analyse the user's information needs, the research project will be approached in four phases. The EFRAG TEG will be regularly updated on the status and consulted to recommend further activities.
 - (a) *Problem Description*: performing activities which will result in gathering information in order to formally define and describe the problem. The activities will include:
 - (i) considering recent articles and publication provided by Know global business, economic, and accounting networks, publishers, and advisers;
 - (ii) collecting quantitative data relevant for intangible assets financial analyses and check the increase in intangibles assets relevance; and
 - (iii) conducting interviews to collect information on practises from users of financial statements, contacting individuals and organisations that would have the specific knowledge concerning development of, and the risks associated with the benefits obtained from, intangible assets.
 - (b) *Literature Review*: performing a qualitative analysis based on relevant academic papers with the selected academic team, mentioned in the Background of the project.
 - (c) *Key Information Solution*: researching for possible solutions to the defined problems, what may include:
 - (i) categorising and describing the different types of assets and how their different features are relevant in terms of financial reporting. The categorisation may be based on the nature of the intangible (marketing, technological, social, reputational, or human capital), the industry or some other criterion; and
 - (ii) developing key indicators to express earnings potential and value. These may not fit as a measurement basis but could be used to disclose information in the notes.
 - (d) *Testing*: testing the identified solutions on different companies, including, if possible, the tests with the European Corporate Reporting Lab.

Involvement of other parties

11 The EFRAG Secretariat are contacting individuals and organizations with specific knowledge regarding the topic to collaborate and, if possible, to join the forces in developing some phases of the project. Additionally, some National Standards Setters have given indication that they are interested in our research project. The EFRAG Secretariat will consider contacting and collaborating with them.

Proposed timetable

12 The table below illustrates an indicative timetable for the project. Tentatively, the EFRAG Secretariat estimates that Problem Description phase should be finalised by the end of 2019, what would include drafting a discussion paper. The literature review is expected to be finalised by Q3 2019. Key Information Solution phase will take approximately 12 months and testing phase will take approximately 9 months.

13 The work process will be partially iterative.

Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Problem Description							
Literature Review							
		Key Information Solution					
				Testing			

Questions for EFRAG TEG

14 Do EFRAG TEG/User Panel members have comments on the proposed process?

Agenda Papers

15 In addition to this cover note, agenda paper 06-02 – *Issues paper - Users Information Needs on Intangibles Assets* has been provided for the session.