

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG's research on Better Information on Intangibles Cover Note

Objective

- 1 As part of EFRAG's research project on Better Information on Intangibles, it is planned to issue a paper describing the issues with information on intangibles that is currently provided in financial statements, in the notes to the financial statements and in the management commentary.
- 2 The objective of this session is to seek views from EFRAG TEG on the issues identified by the EFRAG Secretariat and ask EFRAG TEG if it considers that additional issues should be considered.

Objective of the project

- 3 The objectives of the EFRAG research project on intangibles are to:
 - (a) explain how entities, report on creating, maintaining and/or improving their value;
 - (b) explain how users, consume information on creating, maintaining and/or improving value, and the extent to which current financial reporting addresses their needs; and
 - (c) 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 In considering how an entity creates, maintains and improve its value, the project will focus on information on the entity's key intangibles. 'Intangibles' is to be consider broader than 'intangible assets' as it, for example, will include resources that are not controlled by the entity.

Project scope

- 5 In April 2019, EFRAG TEG and User Panel members received an update on the project regarding the interviews conducted by the EFRAG Secretariat. Members concurred that providing information on how companies create and sustain long-term value, and providing more information on future cash flows, would be useful. They also agreed that the Project should not attempt to fill the gap between the company's equity book value and its market capitalisation.

- 6 At its September 2019 meeting, EFRAG TEG further clarified that the research:
- (a) should focus on financial reporting and consider the financial aspects of value creation and the needs for the primary users of financial statements and management commentary, opposed to the creation of value to other stakeholders such as employees, environment and community/society (broader corporate reporting);
 - (b) should consider recognition and measurement of assets in financial statements, narrative information in the notes to the financial statements and in the management commentary, reporting measures of value, including drivers of value creation and risk (e.g. customer attrition rates), disaggregation of expenses, or other performance measures;
 - (c) should aim to identify 'solutions' and good practices that would improve reporting on intangibles and better enable users to do their own assessments of intangibles; and
 - (d) should start by focusing on specific industries, rather than specific types of intangibles, covering more "intangible-intensive" industries, develop solutions and then consider if identified principles can be applied more broadly.
- 7 At its March 2020 joint meeting, EFRAG TEG and User Panel members discussed how to foster and optimise engagement with relevant stakeholders. Some EFRAG User Panel and EFRAG TEG members reiterated their view that the project was right in looking holistically at better information on how entities report on creating, maintaining and/or improving value rather than focusing only on the debate about capitalisation of expenses. They recommended providing more information in the financial report or management commentary as for example KPIs.

Advisory Panel on Intangibles

- 8 The composition of the EFRAG Advisory Panel on Intangibles (the 'API') was approved in early March 2020 and the API, which is composed of users, preparers and valuation professionals, will have a webcast/conference call meeting for the first time on 27 March 2020.
- 9 As a reminder, the aim of the API is to support EFRAG TEG by providing input to the EFRAG research project on Better Information on Intangibles. It operates as discussion forum of users (including valuers) and preparers, ensuring that both their perspectives are properly taken into account, in order to
- (a) Identify and discuss examples of good practices in reporting on intangibles, how entities report on how they create, maintain and enhance value;
 - (b) Discuss what information about intangibles is useful for primary users;
 - (c) Investigate possible improvements to the current requirements for accounting on intangibles under IFRS Standards;
 - (d) Test practical ideas about existing and proposed reporting practices.
- 10 At the first API meeting, members will receive background information of EFRAG (its governance and activities including relationship with EFRAG TEG and methods of working) and of the project (scope, status, timetable, project journey/ work plan and milestones). In addition, they will do a *tour de table* to introduce themselves and will present examples of (good) practice on how they report/consume information on intangibles.

Project deliverables and timeline

- 11 At this stage, it is expected that the project deliverables will include:
- (a) *First Discussion Paper*: A paper on problem identification providing a review of perceived issues with the information on intangibles in financial reports. Agenda paper 08-02 provides an outline of the issues identified. Publication is expected to occur in H2 2020. It is not planned to hold a public consultation on this paper.
 - (b) *Second Discussion Paper*: A discussion paper on possible solutions in 2021. This paper will incorporate the feedback of the newly formed API on the identified solutions. Stakeholders would provide their input on the proposed possible solutions in the consultation to this DP.
- 12 EFRAG's research also provides an opportunity to gather input and insight that could be useful in responding to; and influencing future decisions on:
- (a) the forthcoming consultation on the revision of the Management Commentary Practice Statement (expected over H2 2020);
 - (b) the IASB 2020 Agenda Consultation (in particular regarding the need for an IASB project on intangibles and its possible areas of focus).

Questions for EFRAG TEG

- 13 Do EFRAG TEG members have comments or suggestion on the project background or timeline?

Agenda Papers

- 14 In addition to this cover note, agenda paper 08-02 – *Issues Paper Contents of the first discussion paper: identification of issues* has been prepared for the session.