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## Recommendations for better information on intangibles Issues Paper

### Objective

- 1 The objective of this paper is to ask for comments of EFRAG SR TEG and EFRAG FR TEG on the main recommendations resulting from the input received in response to EFRAG's Discussion Paper *Better information on intangibles – Which is the best way to go?* (the 'DP'). That is, recommendations on how to get better information on intangibles for the primary users of financial reports.

### Recommendations

- 2 Based on the input received in response to the DP and the initial discussion of this input by the EFRAG FR TEG at its 9 November 2023 meeting, the EFRAG Secretariat suggests the following main recommendations:
  - (a) As intangibles are different, all of the main approaches considered in the DP should be used to achieve better information on intangibles used in the entity's operation. The various approaches apply to the following types of intangibles:
    - (i) For intangibles meeting the definition of an asset included in the Conceptual Framework for Financial Reporting, resulting from an investment and which would meet certain recognition criteria, the recognition and measurement approach would apply. The requirements for when to recognise an intangible asset included in IAS 38 *Intangible Assets* should be updated and become more principles based. Also, certain concepts like 'control' should be further developed with the view on how to apply the concept for intangible assets. The changes should not result in many additional internally generated intangibles assets being recognised. It would thus still be needed to consider recognition criteria. The additional internally generated intangible assets that the IASB could consider should be recognised would include additional R&D projects (here the criteria for recognition might have to be amended to reflect how such projects are carried out) and internally developed software and IT. Measurement of recognised intangible assets used in the entity's operation should generally be based on cost. However, the IASB should consider a 'conditional recognition' approach under which intangible assets would be recognised at their 'full cost' and not only cost incurred after criteria for recognition are met. For recognition and measurement, a normal materiality threshold would apply.
    - (ii) For unrecognised intangibles resulting from an investment (both those meeting the definition of an asset and those that do not), the information on future-oriented expenses approach would apply. The information should be provided applying a normal materiality threshold and in a

manner that would not disclose information that is (very) commercially sensitive. Based on the input received, it is not possible to conclude whether the information should reflect what expenses the management assesses relates to future periods, allow users to make their own assessments by providing more granular information on the expenses recognised in a period or be a combination of the two methods.

- (iii) For all types of intangibles that are key to an entity's business model, the information on specific intangibles approach would apply. The information would supplement recognition and measurement and information on expenses. It would also be the only manner to provide information on intangibles that are not a result of a direct investment. Information on specific intangibles should be limited to those intangibles that are key to an entity's business model and should be provided in a manner that would not result in (very) commercially sensitive information being disclosed. The information should be linked with financial performance.
  - (iv) For all types of intangibles, information on risks and opportunities should be provided to the extent that the information is material for the primary users of financial reports and specific to the entity.
- (b) Amendments to current requirements should take place when the benefits would exceed the costs.
  - (c) To improve the information on intangibles in the medium term rather than in the very long term, EFRAG recommends the IASB to apply a phased approach under which the IASB can introduce stepwise improvements.
  - (d) To improve corporate reporting on intangibles, the efforts in the standard-setting of both financial reporting and sustainability reporting should be coordinated to ensure the information required under the two regimes would be complementary and not overlapping. This also means that the placement of information should be considered and, particularly, the scope of intangibles that would be addressed in financial statements and the notes should be clarified. For instance, the scope should clarify whether to include the information on intangibles that meet the definition of an asset, in financial statements, or, for example, only information on recognised intangible assets.

**Question for EFRAG FR TEG and EFRAG SR TEG**

- 3 Does EFRAG FR TEG and EFRAG SR TEG have any comments on the main recommendations listed in paragraph 2 resulting from the input received in response to the DP?