AcSB
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Submitted electronically via www.efrag.org

EFRAG
35 Square de Meeûs
B-1000 Brussels
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Dear EFRAG members,

Re: Better Information on Intangibles (DP/2021/8)

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the European Financial Reporting Advisory Group (EFRAG) Discussion Paper, "Better Information on Intangibles" issued in August 2021.

The views expressed in this response letter do not represent the views of the Canadian Accounting Standards Board. Views of the Canadian Accounting Standards Board are only developed through due process.

Consultations and outreach performed

As part of informing our response for this Discussion Paper, we consulted with our User Advisory Committee. We took the results of these discussions into account when developing this letter.

Our view

We strongly support EFRAG's proactive approach to influence future standard setting activities associated with the accounting for intangible assets. A 2019 study by the Public Policy Forum estimated that approximately 70% of the value of the Toronto Stock Exchange consisted of intangible assets. This percentage is even higher for markets outside of Canada, such as the U.S. where the same share for the S&P 500 is 91 per cent.[1] The accelerated shift towards ecommerce during the pandemic has increased the prevalence and importance of intangibles to the Canadian and global economies. However, accounting standards applicable to intangibles have not yet been updated to reflect the accelerated growth in intangibles, thus increasing the risk of financial statements becoming less relevant in the face of evolving stakeholder information needs. We commend EFRAG for recognizing this opportunity to explore how to provide stakeholders with better information on

[1] Sean Speer and Robert Asselin., 2019. A New North Star: Canadian Competitiveness in an Intangibles Economy. https://ca.rbcwealthmanagement.com/documents/1478023/1478039/New+North+Star-EN.pd.pdf/47c3d0cf-95ce-4b1a-9ae0-04f8a2817c7d

intangibles and for stimulating continued dialogue among accounting standard setters and stakeholders on this topic.

Recognition of intangibles

Information about intangible assets and an entity's other value creation activities is important to users because it provides insight into an entity's ability to generate future profits and cash flows. There is a broad range of intangibles that may influence an entity's value creation activities and the nature of these intangibles may differ in relation to how they create value for an entity. For example, the nature of customer lists and how they create value are different from the entity's work force or its reputation. Furthermore, some intangibles are eligible for recognition when acquired separately or as part of a business combination but not when these intangibles are internally generated. This creates a financial reporting discrepancy between entities that choose to grow organically compared to those that grow through acquisitions.

Members of our User Advisory Committee indicated a preference for internally generated intangibles that are more distinctly observable, subject to greater control and easier to measure such as software, patents and databases to be eligible for recognition. An entity already recognizes many of these intangibles when acquired from a third party so this would allow for greater comparability whether entities choose to grow organically or through acquisitions. However, there was less support expressed for the recognition of intangibles that are more challenging to demonstrate an entity's control over, subject to significant measurement uncertainty and that may have less distinct boundaries. For example, an entity's reputation may be so integrated into its existing operations that it would be challenging to isolate the value of an entity's reputation as a separate intangible asset.

Therefore, we think that the underlying nature of intangibles are different and what is the best accounting treatment for one type of intangible, may not be the best for another type. Further research may be needed to better understand the types of intangibles that should be eligible for recognition and those that may be better suited for disclosures only.

Measurement basis

Notwithstanding a general preference for fair value measurement, members of our User Advisory Committee indicated that the measurement of internally generated intangibles at the cost basis would provide more relevant and useful information because of the estimation uncertainty associated with the fair value measurement of internally generated intangibles. The use of the cost basis also provides greater insights into the capital invested in internally generated intangibles, resulting in better information for assessing an entity's return on investment and management stewardship. Furthermore, the fair value measurement basis applied to internally generated intangibles may place a significant burden on preparers of financial statements because it would be challenging to isolate the fair value of the internally generated intangibles from complementary assets and the rest of the business.

Presentation and disclosures

In some instances, the disaggregation of company expenses to distinguish between what is spent on operating the business and investments in generating future revenues such as employee training and development may provide users with more relevant and useful information. The disaggregation of expenses may also reduce the cost burden on preparers of financial statements and prevent conflict with the existing definition of an asset. We think that enhanced disclosures over intangibles that may not be eligible for recognition would allow users to receive relevant and useful information about how these intangibles are being used to facilitate an entity's ability to generate future cash flows. For example, disclosures about an entity's patents and their legal and contractual rights may provide useful information to users about their significance to an entity's current and future cash flows and revenue generation, as well as the costs to maintain such rights. Furthermore, these disclosures may provide better information to assess management's stewardship and deployment of capital in the business. Notwithstanding the usefulness of enhanced disclosures over intangibles, the extent of such disclosures should be balanced to ensure that an entity's competitive position is not impeded by providing commercially sensitive disclosures.

We note that there is still a great deal of debate as to which intangible assets should be recognized or disclosed in an entity's financial statements. We think that this debate stems from balancing between the usefulness of information provided about intangible assets and the cost, complexity and reliability concerns related to valuing these assets. Therefore, we think that EFRAG may consider undertaking additional research in this area to better inform standard setting on this topic. The EFRAGs Discussion Paper is a useful resource in informing the IASB's potential research project and may provide initial directional information on users' most critical information needs as it relates to intangibles.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Andrew White, Associate Director, Accounting Standards (+1 416 204-3487 or email awhite@acsbcanada.ca) or Jayshal Daya, Principal, Accounting Standards (+1 416 204-3501 or email jrdaya@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.