

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
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RFR-rs: 2022:06

Stockholm, 22 June 2022

Discussion Paper Better Information on Intangibles – Which is the best way to go (August 2021)?

Dear mr. Gauzès,

The Swedish Financial Reporting Board (the Board) follows EFRAG's research project on intangibles with great interest and believes the discussion paper provides a valuable contribution to the debate on how reporting practices can be improved. Our main comments are highlighted below. Generally, rather than exploring a new accounting model, we are in favour of:

- a modified model for accounting for business combinations resulting in fewer intangible assets being recognised separately from goodwill
- reintroduction of goodwill amortisation
- keeping a cost-based recognition model
- targeting certain practical adjustments to current standards with the aim to mitigate identified shortcomings

Please see below for additional elaborations on our main comments noted above. Finally, we raise some high-level comments on the different approaches and disclosure models for improving information on Intangibles discussed in the DP.

A modified model for accounting for business combinations resulting in fewer intangible assets separately from goodwill

We share the view expressed in the DP that it is difficult for users to compare entities that grow organically with those growing by acquisitions or through business combinations. The Board finds the current conceptual ground weak for using different recognition criteria related to intangible assets acquired in a business combination and internally developed intangible assets. In addition, it is our understanding that users typically find information resulting from recognition of certain intangible assets acquired in a business combination being of low value. In addition, documentation and measurement of intangible assets acquired in a business combination is generally a burdensome and costly exercise, and the intangible assets that result from the process are sometimes even arbitrary in nature. Therefore, the Board strongly believes that the requirements to separately recognise certain intangible assets from goodwill shall be

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reconsidered with the aim to develop a model resulting in fewer intangible assets being recognised when accounting for a business combination.

Reintroduction of goodwill amortisation - subsequent measurement of goodwill

Another way of reducing the difficulties noted in the DP when comparing entities growing organically with those mainly growing through acquisitions would be to require that the cost of goodwill is amortised over the period it is consumed. We acknowledge that reintroducing goodwill amortisations would not improve information on intangibles, but it would significantly reduce some of the negative effects of the difficulties noted on how to account for internally generated intangibles. The Board has on several occasions¹ advocated for amortisation of goodwill as it would both increase comparability and lessen the need to maintain the yearly goodwill impairment test.

Keeping a cost-based recognition model - measurement of intangible assets at fair value is not the way forward

The increasing difference between market capitalisation and book value is very well explained in the DP and this relationship is frequently interpreted as a sign of deteriorating relevance of financial statements. One possible solution mentioned in the DP is recognising intangibles at fair value. We are not convinced by the arguments expressed in favour for a fair value model. The uncertain character for many intangibles as well as the forward-looking approach used for valuing assets makes it highly questionable whether a fair value model is desirable when accounting for intangibles.

Therefore, regarding the different approaches to expenditure related to internally generated intangibles discussed in the DP, we believe that the current model based on a threshold should be maintained but that certain amendments need to be considered, see further below.

A way forward targeting certain practical adjustments to existing standards with the aim to mitigate existing shortcomings

In the light of modern project management practices, we believe that a review of the current recognition criteria is a matter of priority for the IASB. One example would, as highlighted by IFRS IC in 2021, be some investments in software involving cloud computing arrangements that seem to fail the recognition criteria in IAS 38, resulting in less reliable information. The failure of financial statements to adequately reflect the value of significant software investments not only deteriorate the function of performance measures, it also creates an unintentional risk for affecting actual investment decisions. Therefore, the Board prefers to urgently fix some of the shortcomings in existing standards rather than developing new recognition and/or measurement models.

Comments on the disclosure models discussed in the DP

The DP discusses the merits of two different models on how to improve information on intangibles in the notes to the financial statements (or elsewhere in the financial report).

¹ See for example our comment letter to IASB's DP 2020:1 Business Combinations – Disclosures, Goodwill and Impairment.

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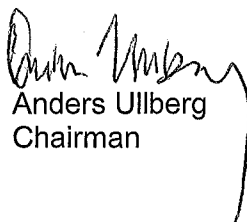
The first model is based on disclosures that provide information on the intangibles that are key to the reporting entity, based on its business model. This implies that each reporting entity has to identify the specific intangibles that are essential for its value creation process and assess what information - qualitative and quantitative - to provide on them. The Board finds the approach interesting as a prototype for voluntary disclosures for entities that would like to improve their communication on how intangibles are related to their core business. We do however believe that a non-negligible part of this information is already communicated by reporting entities that depend heavily on intangibles, although structured differently. In our view it is the reporting entity that should have the precedence over the portrayal of its business model and values that are key to that model. We fear that a fixed terminology for specific intangibles, which this approach implies, may be contradictory to the reporting entity's own narrative. Therefore, we do not think that this approach provides an adequate basis for a standard-setting project.

The other disclosure method discussed by EFRAG is based on increased information on future-oriented expenses. Together with information on risk and opportunity factors such disclosures can potentially provide users with an enhanced ground for assessments of future performance and endurance. We believe that this way forward would be more suitable for standard-setting than the approach based on information on specific intangibles that are key to the business model. However, the bias of reporting entities that may influence the presentation of costs as either current or future oriented may potentially impinge on the user value of the information. The distinction between current and future oriented costs may also not be readily available for preparers. The implementation of such a disclosure requirement may thus be associated with essential costs.

If you have any questions concerning our comments, please address our Executive member Fredrik Walméus by e-mail to:
fredrik.walmeus@radetforfinansiellrapportering.se.

Stockholm, 22 June 2022

Yours sincerely


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