30 June 2022

EFRAG
35 Square de Meeus
1000 Brussels (fifth floor)
Belgium

Via online submission: https://efrag.org/

Dear Sir/ Madam

Discussion Paper: Better Information on Intangibles - Which is the best way to go?

As the representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Discussion Paper (DP).

We appreciate the EFRAG's efforts to undertake research on the topic of intangibles and to develop this DP. Fast-paced changes in global business models have seen increased investments in intangibles including technology-enabled business solutions, research and development, intellectual property and brand, necessitating a robust reporting mechanism that can reflect the impact of these value drivers in financial statements.

In this context, the feedback we have received from our members suggests that the current accounting requirements for intangible assets is insufficient. IAS 38 *Intangible Assets* (IAS 38) was developed nearly two decades ago, and so is outdated and no longer reflects what is being demanded in the modern business environment. We believe the current standard does not enable preparers to adequately reflect financial information about entities' intangible value drivers. Although there are divergent views on how to address the aforesaid information gap, there appears to be broad consensus for a comprehensive review of IAS 38 and strengthening disclosures around intangible assets, to ensure it remains relevant in meeting user needs.

In both the CPA Australia submission and the CA ANZ submission to the IASB third agenda consultation, we recommended adding intangible assets as a high priority, large research project in the IASB's work plan. The IASB staff paper for March mentioned that if the IASB was to undertake a project on intangible assets, the staff is of the view that any such project should aim to comprehensively review IAS 38. Although developing enhanced disclosure requirements (such as disclosures about unrecognised intangible assets) would help to address user information needs, feedback from our members indicates that other aspects of IAS 38 also should be reviewed.

Similar to the feedback EFRAG received when developing the three approaches suggested in the DP (as described below) to provide better information on intangibles, we also did not receive convincing evidence to allow us to conclude on which may be the best approach, or combination of approaches, to provide better information on intangibles:

- **Approach 1** - Recognition and measurement in the primary financial statements
- **Approach 2** - Information on specific intangibles in the notes to the financial statements or in the management report
- **Approach 3** - Information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report.

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In the short term, developing accounting requirements to establish effective disclosures on specific intangible assets appears to present a cost-effective solution compared to the other options. Other critical areas such as definition, scope, recognition and measurement are likely to present additional challenges that would be best addressed through a longer term project. However, whilst we support developing additional disclosure requirements to address the current information gap on intangible assets, it is essential that any proposed disclosures should meet the qualitative characteristic of “verifiability” and be capable of being independently assured by an external auditor.

We have not provided detailed responses to the questions raised in the DP but instead provide only high-level feedback.

In addition to our above comments, we provide some general comments below in respect of the three options discussed in the DP that should be considered in addressing this topic, both in the short term and the long term.

Issues to be addressed in the short term

Approach 2 - Information relating to specific intangibles

As stated above, we believe developing accounting requirements to disclose information on specific intangible assets could assist in addressing the information needs of users in the short term. We make the following two points in support of this proposed approach:

- A staff paper developed by the Australian Accounting Standards Board (AASB) “Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures” (AASB staff paper) suggests that the first step in addressing this matter is to introduce robust disclosure requirements around specific intangible assets.
- IAS 38 paragraph 128(b) already allows for the voluntary disclosure of intangible assets. However, analysis conducted in developing the AASB staff paper indicates that no take-up of voluntary disclosures is observed in Australian entities. Academic research referred to in the AASB staff paper notes that prior to the adoption of IAS 38 in Australia (as AASB 138), the preceding Australian GAAP provided greater scope for the recognition of intangible assets and associated disclosures in the financial statements. Following the implementation of AASB 138, the recognised intangible assets that no longer met the definition of an asset and no longer fulfilled the recognition criteria were derecognised. Although voluntary disclosure was possible under para 128(b), no disclosures were identified by the research. This suggests that voluntary disclosure of unrecognised intangible assets is not an effective approach and that a mandated approach needs to be considered.

However, it should be noted that under this proposed approach, quantitative and qualitative information about specific intangible assets could be disclosed even if they are not recognised in the primary financial statements. We suggest that EFRAG undertakes further research to understand the implications of disclosures that are independent of information included in the primary financial statements.

As noted above, practical impediments confronting external auditors in gathering sufficient appropriate audit evidence, to obtain reasonable assurance over such disclosures, should also be explored.

Issues to be addressed in the long term

Approach 1 - Recognition and measurement in the primary financial statements

The evolution in business models indicates the assets that generate future economic benefits are not just restricted to physical assets but extend to intangible assets. In some cases (e.g. technology companies), a significant proportion of the business "assets" that generate future economic benefit are internally generated intangible assets. Whilst our current accounting standards have been designed to measure and recognise physical assets, they are not designed to recognise and measure the increasing asset bases of businesses that are intangible. This imbalance in the representation of business assets on the balance sheet potentially undermines the relevance of financial statements to users.

As stated above, improvements to the accounting requirements including the definition, scope, recognition and measurement of internally generated intangible assets could form part of a longer term project to bring such assets within the recognition criteria established in the IASB Conceptual Framework and relevant accounting standards including IAS 38.

Approach 3 - Information on future-oriented expenses and risk-opportunity factors that may affect future performance

We do not support this approach for the following reasons, as we envisage challenges with disclosure of expenditure that is future-oriented:

- Separability of future-oriented expenditure from expenditure that relates to the maintenance of the business can be a challenge. In particular, we believe the auditability of future-oriented expenditure could be challenging.
- Management may be reluctant to disclose commercially sensitive information relating to future-oriented expenditure.
- Directors may be concerned about the liability risks associated with the disclosure of forward-looking information

As noted in the DP, we also believe that such disclosures may already be present in other parts of the annual report outside the financial statements, or made available to investors and others through other communication channels such as analyst or investor briefings.

As noted in the DP, we also agree that it is important to await the development of sustainability reporting standards through the International Sustainability Standards Board. The disclosure of information of such information in the context of sustainability may be addressed through this corporate reporting initiative.

Other comments

This DP acknowledges that there is only limited literature available on how users use intangible asset disclosures and information in their decision making. We note that EFRAG has only conducted limited interviews with users of financial statements. In our view, it is important to obtain a much broader understanding of user needs to assist standard-setters adopt a bottom-up approach to addressing those user needs.

As suggested in the DP we agree that developing common terminology would enhance the comparability of information disclosed, given the highly technical nature of many intangible intensive industries. From a users' perspective, using different terminology to disclose similar assets may not be helpful.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Your sincerely

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