Mr. Jean-Paul Gauzes
EFRAG Chairman
35 Square de Meeûs
1000 Brussels (fifth floor)
Belgium
Via email:

Madrid, 30 June 2022

Dear Jean-Paul,

Re: DP Better Information on Intangibles

On behalf of the Commission on Financial & ESG Reporting of the Spanish Institute of Financial Analysts (*"IEAF"* or *"We"*), I am writing to comment on the EFRAG's Discussion Paper "Better information on intangibles" (*"DP"*).

We welcome the EFRAG's undertaking to address on how companies should provide better information on Intangibles.

As users of the financial information, we acknowledge that better information on intangibles is needed due to the fact that intangibles have significantly changed over the past decades, becoming important elements in companies' operating activities and their value creation.

We think financial statements and management reports have a key role to assess the business risks and determine the value of an entity. A broader approach to corporate reporting is becoming more important to determine how a company creates value and how it will continue to do so.

We support EFRAG to address topics of relevant interest for users, analysts and investors. Nevertheless, we would like to emphasise that clear and understandable documents are needed. We encourage you to avoid dense and repetitive documents to improve the publishing in a manner that facilitates reading and response.

In response to the Questions to constituents of the DP, we would like to address the following points:

QUESTION 1 - ISSUES WITH THE CURRENT INFORMATION

Chapter 2 summarises issues put forward with the current information on intangibles. Do you think the issues listed are relevant and valid? Are there additional issues with the current information on intangibles that are not listed? If so, what are these issues?

We agree the issues listed are relevant and valid. We consider there are some additional issues with the current information on intangibles, such as, asymmetry existing between the information available by entities' management and the information available to investors or analysts.

Entities by, publishing more information on intangibles can put their own value at risk if the competition may take advantage of that disclosed information. Also, redundant disclosures provoke those analysts can be tempted to dismiss to value certain intangibles as the information might not be useful for measurement.

QUESTION 2 - WHICH WAY TO GO?

Chapters 3, 4 and 5 present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles.

These different approaches represent different trade-offs between benefits and costs when considering the different needs of users of financial reports for better information on intangibles.

Do you think there is room for improvement regarding information on intangibles in financial reporting? If so:

a) **Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs? If so, please describe such a combination.**
b) **If you do not think the different approaches described in the Discussion Paper could be combined in a manner that would meet (most of) the needs of users, which (if any) of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles:**

- **Amending existing recognition and measurement requirements for intangibles (see Chapter 3);**
- **Providing disclosures on specific intangibles (see Chapter 4);**
- **Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance (see Chapter 5); or**
- **An approach other than those described in the Discussion Paper (please explain this approach)?**

We think there is room to improve the objective of getting better information on intangibles by combining the different approaches described in the Discussion Paper, mainly, by providing disclosures on specific intangibles (as mentioned in Chapter 4) when this information is key for the business model of that particular entity. Nevertheless, redundant disclosures on non-significant intangibles must be avoided.

QUESTION 3 - RECOGNITION

Chapter 3 considers whether and how internally generated intangibles could be recognised and measured in the financial statements and the benefits and limitations of the proposed approaches. In doing so, consideration is being given to the asset recognition in the statement of financial position but also to the effects in the statement of financial performance.

Do you consider that IAS 38 Intangible Assets should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)? (Please explain

your answer). If your answer to this question is 'yes', please also answer sub-questions 1 to 3 below.

1. **Paragraph 3.26 of this Discussion Paper explains that IAS 38 currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing. Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed? (Please explain your answer).**
2. **Paragraphs 3.10 to 3.71 of this Discussion Paper explore four possible approaches regarding the recognition of internally generated intangibles. Which of the following approaches would you support?**

   a) **Recognise (as an asset) all defined intangibles; with no specified conditions or thresholds (see paragraphs 3.15 - 3.35 of this Discussion Paper);**
   b) **Threshold for recognition of an asset (see paragraphs 3.36 - 3.48 of this Discussion Paper);**
   c) **Conditional recognition of an asset (see paragraphs 3.49 - 3.59 of this Discussion Paper); if you prefer this approach, would you prefer an approach under which:**
      (i) **Costs are expensed in profit and loss until the condition is met;**
      (ii) **Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed;**
      (iii) **Costs are expensed in other comprehensive income until the condition is met, at which point in time the expenses are 'recycled' and capitalised.**
   d) **No recognition (that is, expensing all internally generated intangibles) (see paragraphs 3.60 - 3.67 of this Discussion Paper); and**
   e) **None of the above or other suggestions (please explain).**

   Please explain the reasons for your preferences.

3. **If you support 'Conditional recognition of an asset' or 'Threshold for recognition of an asset' in the previous sub-question, which criteria would you consider for recognition:**

   a) **Criteria based on the level of (un)certainty about the outcome of the intangibles (that is, the probability of expected benefit and the pattern of consumption of these future benefits);**
   b) **Criteria based on the identifiability of the expenditure related to the intangibles;**
   c) **Criteria based on the technical or commercial feasibility of the intangibles considered at inception of the development;**
   d) **Criteria based on separability of the assets, that is, the existence of a legal right and/or the ability to sell, transfer, licence or pledge the asset;**
   e) **All or a combination of the above depending on the nature of the intangibles (please explain);**
   f) **Other suggestions (please specify).**

We consider the IAS 38 Intangible assets should be amended to permit the recognition of certain internally generated intangible assets as well as intangibles acquired that can generate future cash flows and create value for the entity. We also think that recognizing internally generated intangibles should be subject to meeting certain preconditions. Recognizing however other types of intangibles such as an item that an entity does not owe, as proposed in the DP, should not be considered. Intangibles should be separated only when the provide useful information.

1) We consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed, only if additional information is disclosed. Therefore, preparers of financial statements should state the reason to register significant intangible assets, the model to measure them and the ongoing value of them.

2) We support point (a) which considers the recognition (as an asset) of all intangibles which meet the definition of assets with no specific conditions or thresholds (as mentioned in paragraphs 3.15 - 3.35 of this Discussion Paper.
3) Not applicable.

QUESTION 4 - POSSIBLE MEASUREMENT BASES

Paragraphs 3.72 to 3.100 of this Discussion Paper consider possible measurement bases for internally generated intangibles without suggesting a preferred approach. If you think that IAS 38 should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs), which of the following suggested measurement approaches would you support:

a) **Initial and subsequent measurement at amortised cost with impairment ('Cost model');**
b) **Initial measurement at cost and subsequent measurement at fair value ('Revaluation model');**
c) **Initial and subsequent measurement at fair value ('Fair value model');**
d) **Initial measurement at fair value (as deemed cost) and subsequent measurement at amortised cost with impairment ('IFRS 3 model')?**

We support the approach of initial measurement at fair value (as deemed cost) and subsequent measurement at amortized cost with impairment ('IFRS 3 model'). Indeed, we consider goodwill should also be amortized in a basis according to each entity's business model.

QUESTION 5 - INFORMATION RELATING TO SPECIFIC INTANGIBLES

Chapter 4 discusses an approach under which information on specific intangibles, that are key to an entity's business model, is provided to help users assess the contribution of the intangible to the value of the entity.

1. **To the extent that information relating to specific intangibles should be provided, do you agree that the information should be limited to the intangibles that are key to an entity's business model? If not, why?**
2. **Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information. Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?**
3. **Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 compared to recognition and measurement (see Chapter 3) and information on future-oriented expenses (see Chapter 5)? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?**

1. We agree that the information should be limited to the intangibles that are key to an entity's business model.
2. We agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible, but only when this information is key for the business model of that particular entity. Nevertheless, redundant disclosures on non-significant intangibles must be avoided.
3. We agree the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4.

QUESTION 6 - INFORMATION ON FUTURE-ORIENTED EXPENSES

Chapter 5 proposes various elements of information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses').

1. **Do you consider that requiring such information could be useful? If so:**
   a) **Should the information mainly complement information on specific intangibles (see Chapter 4) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?**
   b) **Should the information mainly:**
      (i) **Reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods)? Or**
      (ii) **Help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period?**
2. **Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?**

We consider that requiring such information could be useful but this information should mainly complement by information on specific intangibles (as mentioned in Chapter 4), when this information is key for the business model of that particular entity to help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period.

QUESTION 7 - INFORMATION ON RISK/OPPORTUNITY

FACTORS AFFECTING INTANGIBLES

Chapter 5 proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPI's used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.

Do you agree with this proposal? If not, what information on risk/opportunity factors affecting intangibles should be provided?

We support this proposal.

QUESTION 8 - ISSUES TO BE CONSIDERED

Chapter 6 discusses challenges and issues to be considered when finding a manner to provide better information on intangibles. It mentions that it could be beneficial to introduce a common terminology on intangibles and that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive.

1. **Do you consider that it would be useful to introduce a common terminology on intangibles?**

2. **Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?**
3. **Are there additional issues than those listed in Chapter 6 you think should be taken into account when considering how to provide better information on intangibles?**

1. We consider that introducing a homogeneous and consistent terminology on intangibles would be very useful.
2. We agree that preparers of financial statements should not be required to disclose information on certain intangibles that could be commercially sensitive.
3. There are additional issues we think should be taken into account when considering how to provide better information on intangibles, such as, to incentive the reduction of the asymmetry existing between the information available by entities' management and the information available to investors or analysts.

QUESTION 9 - PLACEMENT OF THE INFORMATION

Chapter 6 presents an approach under which information discussed in Chapter 4 and Chapter 5 would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed? Should they be placed all in the same section or in different sections of the financial report and why?

We think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed mainly in the notes to the financial statements. Nevertheless, some pieces of information related to the business model and the liaison with the intangibles could be placed into the management report as part of a further explanation by managers.

If you would like to discuss the views expressed in this letter, please do not hesitate to contact us via email: frc@ieaf.es

/s/ Gregorio P. Gil, Chairman

On behalf of IEAF Commission on Financial & ESG Reporting