FRAG Discussion Paper ***Better Information on Intangibles – Which is the best way to go?***

We are writing on behalf of the Observatoire de l'Immatériel, a French independent think tank, that acts as a platform for progressive reflection and whose aim is to propose, disseminate and experiment with innovative solutions to enhance entities' intangible assets. In our view, intangibles are a source of value creation that supports the transformation of companies. We are convinced that these intangible resources and their potential for value creation must be radically rediscovered and exploited in the twenty-first century, to face the multiple transitions, in particular energy and environmental.

Our contribution to the EFRAG's Discussion Paper *Better Information on Intangibles – Which is the best way to go?* (herein referred to as the 'DP') follows the same path and we are happy to share our vision with EFRAG.

First, we would like to thank EFRAG for the initiative that anticipates the upcoming revision of IAS 38 and the follow-up of CSRD proposal which is yet to include a block dedicated to Intangibles. Intangible are non-physical assets and liabilities which existence could be alternatively recognized in the entity's financial statements, and in extra-financial reporting. By extra-financial reporting, we mean information related to financial materiality and information related to impact materiality of the intangible assets and liabilities.

We see financial statements as a destination for accounting information related to access to resources and a means to report how those resources have been used by companies.

We see extra-financial reporting as a means to report the strategical features of the intangibles and their potential of value creation, the risk they are exposed to but also the risk they generate for the entity as well as for the environment and society, opportunities and vulnerabilities to all stakeholders (financial and impact materiality). Hence, extra-financial reporting is an adequate medium to publish information about the specificities of intangibles.

We see the possibility of articulating financial and extra-financial information. Those could be located in the risk section or in the management report but to these options, we prefer a dedicated section to intangibles.

For these reasons, the DP which envisages multiple options for representing intangibles and their existing and expected contributions has moved a step further than the existing regulations related to intangibles. Thus, it underlines that there exist many possible ways to improve reporting on intangibles.

Nevertheless, intangibles are still appraised as one category of item whereas, their nature differ with respect to their associated rights, and the reliability of their measures. Other distinctive characteristics are the useful life horizon, the vulnerability of the intangible and the responsibilities associated to holding the intangibles, such as rights renewal.

Some intangibles (assets) are easily defined with respect to the resources invested in them. Therefore, for intangibles such as internally generated intellectual properties, approach 1 – Recognition and Measurement – is appropriate. For example, the acquisition price of the rights associated to an intellectual property is measurable. Also, the useful life, extinction and scope are dependent on the rights. Moreover, the cost incurred in the acquisition of rights is the fundamental event that inaugurates the existence of most of the IP assets. Thus, we believe that the recognition of more IP intangibles would significantly enhance the objectivity of the information contained in the balance sheet and income statement. It would also increase the comparability across successful innovators. It is also consistent with IFRS 6 approach to rights. In such perspective, we are in favor of a cost approach in the balance sheet.

Approach 2 is also of interest – Information Relating to Specific Intangibles – and appears to be relevant to information that brings further content beyond that carried by the cost incurred in the acquisition of the assets and the rights associated to those. Such information is likely to converge with the current developments in the CSRD. It could be located outside of the financial statements for those assets who do not comply with an asset definition.

Approach 3 – Information on Future-Oriented Expenses and Risk/Opportunity Factors that May Affect Future Performance – addresses two different issues: on one hand, there is that of expected value/ benefits generated by the asset, and on the other hand the risk and opportunity factors. The first is of interest to the user because it represents the values targeted by the management of the company. However, reliability can exist only when the estimation process is sufficiently visible to the reader. Current research advocates a deficit of details in such estimation. The second kind of information is likely more relevant. The risk and opportunities informing about the volatility of resources, the cycles lengths, would appropriately qualify the idiosyncratic risks of an entity. This information could relate to the vulnerabilities of the company and its activities, similarly to the current requirements in the Prospectus, i.e., including impacts assessments.

This remark draws another path to sustainability reporting, which in our view should align on the current CSRD requirements. The latter are more likely to address issues of interest for all investors and stakeholders. CSRD will support companies in enlightening their comparative advantages with respect to high levels of innovation, of compliance and relations with other entities. The current ESRS and their developments are answering to customers' demand and we are convinced that corporate reporting will face the necessity to bring answers to the evolving requirements, especially those of customers who express the needs of more informed purchases.

Finally, the compliance with the Directive Prospectus and the publication of a Universal Registration Document is an adequate means for publishing "one report". In summary, we expect EFRAG to support a complete and adequate information on intangibles: all intangibles associated with rights (in particular IP rights) should be recognized at cost in the balance sheet. To assess their importance, more information should be provided in the management report or in a dedicated "intangibles section". This would cover the specific and strategical features of the intangible items. Finally, the same section could include forward-looking values, under the condition that those are transparent to the reader, and should include a Prospectus like section on material vulnerabilities, risks and opportunities. Further impact and inside-out effects will be addressed by CSRD but when related to intangibles, could be located in the same URD intangible section.

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?

Yes. The Observatoire de l'Immatériel believes that there exists a need for an improved reporting on intangibles.

It is likely that in the future there are different levels of evidence to characterize the presence of intangible assets, their costs, their value and their effects. Consider the two following extreme examples: the most rational one and the open-ended evidence. On the one hand, the costs of trademarks remain easy to compute. Brand value even if the result of a complex combination of factors, is auditable and verifiable under the conditions that methodologies are transparent and replicable. On the other hand, the vitality of a corporate culture is also essential, but valuation and auditability instruments are for now, less mature. Those are expected to improve with time as proof and supervision mechanisms will drastically increase in the upcoming years. For example, assessing a company's reputational capital today benefits from massive data sources, analysis tools and algorithms, and more accurate and less expensive leading indicators than in the last century.

Our main concern relates to the generic idea of "intangibles". We do not support the idea that IP rights (for example) compare with other types of assets that are not associated with rights, for example. Rights or any process providing a social recognition are creating the intangibles assets. Therefore, our view is that the mechanism of creation of an intangible, when socially recognized, should be recognized in the financial statements, at cost. Conversely, financial reporting and especially financial statements should not precede a process of social recognition. Thus, it should limit its task to enlightening the existing social creation of intangible and avoid to provide legitimacy to unrecognized assets or liabilities. It follows that approaches to intangibles may defer across intangibles. As a consequence, we defend the idea that a better definition of intangibles is necessary, and the identification of sub-categories of those. We encourage EFRAG to research on the topic.

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:

- Amendingexistingrecognitionandmeasurementrequirementsforintangibles(seeChapter3);

- Providing disclosures on specific intangibles (seeChapter4);

- 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)?

Yes, as stated above, we believe that there is room for improvement regarding information on intangibles in financial reporting. We believe that combining information about the importance of the intangibles to the entity is of relevance not only to investor, but to many stakeholders.

Taking intangible assets into account paves the way for a multidisciplinary approach to value creation, i.e. based on a combination of multiple non-exclusive approaches. For example, the regular consideration of the opinion of stakeholders is made possible by an extensive and open design of the company, the mobilization of data capture and analysis as well as increased foresight in the face of cognitive biases.

The reality and strength of an asset will certainly be expressed through economic and financial indicators, the consideration of non-financial elements (e.g. the performance of a process, the level of satisfaction of stakeholders), the declarative and narrative of the asset holders and managers of the company.

Different particularities of intangible assets will have to be taken into account. It is never alone that they produce value but by combining with other assets, physical and non-physical. Thus, beyond the possible communication about an inventory of intangible assets and their individual characteristics, we advocate that the relation between the intangibles and the system that they form, as an idiosyncratic combination, is also a reporting issue. We note that this point is absent from the current conversation on intangibles. A system of intangibles could comprehend latent intangibles (for example a resource currently unexploited but possibly actionable) as well as intangibles items that indirectly create value and may themselves result from other intangibles (an example is trust).

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.

As aforementioned, some intangibles are investments (i.e., assets) like others and these investments should be made visible.

We already suggested that costs of rights acquisition could be recognized when IP assets are concerned. We however subscribe to the idea that some R&D costs can merely be capitalized, whereas others are easily associated with existing intangibles.

We do not object the idea that some marketing costs are for example associated with the maintenance of the brand value and those are investments which cycle could be easily defined, accordingly with the activity of the company. Indeed, marketing campaigns could be capitalized and amortized as brand value preservation costs. This would demonstrate the willingness of the entity to preserve and perpetuate its brand. Guidelines such as sharing costs on a 50/50 basis could be defined when campaigns display product's and company's brands. Such information is likely of major importance to the long-term investors because it translates the attachment to the long term survival of the entity.

However, in the case where costs cannot be associated to a specific asset, specific lines in the P&L could address: other brand maintenance costs or similar costs to those capitalized (example: a co-marketing campaign with an impact of a year or less), other IP maintenance costs, human capital preservation, research costs, some development costs, cybersecurity costs likely to protect the quality of information, etc. As aforementioned, a dedicated intangibles could recap and link information about intangibles for providing a better overview.

In summary, P&L lines should provide more information on costs associated with intangibles objects that either are not specifically attributable to an asset, or which impact is expected to last a year or less than a year. Intangible items and the costs of their preservation have a high level of relevance to investors and other stakeholders. Thus, the recognition of the costs of acquisition of their associated rights would provide a faithful representation. Other *“expensed in profit and loss until the condition is met"* should also be grouped and broken-down accordingly with the nature of intangible assets they are associated with.

In the end, the apprehension of intangibles calls into question the artificially drawn boundary between operating expenses and depreciable investments, between contribution through labour, and exploited capital. Concretely, we advocate that the artificial border between expenses to be recorded as expenses for the financial year and expenses that can be capitalized and depreciated over several years (e.g. training costs, consulting expenses, part of the payroll, etc.) is increasingly blurred. Tangible and financial assets are historically accepted as capitalizable, whereas expenses related to intangible assets have remained unrecognized because they are is deemed volatile and risky. We believe that this statement is not any more defendable.

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 inter- nally 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).

Yes, this paragraph should be removed or rewritten. Indeed, it enumerates a list of items which common features do not explicitly appear, although most of them are associated to specific rights such as authorship rights, exclusion rights, etc. However, some of which have been purchased, whereas others are granted/awarded. Thus, there are in the current list assets of very different nature. Again, the necessity to better qualify intangibles appears.

The most problematic point in this paragraph are the terms "*similar items*" which are presently too vague and undefined. In what should assets be similar to comply with that rule? How dissimilar should an asset be in order not to belong to the prohibited category? Arguably, internally generated brands are more similar to acquired patents than to any other assets cited in the present list. As a reminder, the characteristics of an intangible asset include its singularity, its uniqueness of existence, its origin, its context, and its use.

This paragraph demonstrates that there is need for a better clarification in the definition of an intangible asset and to the recognition principle.

It follows that while admitting that intangible assets being at the heart of the singularity of the entity, there is a paradox in wanting to set standards for the incomparable, and in the very notion of categorizing the intangible. We advocate that a better understanding of the intangibles feature is likely to change the view on the complexity inherent in an organization. An important step to take in that direction is to allow intangibles to access the status of resources rather than that of a constraint or a brake. Intangible assets are not more likely "similar" as their bearers, i.e. individuals/entities holding those. The path leading beyond sterile categorizations is possible and Continental Europe is equipped to think about this complexity (see E. Morin). It must take the responsibility of doing so.

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.

As proposed above, a breakdown of categories of intangibles is needed. Therefore, this question cannot be answered in a universal manner and different answers could apply to different assets.

The answer to this question is not a prerequisite for the recognition of intangible assets and the people who carry them in charge of them.

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 ex- plain);

(f) Other suggestions (please specify).

a) We do not consider that the level of uncertainty should hamper recognition because some activities are intrinsically uncertain and nevertheless could be of interest to investors, including in a diversification perspective. Possibly, even tangible assets will become highly volatile in a more and more uncertain world and in a short deadline. For example, the market for second-hand tangible assets may shrink because of their specificities and lack of multiple usages. Some authors qualify this feature as that of value conversation, we rather identify it as an issue in multiple and alternative usages. However, the multiplicity of usages cannot be a condition for recognition as it is not necessarily a sign of value. Indeed, a single usage asset could likely generate more benefits than a multiple purpose one.

Therefore, communication solutions about how entities face uncertainties are to find. Indeed, we strongly defend the idea that better communication about the idiosyncratic uncertainty should be released. Due to increased complexity, such risks have become more difficult to appraise and the investors need to be better informed about the changes in values they may undergo. This said, we do not subscribe to the idea that uncertainty can be "probabilized" and that criteria that provide average probability of successes are relevant. We invite standard-setters to find better creative solutions. As a reminder, US GAAP require the communication of ranges of values.

b) As aforementioned, the identifiability of the expenditure and its "attributability" to define assets seem more relevant in our view.

c) Also, we do not think that feasibility is a relevant criterion. Some factories have been closed before they started to produce whereas feasibility was technically possible but management mistakes have led to a failure. In such case, lack of attributable expenses that secured the assets (the factory) could explain the failure. This again supports the need of better communication on the acquired rights. When feasibility becomes a criteria, a non-feasible investment yet subject to substantial expenses will not be disclosed.

d) The criteria of separability seem the most relevant to us for the recognition of the asset. As aforementioned, attributable costs related to the necessity to preserve the asset could be part of the value of the asset. That said, this separability of intangible assets remains more complex than that of tangible assets, for several reasons. First of all, some assets are consubstantial with a company and its origins. Transforming Ferrari into a low-cost brand does not make sense, like removing the part of imagination specific to the Disney Group. Then, as seen above, value creation takes place through a combination of assets, interdependent asset systems.

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')?

Again, we believe that there is no one-size-fits-all answer as intangibles that are different in nature could differ in their treatment.

a) We support the idea that intangibles should be measured at costs. Those assets with a limited useful life should be amortized over their remaining life, which for many will match the persistence of associated rights. Notably, and consistently with what was written above, attributable costs can likely compensate the loss of value represented in the amortization.

b, c and d) We are not in favor of the presence of fair values in the financial statements, unless they are significantly lower than the net book value and guided an impairment. Nevertheless, voluntary communication of a fair value in order to inform about the potential of value creation should not be prohibited and could be located outside of the financial statements. Again, the conditions for such disclosure are that sufficient details are provided to understand the valuation, or/and that fair value is audited and verifiable and that a follow-up is conducted.

Overall, we do not support the idea that the recognition of intangible assets is a challenging issue, neither is the measurement of intangibles, in numerous cases. In our view, the biggest challenge is to expose uncertainties (risks and opportunities) and vulnerabilities and understand the features of intangibles. This revealed truth implies in fact a revision of the geography of real capital, a new distribution of power and the wealth created.

Overall, the cost model has our preference. This is because a measurement at acquisition cost (backward looking value) can be compared with the estimation of the expected benefits (forward looking value) while the difference between the two represents a form of performance. Cost model is more reliable because it is stable and will never be revised.

It is necessary to underline here that by cost model, we only mean cost measures that do not rely on hypothesis. For example, replacement costs that rely on hypothetical availability of materials, on hypothetical known prices and other improbable features do not belong to an incurred costs model, and should no longer be included in cost models. Those are rather simulated investment costs.

Although fair value contains relevant information likely to be translated in appraising the strategy and advantages of the entity, fair value is by nature a forward-looking value, and thereby uncertain. As a consequence, fair value does not answer to the need for a representation of the asset. In the contrary, it represents the uncertainties that an asset is exposed to and the expected revenues that should be allocated to future fiscal years. It raises an issue in matching principle.

We advocate that the fair values that are currently communicated and that often pretend to capture all risks in a discount rate, poorly inform about the uncertainty the entity is exposed to. Again, we argue that there exists an issue related to the representation of risks and that this issue needs to be resolved.

We support the idea that, following US GAAP, forward-looking values, that are communicated outside of the financial statements are published with an information about their volatility, the magnitude of values, and preferably with the distributions of values, as those are more informative than the former.

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?

We support the idea that communication about specific assets should be further developed, taking into account possible overlaps with the sustainability reporting and in the ESRS. However, what is a specific asset ? Thus, to avoid any ambiguities, a solid/disputable definition of "specific" is needed.

We do not think that the usage of an asset (i.e., that it is key to an entity's business model) is a sufficient definition of a specific asset. For example, intangibles which are not specifically linked to the business model could turn out being at the heart of it in changing circumstances. Thus, an inventory of non-key assets could inform about the intensity of investment and the entity's interest in intangibles. It could also inform about its potential resilience.

This points again highlights that more research on intangibles' features and their relevance is needed.

We also support the idea to provide a broader description of intangibles. For example, such information should be split in different levels of corporate communication :

- Financial statements should relate the cost of acquisition of an intangible and its attributable costs. More costs could be capitalized and expensed costs should be made visible. Cash flow statements could also include specific lines about intangibles assets (trademarks related costs, etc.) or intangible activities (data protection costs, etc.).
- Financial disclosure/ management report could inform with more details about the value potential of the same intangibles (fair values, expected strategy, preservation management). We are in favor of a dedicated section to intangibles that would also articulate the three levels of intangibles information.
- CSRD compliant information would describe how intangibles relate to the entity's and to society's value creation, how they preserve the planet, people and profit, etc.

In such perspective, the financial statements expose what has been done, disclosure expose what management expects (the management approach) – financial materiality – and CSRD requires that how the environment and society are impacted is also communicated – impact materiality.

Following such guidelines, it appears that relevant indicators could be identified by the management. Therefore, those items should also be used for internal control matters.

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?

In the cases where fair value valuations are eligible, the comparability of the fair value with the sum of incurred costs remains relevant. As aforementioned, we see this is as a performance measure. For this reason, we support the idea of a dual information. Nevertheless, cases like those of identifiable assets will address further issues.

In the latter case, we subscribe to the idea that users 1) should be able to compute their own value and thus, be provided with sufficient information to do so, 2) when fair values are published, would compare their outputs with the produced one, and 3) thereby, will evaluate the entity's valuation.

We understand that requiring the communication of fair values could become problematic and raises granularity issues. There is indeed a trade-off to find between the transparency needed by investors and other stakeholders and the transparency that would hamper a company's competitive advantage. Transparency is not a question for visibility per se, but an issue in building trust. For this reason, we insist on the idea that existing investments must be made visible and performance about past achievements must be better explained. Also, we see the definition of trust indicators as another communication challenge.

A final remark: intangible assets, singular in essence, cannot be considered confidential, quite the contrary. It is the future use of these assets that can be the heart of a strategy, to be kept secret from potential competitors in markets.

3 Do you agree with the advantages and disadvantages of information relating to specific in- tangibles 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?

As mentioned before, the definition of “specific” must be clarified and levels of information could be related to levels of specificity.

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?

First, we note that the indirect definition of future oriented expenses corresponds to that of the basic representation of an investment: costs that are incurred in the present to generate future benefits. Therefore, we do not support the idea of creating a new designation, moreover a confusing designation because it could be understood as describing future expenses.

It follows that in the standard-setter perspective, there currently exist unrecognized investments in the assets part of a balance sheet and recognized investments. This raises the issue of not only defining criteria for recognition, but also criteria for non-recognition of an investment. We understand that the issue at stake in the present question is "the unrecognized investment" that yet are expected to generate future benefits.

We point to the difficult rationale behind this breakdown where:

- Recognized investments are visible in non-current assets
- Unrecognized investments are invisible in non-current assets and expensed in the P&L with more or less visibility
- Financial expenses are visibly expensed in the P&L

This assumes that unrecognized assets bear features that are closer to financial expenses within the entity's activity but are of even lower importance, in the absence of dedicated P&L lines.

Moreover, as underlined in chapter 5, the situation leads to a lack of transparency and lots of confusion as recognized expenses pursue an investment or maintain an unrecognized asset.

For example, we believe that marketing expenditures say a lot about the importance of an asset to an entity. They maintain its ability to generate revenues. Of course, we agree that this information may not always allow to predict the future value of an asset but it may support the prediction of its useful life, which is an underlying condition of future value.

Many cases have come to our knowledge where values were communicated in corporate reports but underlying conditions to generate such values were not verified and an impairment would correct that misstatement, with delay. Notably, the effectiveness of marketing channels can be assessed by indicators such as the interaction rate. Thus, the performance of conditional tools that form attributable costs (and/or values) can be monitored. Finally, releasing information about marketing campaign costs does not appear as a business secret.

We believe that expenses related to patents, whether those cover rights, maintenance or litigation costs preserve exclusivity rights on markets or market-shares, which are of tremendous importance for an entity. We believe that the visibility of the costs would inform about the ability of the entity to manage its assets, but also on the riskiness of its segments and the aggressivity of competitors. For competition reasons, granularity is an issue to resolve.

We believe that staff training expenses that are not included in R&D expenses or sales and marketing costs participate to the maintenance of the know-how of the companies. The disclosure of the amounts incurred does not reveal details about the content of the training and therefore, we see no issue in disclosing those. We support the idea that many training costs have a long term horizon.

In that perspective, we support the possibility to disclose more direct information rather than indirect information. More generally, investors should be able to assess whether the entity possesses the means required by its endeavors and moreover, the means covering the impacts that it generates.

We believe that figure 5.2 provides a good starting point for costs management and cost allocation and that such tools could be used to justify the capitalized costs. This should however not be a complement to existing cost control management within an entity but only a translation or a representation of it. Entity could alternatively build on what they already do.

Sub-question b) being similar to question 5.2, we are in favor of consistent practices.

2 Do you agree with the advantages and disadvantages of information on future-oriented ex- penses identified in Chapter 5? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

We agree that there exist more disadvantages in an indirect recognition than there are in a direct one.

QUESTION 7 – INFORMATION ON RISK/OPPORTUNITY FACTORS AFFECTING INTAN- GIBLES

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

Intangible assets constitute a potential for value creation, and the precise recognition of their holders leads to a responsible approach, i.e. fair and equitable contributions and value captures. To measure an asset is to measure its positive and negative externalities, it is to take into account both opportunities and risks.

As aforementioned, we support the ideas developed in question 7, and precise the expected disclosures :

- Risks disclosures would require a solid definition of risks. We prefer the idea of uncertainty that includes risks generated by the entity and risks and dangers to which the entity is exposed through the holding of an intangible.
- Disclosures about opportunities are relevant but should never be valued in financial statements, following the prudent principle.
- Relevant measures of risks do not only include KPI but also risk factors and dependencies.
- Risk management and mitigation is an important issue.

We subscribe to the necessity of a material assessment that can be conducted through value simulation and sensitivity analysis.

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?

Yes, we consider a common terminology on intangibles would be very useful. An adequate terminology would include: a renewed definition of intangibles, the identification of the possible features of intangibles. Dedicated P&L lines and cash-flows lines would also require an adequate terminology.
We would support a clear distinction between intangible resources and intangible investment within financial reporting. The terminology designating capitals tend to confuse assets and liabilities and their usage should be made with caution and by always recalling definitions. Indeed, those bear a lot of ambiguities. This is even more true as many extra-financial reporting initiatives list multiple capitals with little consistency across the initiatives.

Nevertheless, the terminology on the intangible must be simple, clear, and conclusive. It must reflect how intangibles contribute to building the singular identity of an entity.
This implies that comparability is merely possible on the basis of the assets profiles. Thus, the terminology chosen should i) avoid to associate complexity with particular assets rather than with relations of assets or exogenous contexts, ii) avoid focusing on anxiety-provoking activities such as comparison, separation, that drive the user away from the intention of the entity (a brand is not initially built to be sold), and iii) avoid creating an undue technicality. All those pitfalls may lead the investors and others stakeholders to wrongly envisage the purpose of the entity, i.e. could bias the representation of an entity.

2 Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?

Yes, we agree with that proposal. Preparers of financial statements should not be required to disclose information on intangibles that would be commercially sensitive. However, we remind you that intangible assets cannot be copied, and information about that protection can be disclosed, whereas a strategy can be copied. Therefore, the sensitive part relies in the latter.

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?

There are no additional issues when considering how to provide better information on intangibles.

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. How- ever, 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?

Our view on the placement of information is based on the information temporal orientation.

This is why we suggested that information should be split in different levels of corporate communication :

- Past oriented information should be located in the financial statements:
  - The balance sheet should relate the cost of acquisition of an asset and its attributable costs. More costs could be capitalized.
  - The P&L would make expenses related to intangibles visible, those that are not attributable and those with a lifetime inferior to a year, this includes amortization and impairments.
  - The cash flow statement would also include specific lines about intangibles assets (brands etc.) or intangible activity (data protection costs, etc.).
- Present and future oriented information, more likely linked to financial materiality could find a placement in financial disclosure/ management report. Those could inform with more details about the value potential of the same intangibles (fair values, expected strategy, preservation management). We are in favor of a dedicated section to intangibles that would also articulate the three levels of intangibles related information.
- Impact materiality and when necessary, further financial materiality issues would be related to CSRD compliance. Sustainability reporting would provide information exposing how intangibles related to the entity’s and to society’s value creation, how they preserve the planet, people and profit, etc.

To make intangibles information more readable, we are in favor of a dedicated section in the URD, that adequately answers to the effective informational needs expressed by all stakeholders.