

# Intangibles survey research: Project update

## Executive Summary

<b>Project Type</b>	Research Project
<b>Project Scope</b>	Significant
<b>Purpose of the paper</b>	
This paper provides an update to the Board on the UKEB's <i>third</i> intangibles research output, a research report surveying investors' views on accounting for intangibles in the financial statements.	
<b>Summary of the Issue</b>	
<p>The Board approved a Project Initiation Plan for the first phase of intangibles research at its 21 April 2022 meeting. The Qualitative Research Report on Intangibles was published in March 2023, and the Quantitative Research Report is currently a work in progress.</p> <p>This paper sets out the key aspects of the UKEB's research surveying investors' views including the objective, structure, and timeline for the Survey.</p>	
<b>Decisions for the Board</b>	
<ol style="list-style-type: none"><li>1. Does the Board agree with the proposed approach to developing the questionnaire and would any of the Board members like to join a subgroup help to develop the questionnaire?</li><li>2. Do Board members have any comments on the timeline?</li></ol>	
<b>Recommendation</b>	
N/A	
<b>Appendices</b>	
N/A	

## Background

1. In April 2022, the IASB confirmed that a research project on intangible items would be one of three projects to be added to its work plan, as a direct result of its third agenda consultation.
2. The IASB staff paper<sup>1</sup> stated (paragraph 35) that:

“[an intangibles] project should aim to comprehensively review IAS 38 [*Intangible Assets*]. Although developing enhanced disclosure requirements (such as disclosures about unrecognised intangible assets) would help to address user information needs, feedback indicates that other aspects of IAS 38 also should be reviewed. For example, respondents said that IAS 38 is an old Accounting Standard in need of modernising to reflect the increasing importance of intangible assets in today’s business models.”
3. The IASB website currently states<sup>2</sup> that, “This project will aim comprehensively to review the accounting requirements for intangible assets. Initial research will seek to identify the scope of the project and how best to stage work on this topic to deliver timely improvements to IFRS Accounting Standards.” To date no specific timeline is provided.
4. In early 2022, the UKEB agreed to undertake a multi-output, proactive research project that would contribute to the international debate on intangible items. The research will focus on how the accounting for, and reporting of, intangible items could be improved to provide investors with more useful general purpose financial statements to help them make better informed decisions.
5. The initial phase of the research is focused on understanding stakeholders’ views (particularly investors) of the accounting for, as well as the current state of the reporting of, intangibles in the UK. This involves three reports:
  - a) A qualitative report focused on stakeholder views about the accounting for intangible assets, supported by economic analysis and a review of key literature. This report was published in March 2023.
  - b) A quantitative report examining the prevalence and economic relevance of intangible items for UK reporters, including an analysis of current practices among UK listed companies using IFRS Accounting Standards. This report is currently being drafted.

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<sup>1</sup> [AP24A: Projects to add to the work plan \(ifrs.org\)](#)

<sup>2</sup> [IFRS - IASB pipeline projects](#)

- c) An investor focussed report based on outreach with users (largely a survey, though other outreach through interviews and roundtables could be performed). This report is the focus of the current paper.
6. The UKEB's qualitative report on intangibles, published in March 2023, discusses the importance of intangibles from an economic perspective and sets out stakeholders' views on possible ways in which the accounting for intangibles could be improved.
  7. Interviews with stakeholders identified the following concerns with IAS 38:
    - a) It is an "old standard" that, in its current form, does not address the needs of the current business and economic environment;
    - b) The recognition criteria in IAS 38 often appear to be rule driven, with blanket prohibitions on the capitalisation of certain expenditures, and a high threshold for recognition of development expenditures. As a result, certain expenditure that could potentially meet the recognition criteria for an asset in the subsequently issued *Conceptual Framework* (2018) is not even considered for recognised as an asset.
    - c) The ability to recognise a far wider range of intangibles on the balance sheet when acquired through a business combination (and hence accounted for in accordance with IFRS 3) was frequently brought up by stakeholders. This approach seems to benefit companies growing through acquisitions, rather than organically, when it comes to balance sheet presentation.
    - d) Stakeholders indicated that there were elements of disclosure, both for capitalised and expensed intangible expenditure, that required further enhancements. The lack of disaggregation in expense disclosures, specifically those related to intangibles, was a common concern, especially for users who felt the information would be useful to allow them to develop expectations about the contribution of these expenditures to future cash flows.
  8. With respect to potential solutions, stakeholders concerned about the current approach took the view that any new approach to accounting for intangibles should be strongly grounded in the *Conceptual Framework* (2018). They considered that accounting should be principle-based, taking a broader approach relevant both to intangibles that exist today and to those that may emerge in the future. The approach will also need to address the possibility of future development of legal and other rights, and related markets.
  9. Some stakeholders showed an appetite for recognising more intangibles. They acknowledged, however, that this would require increased judgement from both users and preparers of financial statements and there were concerns about the potential for reduced understandability of the resulting financial reporting.

10. More disclosures about intangible assets were universally supported as a proposed solution, whether or not in conjunction with wider recognition. Users of financial statements in particular called for more granular reporting of expenditure related to individual intangibles (e.g., advertising, training, research). In addition, stakeholders expressed the desire for more qualitative information about key intangibles, especially those that were integral to a company's business model
11. Investors are a key stakeholder group and primary users of financial statement information. Investors interviewed for the qualitative research primarily commented on disclosure in the notes to the financial statements, wanting to better understand companies' investment in intangibles and their performance. Investors appear not to put significant weight on the recognition of intangibles on the balance sheet, not convinced that it will produce reliable information. Instead, they showed a preference for detailed disclosures of expenditure on such items to allow them to make their own assessment of the potential value creation.

## Survey research report: objective of the research

12. The investor survey will build on the qualitative report findings to further investigate some of the concerns and solution identified during the previous research and provide more granular evidence on UK investors' views on the topic of the accounting for intangible assets under IAS 38. In particular, the report aims to:
  - a) Provide an overview of the population of investors in the UK, to help identify the user categories the survey should focus on, as well as the organisations to target to obtain a representative sample.
  - b) Based on the above evidence, sample from the population of users in the UK and distribute a survey questionnaire;
  - c) Additional outreach may be conducted if the analysis of the responses points towards particular themes/issues to be analysed further.
13. Relevant evidence from the Quantitative Report, drafted in parallel, may also be used as an input for the Survey research. However, we anticipate that the survey will form the majority of the evidence for the report.

## Survey research report: structure

14. The Secretariat proposes the following structure:
  - a) Executive Summary

- b) Introduction
- c) Overview of investors in the UK
  - i. An overview of UK household savings and foreign portfolio capitals invested in the UK
  - ii. Granular evidence on investors and related assets under management
- d) Survey: methodology
  - i. Sampling
  - ii. Questionnaire design
- e) Survey: analysis of the results
  - i. Overview of respondents
  - ii. Intangibles: economic relevance – summary
  - iii. Intangible assets: current accounting – summary
  - iv. Intangible assets: way forward – summary
- f) Additional evidence (this may or may not be present)
- g) Conclusions
- h) Appendix A: methodology: sampling, questionnaire design and questionnaire
- i) Appendix B: additional analyses/evidence
- j) Appendix C: reference list

### Question for the Board

1. Do Board members have any comments on the research objective or proposed structure?

## Progress to date

15. The Secretariat have commenced work on the questionnaire. At a high-level, the Secretariat proposes that the questionnaire will focus on the following themes:
  - a) Economic relevance of intangibles as a driver to companies' performance;
  - b) What is investors preference towards, and actual use of, information related to intangibles; and
  - c) What investors would like to see in the financial statements in relation to intangibles.
16. The Secretariat spoke with the Investors' Advisory Group (IAG) in February 2023 to collect their views as well as suggestions for potential questions on the themes identified above.
17. A draft questionnaire is currently under development. However, we do not propose to share this ahead of going live to avoid priming or influencing any potential future respondents given the public nature of the paper/discussion. The Secretariat would like to work with a subgroup of Board members to further develop the questionnaire.
18. We invite Board members interested in joining the subgroup to express their interest at the Board meeting discussion.

### Question for the Board

2. Does the Board agree with the proposed approach to developing the questionnaire and would any of the Board members like to join a subgroup help to develop the questionnaire?

## Survey Research Report: Timeline and next steps

Board Meeting	Milestones
April 2023	Develop Survey including AAG Discussion
May - June 2023	Finalise Survey
July - September 2023	Administer Survey
October 2023	Update on Survey Outcome
Q4 2023	Develop Report
Q1 2024	Finalise Report

### Question for the Board

3. Do Board members have any comments on the timeline?