

# UKEB Intangibles Research

## IFASS meeting – Seoul

### 17 April 2024



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# UK Endorsement Board Research Project Accounting for Intangibles

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- Background
- Results – survey of users
- Results – quantitative analysis
- Next steps, Q&A and resources

# Intangibles Research Project

The UKEB's comprehensive research project:



Explored UK stakeholders' views on the accounting for intangibles under International Accounting Standards.



Reviewed the nature and extent of current reporting practices for intangibles among listed UK companies using IFRS standards.

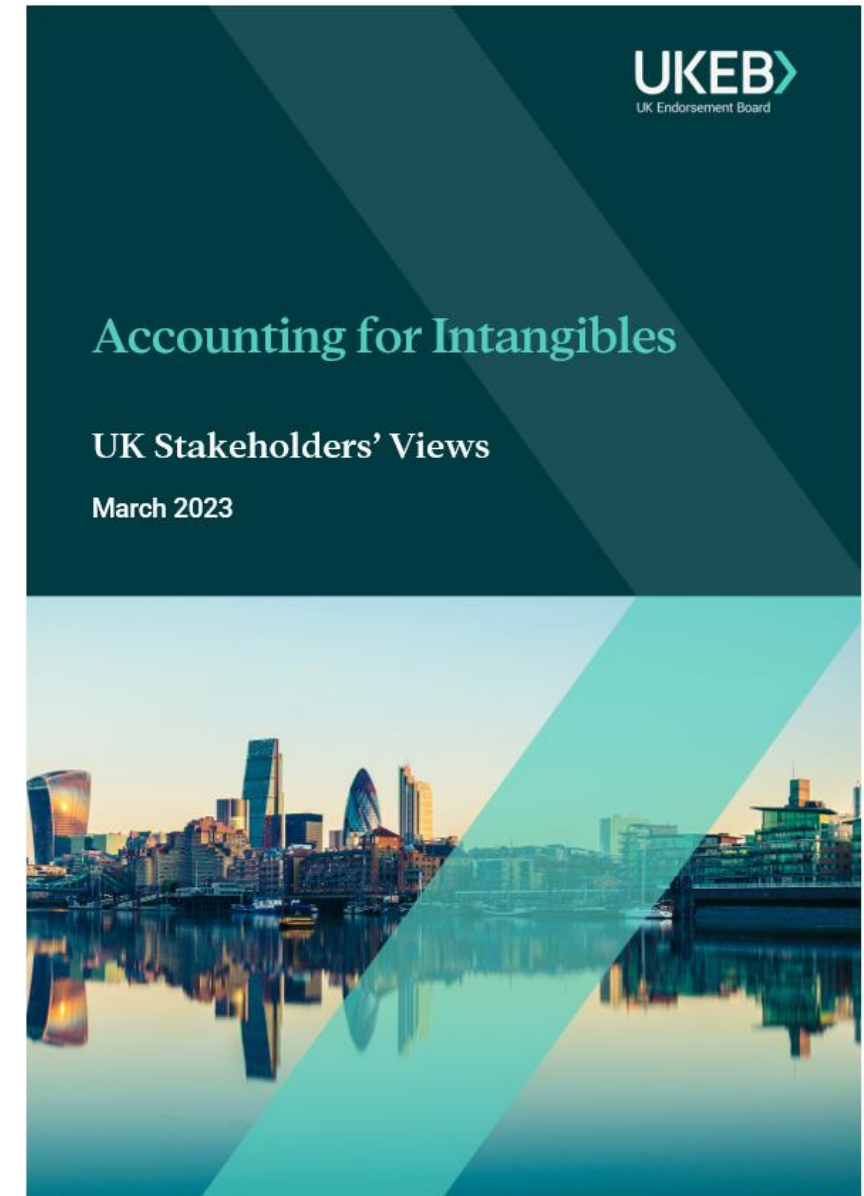


Engaged with investors to better understand their perspectives on the current and future reporting of intangibles in the financial statements.



# Intangibles Research Project

- The UKEB report '[Accounting for Intangibles: UK Stakeholders' Views](#)' was published in March 2023. It set out stakeholder views on the accounting for intangibles under international accounting standards within the context of the wider economic impact of intangibles in the UK.
- The UKEB will publish two reports in April 2024:
  - 'Accounting for Intangibles: A survey of users' views' focuses on a survey of users which was carried out in September 2023.
  - 'Accounting for Intangibles: A quantitative review of UK Listed Entities' focuses on an analysis of intangibles in financial statements.





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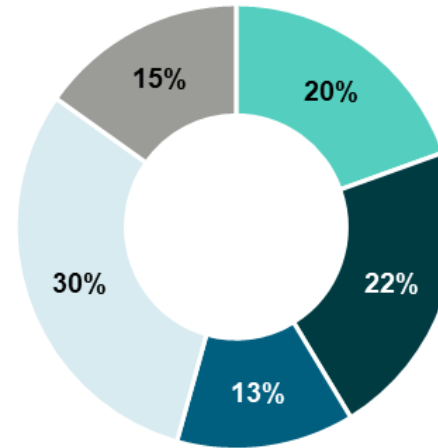
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# Accounting for Intangibles: A Survey of Users' Views

- Targeted survey of users of financial statements
- 46 responses



- UK users who invest in UK companies
- UK users who invest in foreign companies
- Foreign users who invest in UK companies
- UK entities that don't invest/lend
- Non-UK, non-investing entities

## Equity/fixed income analyst

- *“Clearly intangibles form an important part of most businesses. Failing to either provide disclosures or recognise intangible assets compromises the usefulness of financial statements”*

## Key findings:

1. Intangibles are economically important
2. Specific issues from comments
  - Limited disclosure/connectivity
  - Inconsistent categorisation
  - Lack of comparability
  - Concerns about subjectivity of measurement

# What users tell us they want

- **No radical changes** to recognition and measurement
- **More granular disclosures** would make users' lives easier
- **Concerns about diversity in practice** in accounting for non-traditional intangibles
- **Reliable information** being sought – **in financial statements/notes** rather than narrative



# What users tell us they want – but...

- Many acknowledge **current accounting is not particularly useful** for their investing and lending decisions!
- They say the accounting for intangibles could be improved
- **Users are utilising narrative information and making their own calculations**
- When asked about accounting for specific items they tend to **anchor on current accounting**
- These views should not prevent accounting standard setters from trying to find solutions that deliver better accounting



# However... Creditors are users too

**Creditors, particularly lenders, are starting to be more vocal on intangibles.**

- IP-back financed is a growing area of interest
  - Not just patents but including copyrights and “innovative database designs”
- Banks would find it **easier to lend if intangibles were recognised** in the balance sheet.
- **Interactions between company accounting and Banks’ regulatory capital rules** impeding lending to innovative companies
- It would also address concerns about **sufficient collateralisation of loans**

“Internationally set accounting rules mean IP and intangible asset value are often hidden on balance sheets.” – *WIPO Report: Unlocking IP-backed Financing: The United Kingdom’s Journey*



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# Accounting for Intangibles: A Quantitative Review of UK Listed Entities



- Examination of financial statement data on intangible assets reported by **all UK listed companies** (population) from 2011-2021



- Review of intangibles financial statement data of a **sample of 80 companies** for 2021



- Investigation of **M&A transactions** from 2011-2021 at market level and selected sample of the 20 largest deals

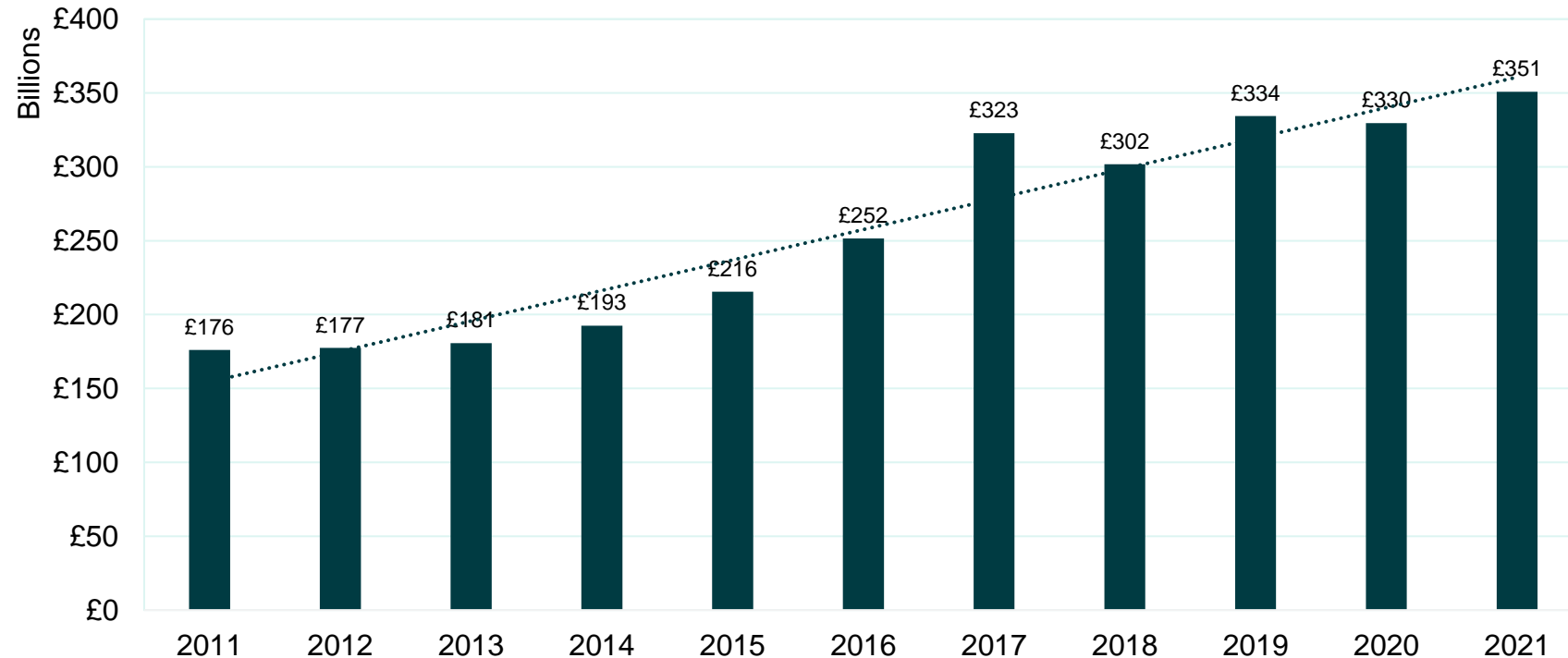


- Estimate of **value of unrecognised intangible assets** in UK listed companies for 2011-2021, and estimated distribution between industries and companies of different sizes

# Intangible assets in UK Listed Entities

- 2021 £351bn carrying amount of intangible assets (excluding goodwill)
- Average growth rate from 2011-2021 in intangible assets 8%

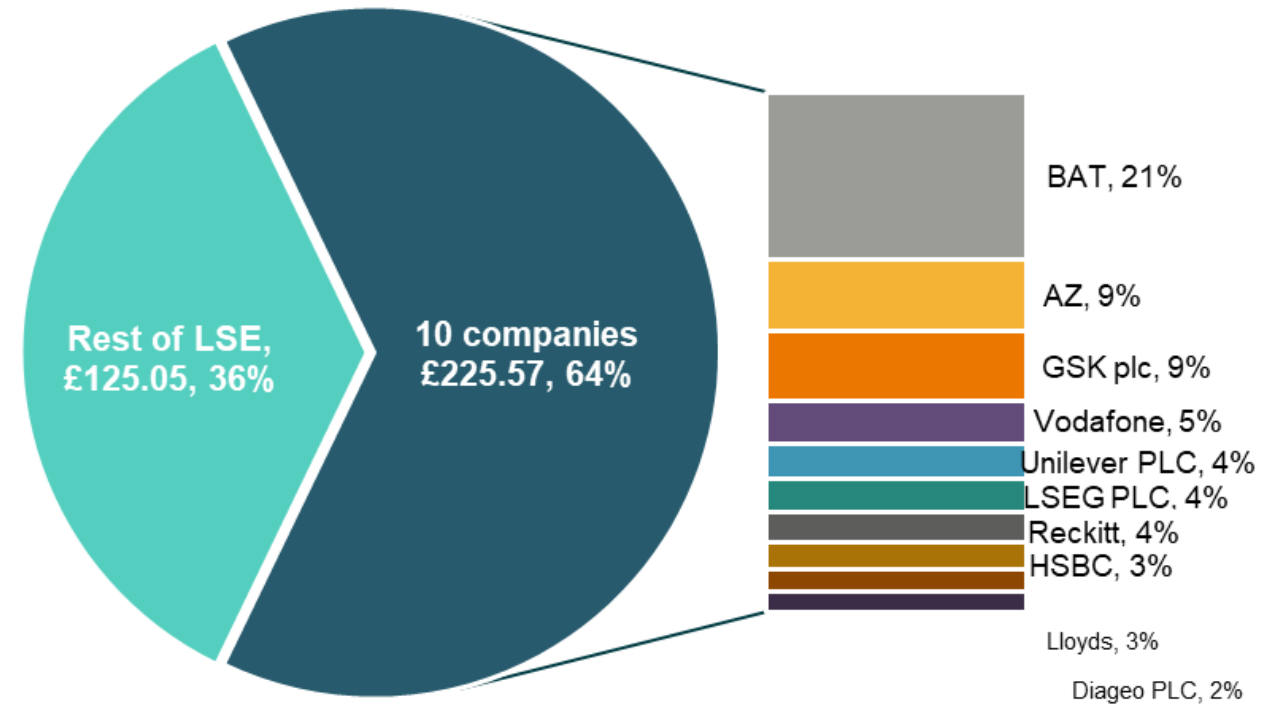
Value of net reported intangible assets, all UK listed:





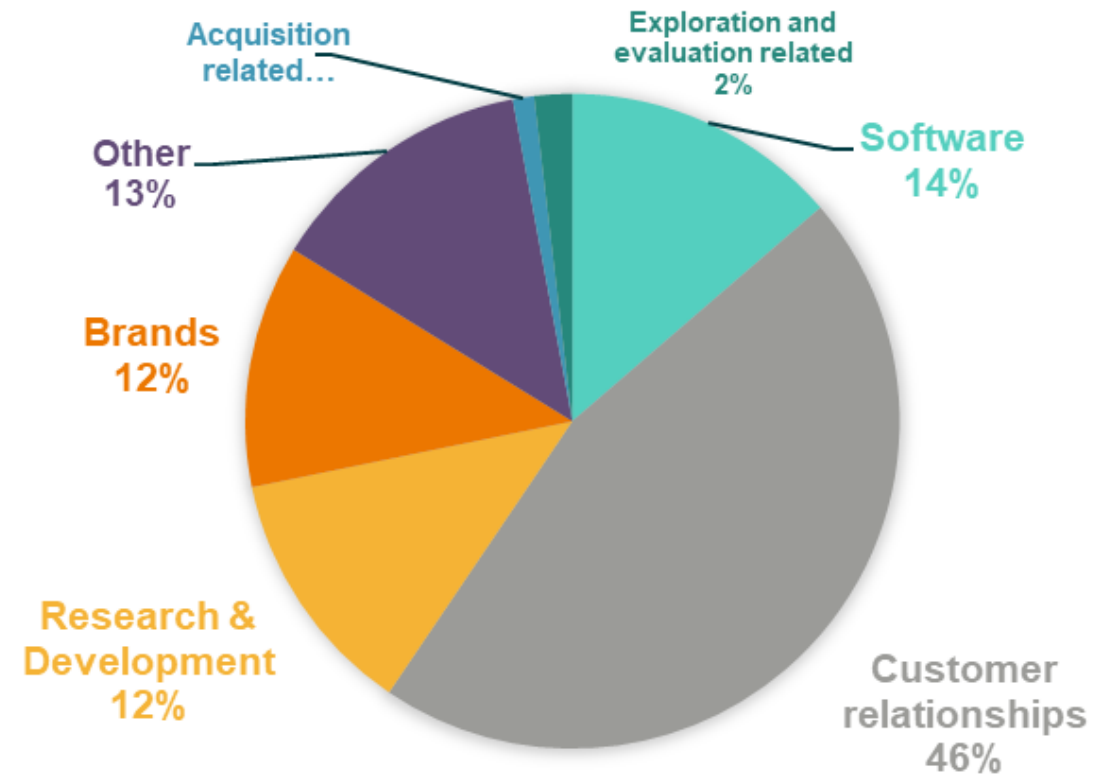
# Accounting for Intangibles – population data

- 79% of companies had at least one intangible asset on their balance sheet in 2021
- The largest 25% of companies had 97% of the intangible assets in the population
- 10 companies held almost two thirds of the total intangibles balance in 2021 – due to purchased intangibles from M&A activity



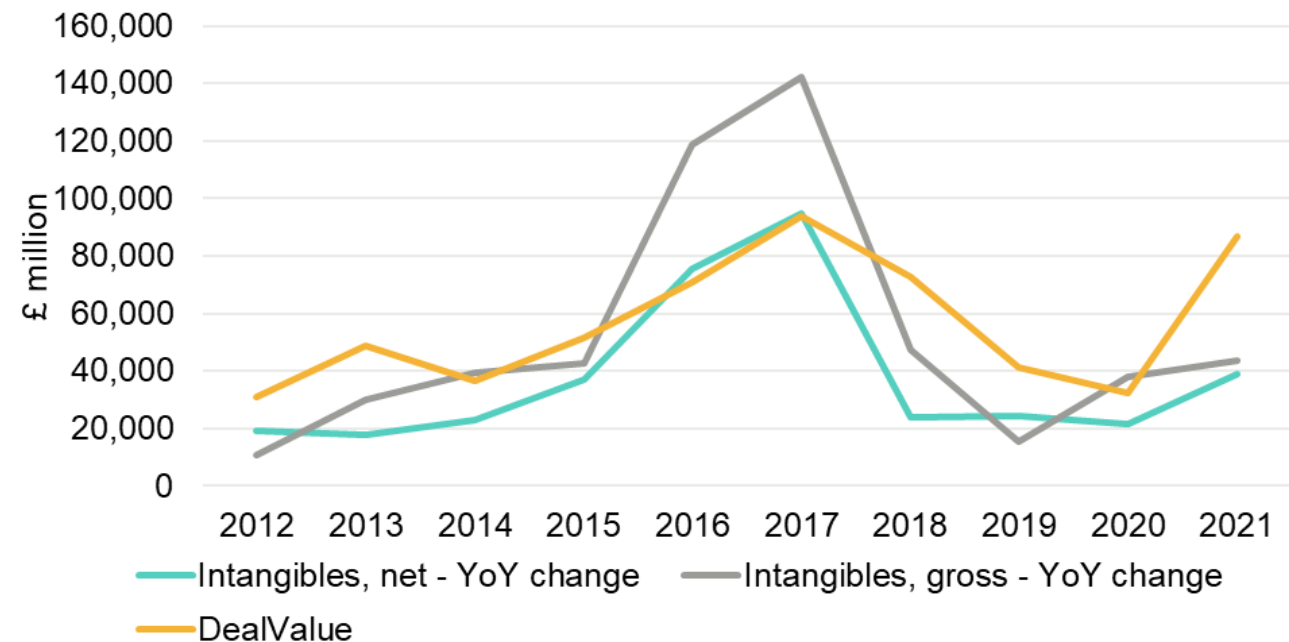
# Accounting for Intangibles – sample data

- Great variety of categories and terminology used in financial statements intangibles notes
- IP spanned R&D and brand items
- Smaller companies more likely to have R&D and software intangibles (internally generated) and a wider range of intangible assets than larger companies
- 31 companies disclosed research expense in the notes, but only 55% of these also had capitalised development costs



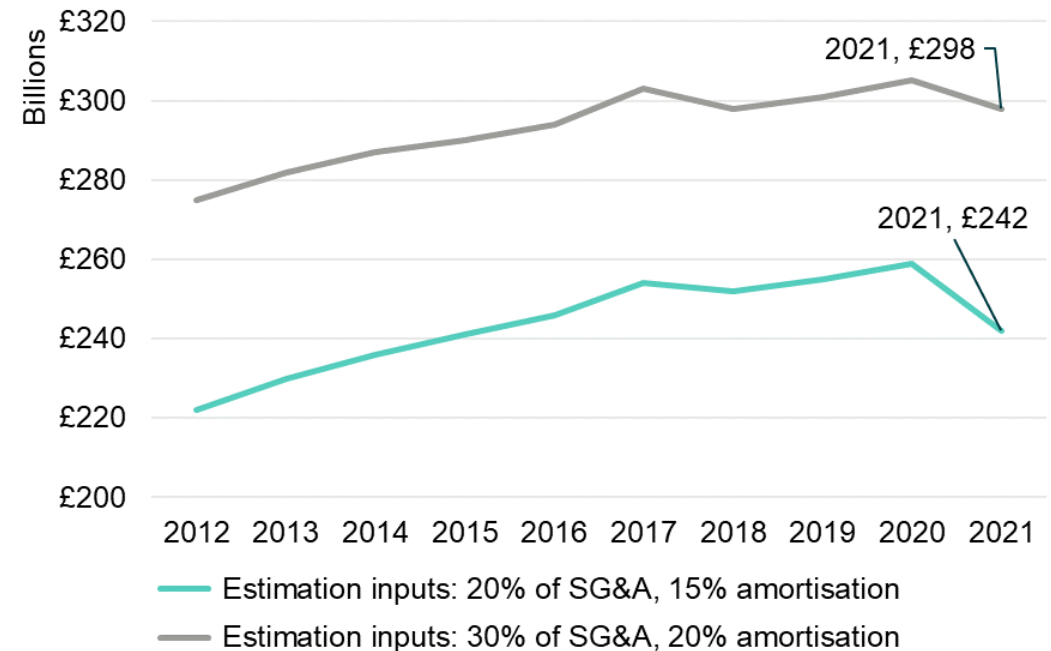
# Accounting for Intangibles – M&A transactions

- Correlation between intangibles at cost (gross) and carrying amount (net) and deal value over the period
- 20 largest deals: average intangible assets 33% of purchased assets but varied from 0-84%
- Deal narratives in ‘front half’ largely aligned with profile of assets acquired in financial statements



# Accounting for Intangibles – Estimate of value of unrecognised intangibles

- UKEB estimated unrecognised intangibles using two sets of assumptions used based on academic literature
- 2021 £242-298bn unrecognised intangible assets under market-wide approach
- Order of magnitude is similar to UKs Office of National Statistics estimates





# Key Takeaways

- While intangible assets are widespread and increasing in value, they still **only represent ~3% of the balance sheet**.
- **A few companies**, particularly those that have grown through acquisition, **hold most of the value of recognised intangibles**.
- Differences in accounting treatment for **internally generated and acquired intangibles hamper comparisons of companies** based on commonly used performance indicators.
- Differences between recognised and estimated unrecognised intangible assets could indicate the existence of an **intangible assets' recognition gap**.
- The disclosures are not as clear in all situations as they could be, **sometimes difficult to distinguish types of intangibles**.



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# Next steps

- Discussion planned at ASAF
- Pleased to discuss our findings further with national standard-setters and continue the intangibles discussion
- UKEB to consider its next steps after the publication of these reports



# Resources

[UKEB website](#)

[Intangibles research project page](#) contains links to all three reports

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