Accounting for Intangibles

A survey of users' views

May 2024

Contents

Executive Summary

UKEB research into the accounting for intangibles

1. This report explores, by means of a survey, users' perspectives on the accounting for and reporting of intangibles in financial statements. The survey addressed the economic importance of intangibles before examining in detail users' views of the current IFRS accounting for, and reporting of, intangibles. It also examined possible future accounting by presenting respondents with a range of different types of intangibles and considering possible future accounting treatments and disclosures.

2. The findings provide evidence about the views of investors and other users of financial statements.

Background to this report

3. The UK Endorsement Board (UKEB) launched this pro-active research project in accordance with the Board's thought leadership objectives of:

    a) Leading the UK debate on international accounting standards and reporting.

    b) Representing UK views in international fora with the aim of influencing debate.

    c) Engaging with other national standard setters including endorsement and adoption bodies in other jurisdictions, in order to improve influence and understand best practice.

    d) Proactively participating in the development of new global accounting standards, for example by undertaking research.

4. The UKEB will use the findings of this report, together with its other research work into intangibles accounting and reporting, to stimulate debate and provide an evidence base for the UKEB's engagement with the IASB and others to support the development of high-quality international accounting standards for use in the UK and internationally.

5. In response to feedback received on its Third Agenda Consultation, the International Accounting Standards Board (IASB) has announced that it is commencing a comprehensive review of accounting requirements for intangibles. The project will assess whether the requirements of IAS 38 *Intangible Assets* remain relevant and continue to fairly reflect current business models or whether the IASB should improve the requirements. The project scope and approach to be taken are subject to consultation with the IASB's stakeholders. The IASB had previously stated that the project will:

"relate to all aspects of IAS 38, including its scope, its recognition and measurement requirements (including the difference in accounting between acquired and internally generated intangible assets), and the adequacy of the information it requires to be disclosed about intangible assets". (IASB's Feedback Statement: Third Agenda Consultation, page 27).

Respondents to the survey

6. The UKEB survey was conducted during September 2023 and distributed to stakeholders, with the assistance of supporting organisations.

7. 46 responses (including 14 partial responses which answered questions on the current accounting for and reporting of intangibles and did not answer about future accounting and reporting) were received from a variety of users, including analysts and investors (50%), lenders and credit-rating agencies (6%) and others (44%). Given the UKEB's focus on influencing and endorsing IFRS Accounting Standards for use in the UK, a core group comprised of 28 respondents who invest in, lend to, or analyse UK companies, as well as UK respondents investing or lending abroad, was identified.

8. Checks were conducted for each question, to ensure that no significant differences existed between the core group's responses and the overall responses received. Where differences were noted, this is addressed in the report.

Current Accounting

9. The first half of the survey touched briefly on the economic importance of intangibles before focusing on users' views of the current IFRS accounting for and reporting of intangibles (excluding goodwill, other than where specified).

10. 85% of survey respondents considered that, from an economic perspective, intangibles make an "extremely" or "very" important contribution to companies' competitive advantage and value creation. This is consistent with the analysis of economic literature reported in the UKEB's Qualitative Report[1].

11. 52% of respondents viewed the existing intangibles information provided in IFRS financial statements as "extremely" or "very" useful.

12. Respondents highlighted a number of concerns about the existing accounting for and reporting of intangibles under IFRS Accounting Standards (both IAS 38 *Intangible Assets* and IFRS 3 *Business Combinations*). These included:

    a) the limited nature of some of the current disclosures;

    b) criteria that lead to inconsistent recognition of intangible assets by companies

1 UKEB Qualitative Report (March 2023) Section 2a

c) concerns about the subjectivity inherent in management's valuation of internally generated intangible items ; and

d) some concerns related to the measurement of acquired intangibles and goodwill.

13. Because current accounting requirements prohibit recognition of many internally generated intangibles as assets, companies growing organically tend to have fewer intangible assets recognised on their balance sheets than those growing through acquisition[2]. Respondents raised concerns about the resulting lack of comparability of intangibles recognised by otherwise similar companies with different growth patterns.[3]

14. Furthermore, almost three quarters of respondents reported making at least some adjustments to financial statements when comparing acquisitive companies with those growing organically. Their answers indicated that they use a range of strategies, including disregarding the carrying amount of intangibles and/or using reported expenses to estimate the reporting-date economic value of intangible assets using their own valuation methodologies.

Future Accounting

Recognition

15. The survey presented respondents with a range of different types of intangibles and asked whether they would prefer them to be capitalised or expensed. For most types of internally generated intangibles, a majority of respondents preferred expensing, although there was less agreement about whether to expense or capitalise software development and product development.

16. From the comments submitted, respondents indicated that they considered a range of factors when deciding whether they would prefer a given intangible item to be expensed. These included whether they perceived the expenditure to be a cost incurred in the ordinary course of business, and whether a given intangible item had a finite useful life. For example, respondents preferred intangibles such as training and advertising to be expensed, because they viewed them more as operating costs to business rather than an investment.

17. For most purchased intangibles, more than two thirds of the respondents felt that acquired intangibles should be capitalised, in line with current treatment under IFRS Accounting Standards. However, responses were more split between capitalising and expensing customer-related acquired intangibles and purchased data for value creation.

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2 This issue was also noted by stakeholders interviewed for the Qualitative Report and evidenced in the Quantitative Report

3 This theme is further explored in the UKEB's Quantitative Report, which analyses the impact of mergers and acquisitions (M&A) activity on intangibles in more depth.

18. Respondents also had mixed views about capitalising or expensing non-traditional intangibles, a term this report uses to include cryptoassets and emissions certificates. This outcome appears to reflect concerns made in respondents' comments about the auditability of the figures and potential biases in the estimates. Comments from some respondents also questioned whether classification of these items as financial instruments would be more appropriate.

Measurement

19. When questioned about preferred measurement models for a selection of capitalised intangible assets, at least two thirds of respondents indicated that they would prefer the cost model for almost all traditional assets, with the exception of human capital (about which more than half of respondents did not have a clear view). Users indicated that a fair value model (with changes recognised in profit or loss) would be more appropriate for non-traditional intangibles (e.g., emissions certificates and cryptoassets), though their answers depended on the intended use of the assets, with fair value preferred by nearly two thirds of respondents for items held for trading, investment and speculation.

Disclosures

20. Respondents were asked if items should be disclosed separately on the face of the financial statements or aggregated with other line items. They were also asked to indicate whether reporting on the face of the financial statements should be accompanied by further disclosures in the notes. For most internally generated intangibles, the majority of respondents preferred separate disclosure on the face of the financial statements. For some internally generated items, such as data, public relations and employee training, users did not express a strong preference for disaggregation, possibly because these are considered 'business as usual' operating expenses (as inferred from the comments made by respondents).

21. For most purchased intangibles, respondents expressed a clear preference for more disaggregated disclosure, with some exceptions.

22. For non-traditional intangibles, respondents again preferred disaggregated disclosure in the notes, rather than on the face of the financial statements.

23. The survey asked respondents to assess the usefulness of items on a list of suggested quantitative and qualitative disclosures not present within current IFRS requirements. Respondents largely chose a combination of quantitative and qualitative disclosures, providing insights into an intangible item's expected impact on revenue generation and financial performance. This is consistent with their views on the importance of intangibles expressed in Section 2 of this report.

24. The survey also asked where respondents obtained information about intangibles held by a company. Three quarters of respondents noted that they obtain this information from the front half of the annual report, whilst almost two thirds also use analyst reports. However, for two thirds of respondents, financial statements were the preferred source of information about intangibles.

Materiality

25. Respondents were asked about how they make materiality judgements on intangibles. A majority (84%) confirmed they consider both quantitative and qualitative factors. Of the qualitative factors used in determining materiality, almost four fifths of respondents noted that the future revenue generation potential of the intangible item was the most important factor.

What users want

26. Respondents identified limitations with the current accounting for intangibles, emphasising issues such as inconsistent accounting between companies that have chosen different growth strategies (by acquisition as opposed to organically). However, respondents did not express a clear preference for changes in the accounting (i.e., recognition and measurement) for traditional intangibles. Rather, they would generally prefer more granular disclosures. With reference to non-traditional intangibles (i.e., cryptoassets and emission certificates) there was a lack of strong consensus among respondents. Their most preferred option was for recognition on the balance sheet (42 to 54% of responses), at fair value (roughly two thirds of those respondents who preferred balance sheet recognition).

27. Most respondents adjust financial statement information to overcome some of the differences in the current accounting for intangibles, which could indicate dissatisfaction with current accounting, or that adjusting via their own models provides a competitive advantage in their analysis.

28. Respondents expressed a preference for information about intangibles to be disclosed in the financial statements, because they are audited. They would like more disaggregated disclosure on the face of the financial statements, or in the notes, for many types of intangibles. The survey responses suggest that users want better disclosures about intangibles in the financial statements. However, there is not widespread support for changing the current recognition and measurement model traditional intangibles.

Looking forward

29. The UKEB will use these findings as an evidence base in its future work on intangibles, as it develops its own views on accounting for intangibles.

30. The UKEB looks forward to contributing to future discussions on the accounting for intangibles.

1. Introduction

The UKEB intangibles research project

1.1 In response to feedback received on the International Accounting Standards Board's (IASB) Third Agenda Consultation, it has announced that it is commencing a comprehensive review of accounting requirements for intangibles. The project will assess whether the requirements of IAS 38 *Intangible Assets* remain relevant and continue to fairly reflect current business models, or whether the IASB should improve the requirements. The project scope and approach to be taken are subject to consultation with the IASB's stakeholders. The IASB had previously stated that the project will:

"relate to all aspects of IAS 38, including its scope, its recognition and measurement requirements (including the difference in accounting between acquired and internally generated intangible assets), and the adequacy of the information it requires to be disclosed about intangible assets".(IASB's Feedback Statement: Third Agenda Consultation, page 27).

1.2 In anticipation of an IASB review of intangible items, the UK Endorsement Board (UKEB) decided to initiate a research project focused on understanding UK stakeholders' views on the accounting for intangibles and gathering evidence about the UK intangibles landscape.

1.3 The UKEB wanted to understand whether there are concerns with the current approach to the accounting for, and reporting on, intangibles, particularly under IAS 38. In addition, for concerns that are identified, the UKEB wanted to explore possible ways to address them.

1.4 The UKEB's first report, which discussed UK stakeholders' views on the accounting for intangibles, was published in March 2023. This is referred to as the 'Qualitative Report' hereafter.

1.5 The second report on intangibles published by the UKEB aimed to better understand the current reporting on intangible items in the UK. It analyses the current practices among listed UK companies using IFRS Accounting Standards to examine the accounting for intangibles (including capitalisation and expensing), along with associated disclosures. The report also looks at the impact of mergers and acquisitions on reported intangibles along with estimating possible unrecognised intangibles. It is referred to as the 'Quantitative Report' hereafter.

1.6 This third report on intangibles, outlines the findings of a survey of users of financial statements, conducted in autumn 2023, about current and future accounting for intangibles. This is referred to as the 'Survey Report' hereafter.

Terminology and Accounting

1.7 In this report:

a) The term “intangible assets” is used to refer to intangible items specifically qualifying for recognition on the balance sheet (capitalisation), in accordance with IAS 38;

b) The terms “intangibles”, “intangible item” or “intangible expenditure” are used with a more general meaning, depending on the context, and include items that may or may not be currently recognised as assets under IAS 38, but may be considered assets in the economic meaning of the term;[4,5]

c) The terms “internally generated” and “purchased” intangibles are given the same meaning used in IAS 38.

1.8 This report assumes familiarity with the accounting for intangibles under IAS 38 *Intangible Assets*. Section 2 of this report contains a brief summary of the current accounting requirements (paragraphs 2.11-2.15). Readers looking for more detailed information on the accounting requirements may read section 1, paragraphs 1.10-1.25 of the UKEB’s Qualitative Report.

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4 In the economic literature the expression “intangible capital” is also common. See the UKEB’s Qualitative Report, paragraph 2.1.

5. The IASB has also started to use similar terminology (i.e., intangible items) for similar reasons. In the IASB’s April 2022 paper suggesting they undertake an intangibles project, it acknowledges that “although this paper refers to a project on intangible assets… one key issue to consider in such a project is whether it should be limited to accounting for and disclosing information about financial statement elements—intangible assets and expenses arising from expenditure on intangible items—or whether the project should aim to address intangible items more broadly” (paragraph 36).

2. Survey Results: Respondents and Current Accounting

2.1 The UKEB conducted a survey of users of financial statements during September 2023. Information about survey design and the survey questions is in Appendix D.

2.2 This section provides an overview of the demographics of the survey respondents. It then discusses their views on the current accounting for intangibles, drawing from the responses to the survey questions.

2.3 Respondents provided additional feedback in the open-ended comment boxes attached to individual questions. Comments have been analysed and representative or particularly insightful quotes highlighted.

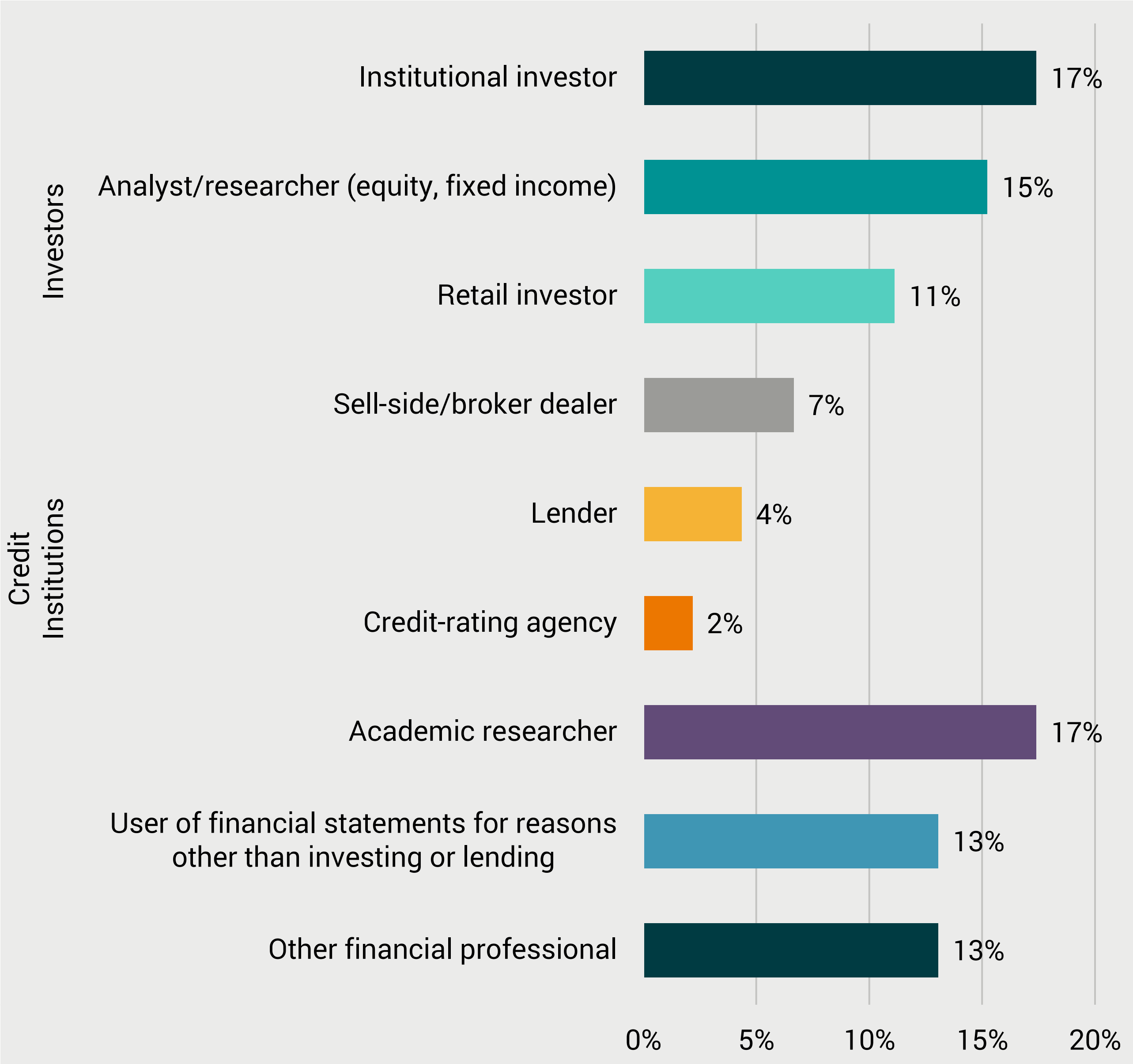
2.4 Respondents' comments gathered through comments boxes are reported verbatim throughout the report. When amendments have been made (such as adding emphasis or reporting excerpts) this is explicitly noted.

2.5 Throughout the report, percentages are rounded to the nearest whole number. This introduces minor rounding errors, meaning that some charts do not sum to exactly 100%.

Overview of survey respondents

2.6 The survey received a total of 46 responses (including 14 partial responses) from both UK-based and overseas users of financial statements. The demographic highlights are shown in Chart 1 below:

Chart 1: Respondents' occupations



*Percentages rounded to nearest whole number. This introduces a minor rounding error meaning that some charts do not sum to exactly 100%

2.7 The survey was primarily distributed to "users" of financial statements consistent with the meaning of the term used in the *Conceptual Framework for Financial Reporting* i.e., asset managers, analysts, lenders and credit rating agencies, broker-dealers.[6] However, it was also made available online and responses were received from a broader range of users, such as:

a) Academic researchers;[7]

b) Users who analyse financial statements for reasons other than investment or lending. These included independent appraisers, accounting experts for litigation, and professionals who work in advisory/consulting services;

c) Financial professionals, such as preparers of financial statements and auditors who identified themselves as users. These professionals confirmed that they use the financial statements of other companies as a key part of their professional activities.[8]

2.8 The majority of respondents were experienced users of IFRS financial statements. 85% of the respondents indicated that they have more than five years of experience using financial statements prepared in accordance with IFRS Accounting Standards. No responses were received from individuals who have less than one year of experience.[9] Chart 2 shows these results.

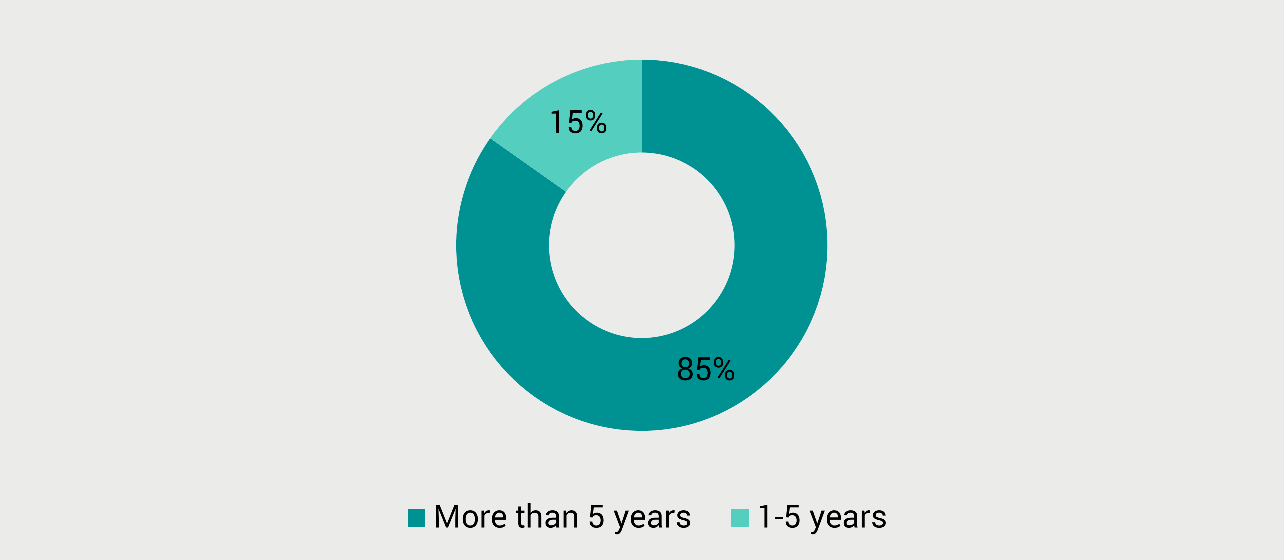
6 The *Conceptual Framework for Financial Reporting*, at paragraph 1.2, notes that financial reporting is useful to "to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity", which are considered "primary users" of financial statements. ;

7 According to the *Conceptual Framework for Financial Reporting*, users are identified as potential or existing investors, lenders or creditors. Academic researchers are not considered primary users within this framework, as they do not make resource allocation decisions. However, while academics may not be direct users, their research provides insights into the effectiveness of financial reporting in conveying relevant information to primary users. As such, academic research can inform the development and improvement of financial reporting standards, helping to enhance the overall usefulness of financial information.

8 It is not uncommon for preparers and auditors to analyse financial statements of other companies as part of their role, to gather intelligence on other companies in the same industry. For example, details of their accounting policies, where these are industry-specific, and accounting ratios. The views of preparers and auditors who responded to the survey are considered relevant, as they have had experience working with the preparation of the financial statements of companies which have business models particularly reliant on intangibles. These respondents may also have previous experience using financial statements for investment or lending advice.

9 Individuals with no experience at all were not allowed to take part in the survey.

Chart 2: Respondents' years of experience



2.9 Respondents were located both within and outside the UK. Their use of financial statements varied as follows:

a) 33% of respondents were users of financial statements who invest in, lend to or analyse companies in the UK. These respondents were split between UK-based users (20%) and users based outside of the UK (13%)[10];

b) 22% of respondents were UK-based users who invest in, analyse or lend to foreign companies;

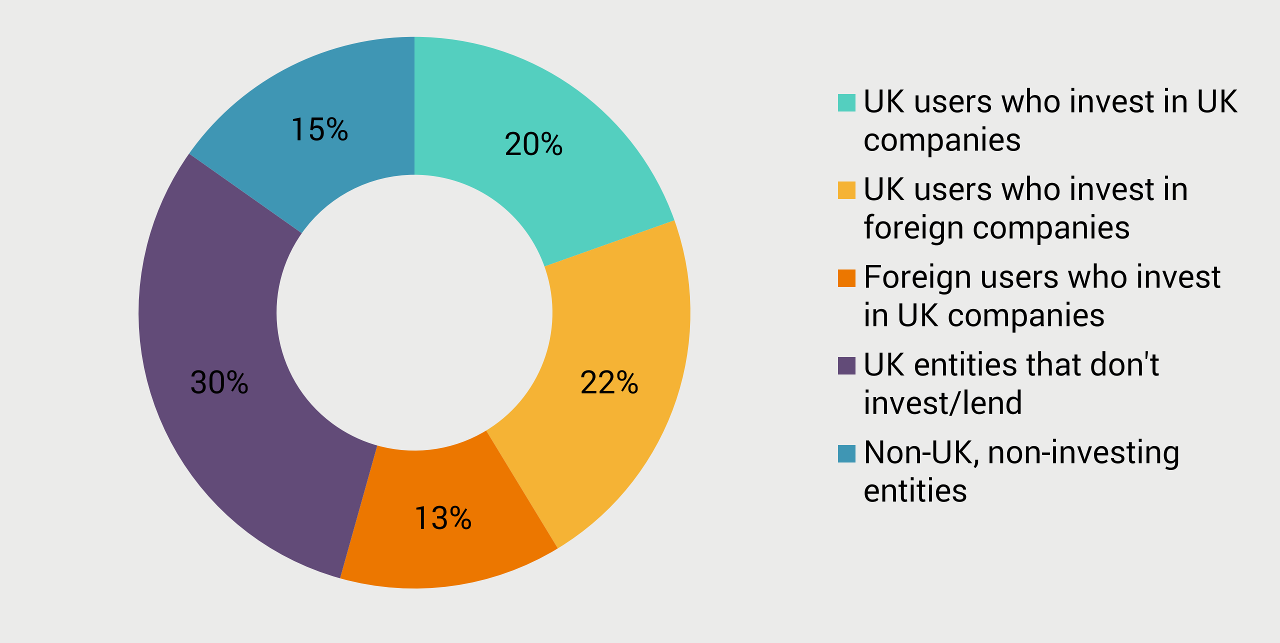
c) 30% of respondents were UK-based but were not “traditional” users of financial statements (i.e., were amongst the users identified above who do not invest in, analyse or lend to companies); and,

d) lastly, 15% of respondents were ”non-traditional” users based outside of the UK.[11] (see Chart 3)

10 As noted in paragraph 2.10, foreign users dealing with UK-based companies are considered UK stakeholders given the openness of the UK financial sector to international markets.

11 All respondents were required to indicate that they had experience working with financial statements prepared using IFRS and were otherwise not permitted to participate in the survey. As such, responses from individuals who are based outside of the UK and who do not transact with companies based in the UK are still assumed to be valid for further analysis. As a robustness check, these responses are excluded from the analysis to see if they skewed the result. Appendix C of this report contains more details of the robustness checks conducted on the survey response data.

Chart 3: Location of respondents' organisations and the location of the companies they primarily invest in / lend to / analyse



2.10 Given the UKEB's focus on influencing and endorsing IFRS Accounting Standards for use in the UK, a core group of 28 respondents who invest in, lend to, or analyse UK companies, as well as UK users investing/lending abroad, was identified.

2.11 Checks were conducted for each question, to ensure that no significant differences could be observed between the core group's responses and the overall responses received. By and large, the analysis conducted found no significant differences. The main body of the report provides comments on the few instances when some significant differences could be found. The detailed results of these robustness checks are presented in Appendix C.

2.12 Some respondents (14) only completed the first half of the survey i.e., including all questions related to the current accounting for intangibles under existing IFRS Accounting Standards. Exclusion of these partial responses from the total number of responses does not alter the overall distribution of respondents' occupational categories, suggesting that no specific group of respondents systematically stopped answering the survey half-way through. These partial responses are expected to fully reflect users' views on the current accounting for intangibles and were used in the analysis in this section of the report.

Current accounting for intangibles

2.13 The requirements relating to the recognition of intangible assets mainly derive from two IFRS Accounting Standards, IAS 38 *Intangible Assets* and IFRS 3 *Business Combinations,* and are summarised in Table 1 below.

Table 1: Current IFRS requirements for initial recognition of intangible assets

Type of intangible	Recognition	Examples	Standard and paragraph reference
Internally generated intangibles (development costs)	Capitalise at cost providing criteria are met	Only technological, scientific or software development allowed for recognition. IAS 38 (paragraph 63) prohibits capitalisation of "internally generated brands, mastheads, publishing titles, customer lists and items similar in substance". Therefore, these items, as well as research and development expenditure which does not meet the capitalisation criteria in IAS 38, must be expensed as incurred in the Statement of Profit or Loss.	IAS 38 paragraphs 51-67
Separately acquired intangible assets	Capitalise at cost	Licences, emissions trading certificates, brands	IAS 38 paragraphs 25-32
Identifiable intangible assets acquired in a business combination	Capitalise at fair value	Brands, customer relationships, technical developments	IAS 38 paragraphs 33-37 and IFRS 3 paragraph 18
Goodwill resulting from a business combination	Capitalise	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.	IFRS 3 paragraph 32

2.14 The requirements relating to the subsequent measurement of intangible assets again derive from the same two IFRS Accounting Standards and are summarised in Table 2 below.

Table 2: Current IFRS requirements for subsequent measurement of intangible assets

Type of intangible	Measurement	Standard and paragraph reference
Development costs (internally generated)	Cost less amortisation and impairment losses (cost model)	IAS 38 paragraphs 72-87
Separately acquired intangible assets	Cost less amortisation and impairment losses (cost model) Or fair value less amortisation and impairment losses (revaluation model)	IAS 38 paragraphs 72-87
Identifiable intangible assets acquired in a business combination	Cost less amortisation and impairment losses (cost model) Or fair value at acquisition date less amortisation and impairment losses (revaluation model)	IAS 38 paragraphs 72-87, IFRS 3 paragraphs 54 and B63
Goodwill resulting from a business combination	Not amortised; annual impairment test. Goodwill amount determined in accordance with IFRS 3	IFRS 3 paragraphs 54 and B63

2.15 IAS 38 stipulates that the use of the revaluation model requires there to be an 'active market' for the intangible asset so that a fair value can be established (paragraph 75). This is expected to be 'uncommon' (paragraph 78) and for brands, mastheads, music and film publishing rights, patents and trademarks, paragraph 78 states that an active market 'cannot exist' because 'each such asset is unique'. For these types of intangible assets, the cost model must be used.

2.16 IAS 38 also requires intangible assets with indefinite useful lives under either the cost or revaluation model not to be amortised, instead requiring an annual impairment test (paragraphs 107-108).

Users’ views on the current accounting

2.17 The first half of the survey sought users’ views on the current accounting for intangible items, focusing on:

a) The economic relevance of intangible items;

b) The usefulness of overall and individual IFRS intangibles disclosures (both on the face of financial statements and in the notes); and,

c) The use respondents make of financial statement information on intangible items.

2.18 In the analysis that follows, the size of the sample means that one respondent accounts for approximately 2% of the overall responses. Therefore, in situations in which the responses show a slight majority but no overwhelming support or disagreement towards a statement, the explanations refer to “mixed views” rather than outright support, or lack thereof.

Intangibles matter

> “Clearly intangibles form an important part of most businesses. Failing to either provide disclosures or recognise intangible assets compromises the usefulness of financial statements”. (Equity/fixed income analyst)

2.19 Respondents acknowledged the economic relevance of intangibles to companies. However, many did not find the information disclosed in financial statements prepared using existing IFRS accounting standards equally useful. This may suggest that there is an expectations gap between the importance of intangible items to users, and the usefulness of information disclosed in the financial statements.

2.20 When asked if intangible items, whether reported or unreported, are an important source of competitive advantage, a clear majority of respondents indicated that they are economically important. 85% of respondents (39 individual responses) stated that intangibles are “very or extremely important”, with only one respondent indicating that intangible items are “not at all important” (see Chart 4).

2.21 These results suggest that users of financial statements consider intangible items to be a relevant determinant of companies’ performance, regardless of whether they are reported in the financial statements.

2.22 Respondents’ comments elaborated on the important role of intangibles as predictive indicators of future cash flows and profitability. This came across irrespective of respondents’ professional background.

2.23 An equity/fixed income analyst for example noted:

"In the modern world **competitive advantage is almost always somewhat related to brand, research and development**. You basically cannot properly estimate [competitive advantage] without an understanding of intangible assets and their value". (emphasis added)

2.24 Echoing this sentiment, an institutional investor stated:

"Intangibles are in many sectors the major drivers of future financial performance, **investment in them is the best indicator of future success for the business**. Investors are always investing in the future, not the past or present, so intangibles are crucial". (emphasis added)

2.25 A credit-ratings agent who indicated that, economically, intangibles are "somewhat important" offered a more nuanced perspective:

"Viewed through a credit lens, intangibles of themselves tell us relatively little directly about future profitability, but nevertheless we accept **that if a company did not have the rights/knowledge/skills associated with the intangibles, they probably wouldn't generate the profits we expect**". (emphasis added)

2.26 These views highlight the importance of intangibles to the potential value creation within companies from the users' perspective.

Accounting for intangibles could be better

2.27 While there was broad consensus about the economic importance of intangibles, many respondents suggested that the information presented under current IFRS Accounting Standards could be improved.[12]

2.28 When asked about the overall usefulness of the information disclosed on intangible items for investment or lending decisions, fewer respondents indicated that it is useful compared with those who indicated that intangibles are economically important. 52% of respondents (24 individual responses) suggested that the information disclosed overall, is either "very" or "extremely" useful. 35% of respondents (16 individual responses) suggested the existing information is "somewhat" useful and 7% (three individual responses) suggested that it is "not at all" useful (see Table 3 and Chart 4).[13]

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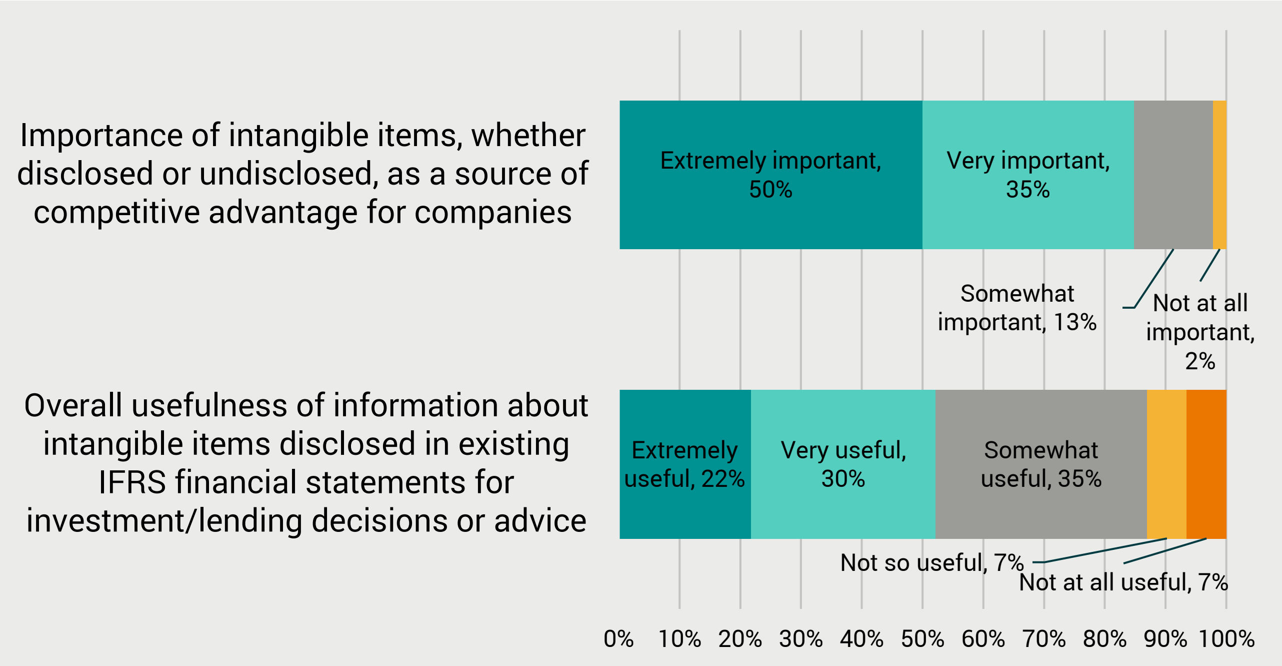
12 This is consistent with the stakeholder views expressed in the interviews conducted for the UKEB's Qualitative Report and discussed in section 3 of that report.

13 The quantitative responses were checked for variation depending on the respondents' background/occupation. The core group of respondents did not express a significantly different view for either of these questions when compared to the overall responses, thereby providing support for the robustness of this finding.

Chart 4: Economic importance of intangibles and the overall usefulness of information in the financial statements prepared under existing IFRS Accounting Standards



Note: this chart shows the responses to two survey questions, one on the importance of intangible items and a second question on the extent to which respondents find information disclosed about intangibles under existing IFRS financial statements useful overall for investment/lending decisions or advice. The survey questions are reproduced in Appendix D. All 46 respondents provided an answer to both of these questions.

Current financial statement information about intangibles

"At a very high level, the more information provided to investors, the better the ability to make efficient capital allocation decisions. Thus, I am pro receiving information and then utilizing as is appropriate for my own particular processes". (Equity/fixed income analyst)

2.29 While half of the respondents indicated they felt that the information provided on intangibles in financial statements was useful, many indicated that there were opportunities for improvement. The following comments made by respondents focus on this theme.

Limited disclosure/connectivity

2.30 One institutional investor stated:

"**Further visibility, in a qualitative as much as quantitative way, would be useful**. This may on occasions fit better in narrative reporting than in the financials (though there is clearly some benefit from it being audited in some way)". (emphasis added)

2.31 A broker-dealer noted:

"There are insufficient disclosures to get a proper understanding of intangible items and their importance to a firm".

Inconsistent categorisation

2.32 Comments highlighted concerns about limited disclosure, inconsistent categorisation of intangibles, and the terminology used to describe them. A financial professional commented:

"The present categories and the grouping together of things that are not necessarily like for like is less than helpful in an era of emerging technologies, and new types of assets or applications of new technologies to existing assets".

Lack of comparability

2.33 Another issue noted was a lack of comparability. As one financial reporting manager stated:

"**The issue is comparability as a company that has grown through acquisition will have more assets [on the balance sheet] than a competitor that grew through internal development**. This leads to very different performance in their income statements and balance sheet positions. It makes it very hard especially for retail customers to actually compare companies". (emphasis added)

Concerns about the measurement of intangibles in financial statements

2.34 A number of stakeholders expressed concerns about the measurement of intangible assets on the balance sheet. An analyst stated:

"I am a professional software sector equity analyst. **I have NEVER used the IFRS values of intangible assets in my assessment of a company**. Disclosure is only useful insofar as it allows me to unpick these artificial numbers (e.g., unwind capitalisation of R&D [research and development], assess return on operating assets)". (emphasis added)

2.35 Though another equity/fixed analyst stated that they find the information presented generally useful for their purposes and provided examples:

"Often times, I am examining capitalised R&D costs relative to gross research and development expense … I often also look at the proportion of intangibles relative to total assets … [and] assess goodwill relative to purchase consideration and compare this within a company's history as well as across the company set".

Overall assessment of identified themes

2.36 With the shift from a manufacturing-based economy towards one more reliant on digital and other services, the importance of intangibles to drive productivity and competitive advantage has risen significantly. From an economic perspective, it can be said that intangibles have a durable impact on companies' performance and their returns are reaped over future periods. They are expected to be significant contributors to the generation of future cash flows for the entity. Therefore, better information about intangibles could be beneficial when assessing a company's potential future performance. Survey responses appear to be broadly in line with these considerations.

Expectations Gap

2.37 Table 3 shows the respondents' 'expectations gap' – that is, respondents who do not believe that the current disclosures sufficiently capture the underlying economic importance of intangibles. This is shaded in orange in the table below. The table was developed by comparing responses to the questions on economic importance of intangibles and on the usefulness of IFRS disclosures reported separately in Chart 4.

Table 3: Comparing responses on usefulness of information about intangibles under existing IFRS and economic importance of intangibles

		Economic importance of intangibles				
		Extremely important	Very important	Somewhat important	Not so important	Not at all important
Usefulness of information under existing IFRS	Extremely useful	35% (8)	6% (1)	17% (1)	0%	0%
	Very useful	22% (5)	38% (6)	50% (3)	0%	0%
	Somewhat useful	30% (7)	44% (7)	33% (2)	0%	0%
	Not so useful	9% (2)	0% (0)	0% (0)	0%	100% (1)
	Not at all useful	4% (1)	13% (2)	0% (0)	0%	0%
		100% (23)	100% (16)	100% (6)	0%	100% (1)

2.38 Only 35% of respondents who indicated that intangibles are "extremely" important from an economic point of view also indicated that they find the information disclosed under existing IFRS to be "extremely" useful. So, 65% of these respondents found the accounting proportionally less useful (15 out of 23 respondents).

2.39 Similarly, only 44% of respondents (seven out of 16 respondents) who indicated that intangibles are "very" important from an economic point of view indicated that existing IFRS information is either "extremely" or "very" useful for investment or lending decisions. 57% of respondents who indicated that intangibles were "very" important considered that existing disclosures were less than "very" useful.

2.40 This pattern of responses suggests that a majority of users who viewed intangibles as very important from an economic perspective considered that financial statement information about intangibles could be improved.

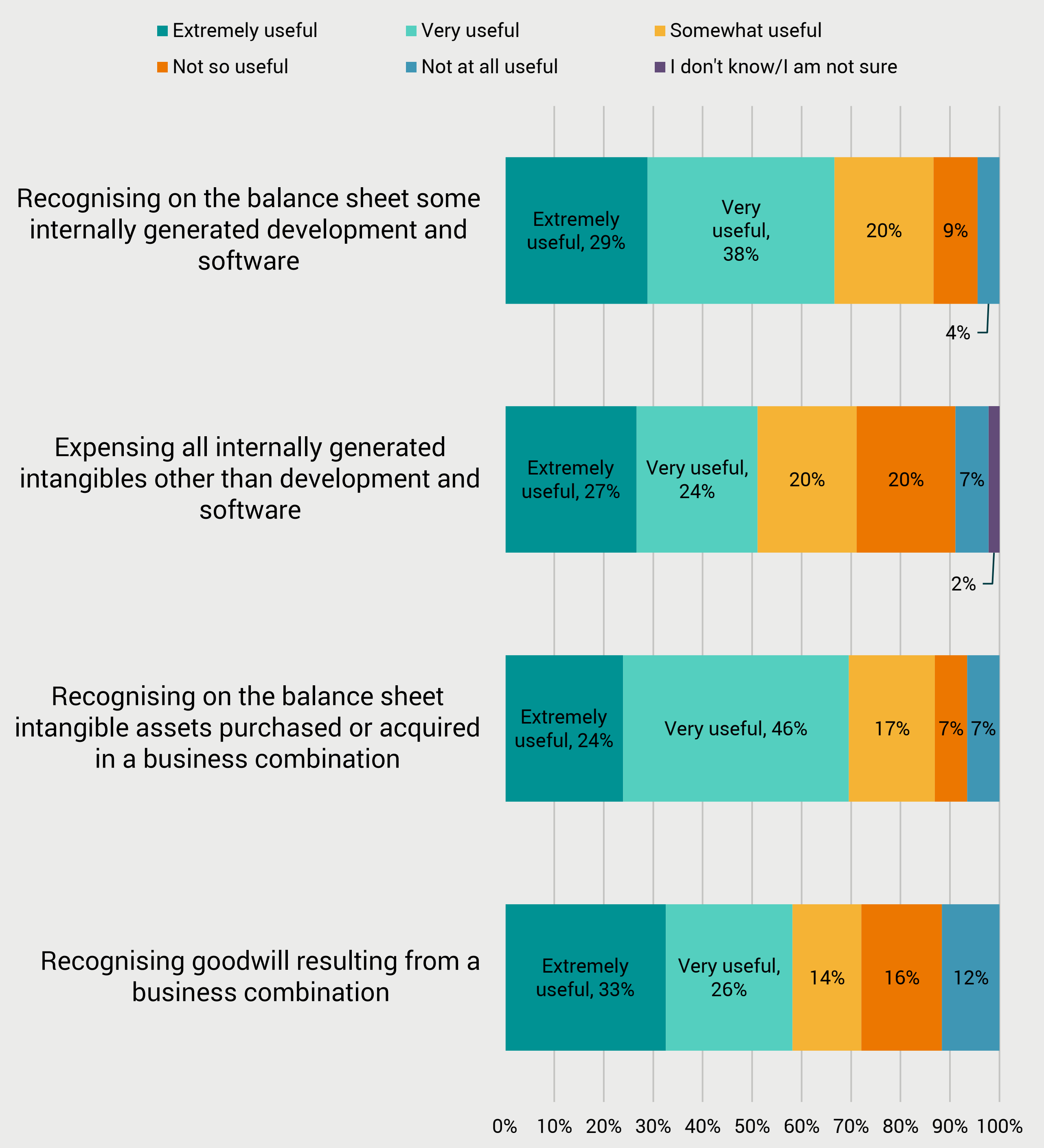
2.41 A number of respondents also felt that the value of intangibles is reflected in other elements of the financial statements. For example, a sell-side /broker dealer who indicated that they find the overall disclosures "extremely" useful stated:

> "On the whole I do not like to see a big number for intangible assets as such assets are illiquid and valuations are subjective… **Strong brand equity is manifested in sales and profits**". (emphasis added)

Usefulness of current accounting requirements

2.42 Respondents were asked to evaluate the usefulness of individual accounting requirements under IAS 38 (and relevant parts of IFRS 3). Chart 5 provides a visual representation of these results.

Chart 5: The usefulness of different types of accounting information



Note: Between 43 and 46 respondents provided answers for each of these questions

Capitalise internally generated development and software assets

2.43 When asked to indicate whether the recognition of internally generated development and software assets is useful for investing, lending or analysis, a clear majority of respondents indicated that it was useful. 67% of respondents (30 individual responses) suggested that recognition of internally generated assets is either “very” or “extremely” useful, with a minority of respondents (13%) indicating the contrary.

Expense all other internally generated intangibles

2.44 51% of the respondents indicated that the IAS 38 requirement to expense all internally generated intangible items (other than development and software) is either “very” or “extremely” useful. That being said, 27% of respondents (12 individual responses) indicated that they do not find this requirement useful.

Recognition and measurement: themes from the comment boxes

Inconsistent accounting

2.45 One reason for investors’ concerns about the current accounting related to the inconsistent accounting requirements that apply to intangibles.

2.46 An analyst noted that: “Capitalising intangible assets is useful, but that **usefulness is compromised where there is inconsistency in what is capitalised**”. (emphasis added)

2.47 An equity/fixed income analyst shared a similar view, further stressing how the current accounting for internally generated intangibles limits comparability:

“**Totally inconsistent and partial recognition of R&D spend is worse than useless**. There is no good reason for capitalising certain R&D spend and not capitalising other spend. It does not help with comparative analysis. My preference is no capitalisation [of any intangibles] at all”. (emphasis added)

2.48 Related to this was also a concern with the requirements of IAS 38 being inconsistent with the *Conceptual Framework*.:

“Expensing all internally generated intangibles would seem to go against the conceptual definition of an asset. So, certainly **capitalising those costs which meet the definition of an asset … makes sense**. Regarding recognising those on the balance sheet – this largely makes sense outside of those industries in which it is customary to recognise such costs and then regularly expense them due to failed trials (e.g., biopharma)”. (emphasis added)

This issue was explored in the Qualitative Report (paragraphs 3,9-3.20). the topic in the qualitative report, paragraphs 3.9-3.20).

2.49 An institutional investor noted that the recognition of more intangible assets on companies’ balance sheets would not be a panacea for providing useful information. There were clear calls for enhanced disclosures. For example, enhanced information related to what companies expense would be useful:

“Recognition on the balance sheet is much less useful than understanding the cash being invested / expensed to create and preserve future operational cash flows. I value businesses using P&L and Cash Flow and rarely revert to the balance sheet except to look at solvency and maintenance of the physical estate.

Capitalisation of intangibles is generally highly subjective and the value on balance sheet is not that useful. **The only reason to have them on balance sheet is to get closer to the true ROI of the business**". (emphasis added)

Capitalise all acquired intangible assets

2.50 70% of respondents (31 individual responses) suggested that the capitalisation of intangible assets acquired in a business combination is either very or extremely useful for investing, lending or analysis. By contrast, 13% of respondents (six individual responses) did not find such capitalisation useful (either "not so" useful or "not at all" useful).

2.51 59% of respondents (25 individual responses) suggested that recognition of goodwill arising from a business combination is either "very" or "extremely" useful. A minority, 28% of respondents (12 individual responses), suggested that it is either "not so" useful or "not at all" useful.

The accounting for acquired intangibles: themes from the comments

The importance of acquired intangibles

2.52 With regard to acquired intangible assets, respondents highlighted the usefulness of current accounting practice, stressing the importance of information which allows investors to assess management's stewardship of resources. The following statements were all provided by institutional investors:

a) "Intangibles can often be the key competitive advantage for a company and so, as an investor, I want as much information as possible about them. **When companies acquire other companies, I want to make sure that they have not overpaid and so I pay particular attention to the intangibles which result from M&A**, especially if those intangibles account for a significant proportion of assets. Again, I want as much information as possible about them". (emphasis added)

b) "Insights into ongoing investments in the creation of intangibles is useful, not least to hold management to account for those investments (or the lack of them). The incorporation of asset valuations is of less value, largely because the number included will always be wrong - again, management should be subject to being held accountable for expenditures, hence there is some benefit from the inclusion of acquired assets. The recognition of created assets is of less clear value".

c) "Acquired balances are useful to the extent one can hold management to account for their ROI reflecting M&A but usually the attribution between intangibles is not that helpful (nor is fair value of inventory). More important is an understanding of wasting vs organically replaced intangibles arising on M&A".

2.53 With respect to goodwill, an equity/fixed income analyst noted:

"**Goodwill from business combinations is another pointless asset to recognise on the balance sheet.** If I want to assess the return on an acquisition, I would prefer to assess this as an independent exercise, rather than muddling acquired customer values, goodwill, and all other assets in one mechanically calculated figure for 'capital' on which I calculate a return". (emphasis added)

Core group foundcurrent accounting less useful

2.54 It should be noted that the core group of respondents[14] indicated that they found some of the accounting requirements somewhat less useful than suggested in the overall responses, mainly around the recognition of software and development costs and of acquired intangibles.

a) 56% of the core group of respondents found the requirement of recognising only software and development costs useful, compared with 67% in the overall responses; and,

b) 57% of core respondents found the requirement to capitalise acquired intangible assets useful. This is lower than the 70% for respondents overall.

2.55 As noted by an institutional investor, it may be that the core group of respondents is more sceptical than other respondents about companies' approaches to the capitalisation of intangible assets:

"From an investor point of view, it is very useful to know what, why and how each intangible asset has been recognised on the balance sheet. Considering that companies are more likely to inflate assets rather than expenses, the concerns around valuation of intangible assets are likely to outweigh those in relation to research expenses".

2.56 This may suggest that the core group of respondents expressed a greater level of dissatisfaction about recognition criteria for intangible assets, compared with other groups of respondents.[15]

14 The core group of respondents is described in Section 2 of this report, paragraph 2.10. The robustness checks are reported in Appendix C.

15 Further detail is provided as part of the robustness checks on the survey responses in Appendix C of this report.

Current recognition and measurement requirements for intangibles are largely seen as appropriate, with some exceptions

2.57 Taken together, the comments and quantitative responses suggest that:

a) respondents believe some requirements of IAS 38 are inconsistent with the *Conceptual Framework* and lead to inconsistent accounting;[16]

b) the subjectivity inherent in management's valuation of internally generated intangible items makes respondents (particularly investors) sceptical about companies' approaches to their capitalisation;

c) respondents were generally satisfied with the accounting for acquired intangible assets. They emphasised the benefit of acquisition accounting as it enables respondents to hold management accountable for its stewardship of resources; however

d) in the comment boxes respondents showed awareness of the limitations of the current accounting and, in some circumstances, some degree of dissatisfaction.

Disclosures

2.58 Respondents were asked to assess the usefulness of disclosures in the notes to the financial statements provided under existing IFRS Accounting Standards.

2.59 The existing disclosure requirements were separated into the following categories:

a) Quantitative disclosures, which refer to the useful life, amortisation and impairments, in the case of assets;

b) Qualitative disclosures, which refer to descriptions.

2.60 Existing IFRS Accounting Standards encourage (but do not require) companies to provide disclosures about significant intangible assets controlled by the company, but not recognised as assets.

2.61 Respondents were asked to rate the usefulness of each category of disclosures for both intangible assets and expenses, respectively.

2.62 Respondents provided a strong indication that disclosures are a valuable source of information, irrespective of whether they are quantitative or qualitative.

16 The *Conceptual Framework* (Para. 2.27 – 2.28) describes the enhancing qualitative characteristic of comparability as follows "for information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity".

2.63 The majority of respondents (80% - 81%) indicated quantitative disclosures are “extremely” or “very” useful for investment, lending and analysis.

2.64 As noted by one analyst:

“The more quantitative and qualitative information the better”.

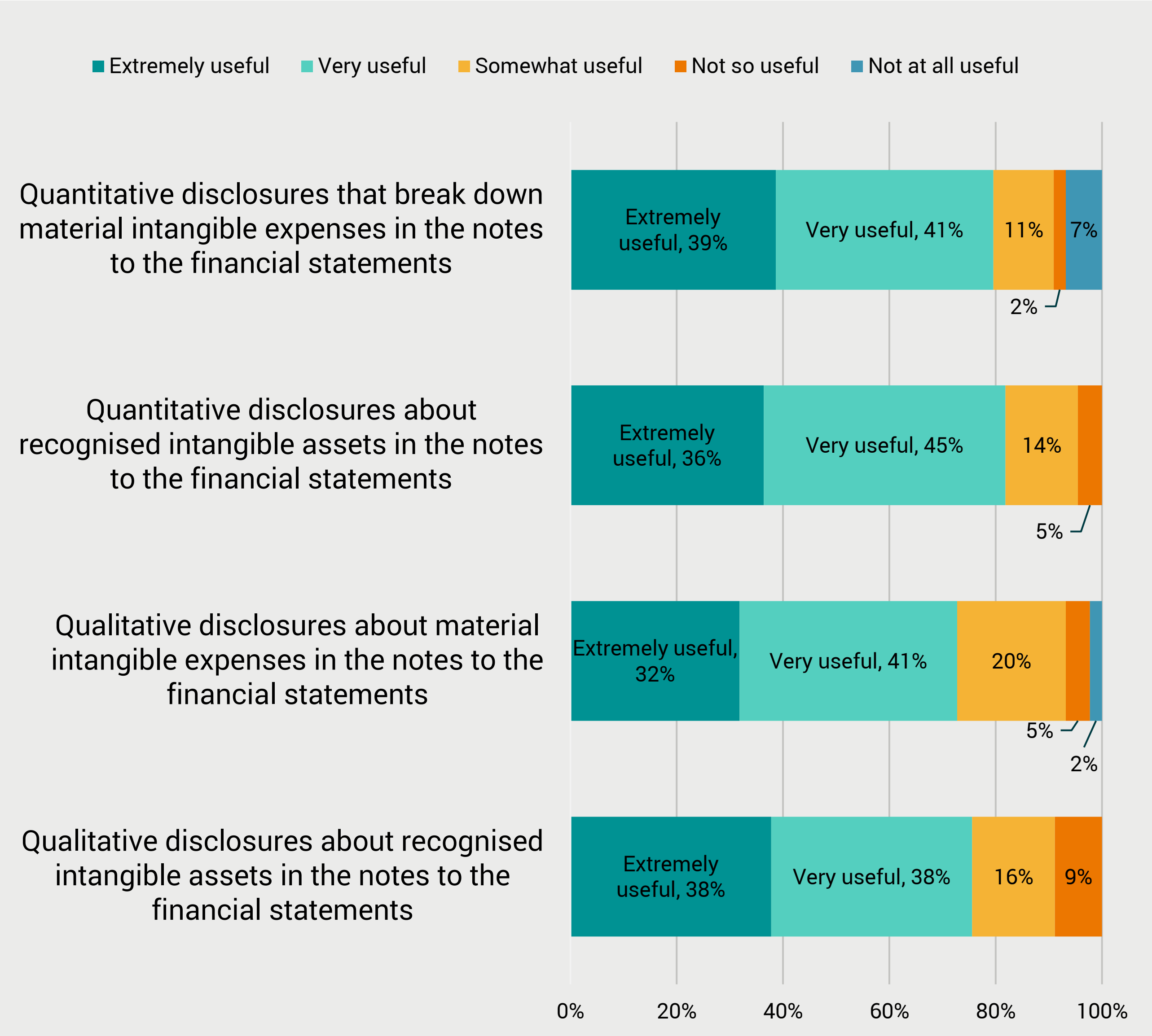
2.65 Respondents also indicated that they view disclosures for both intangible assets and expenses as equally significant important sources of information.

2.66 Similarly, a majority of respondents (73% - 76%) indicated that qualitative disclosures are either “very” or “extremely” useful.

2.67 Chart 6 provides a visual representation of these results.[17]

17 There were no significant differences between the views expressed by core respondents and other respondents in their responses on usefulness of disclosures.

Chart 6: The usefulness of disclosures in the notes to the financial statements



Note: Between 44 and 45 respondents provided answers for each of these questions.

Comparing companies

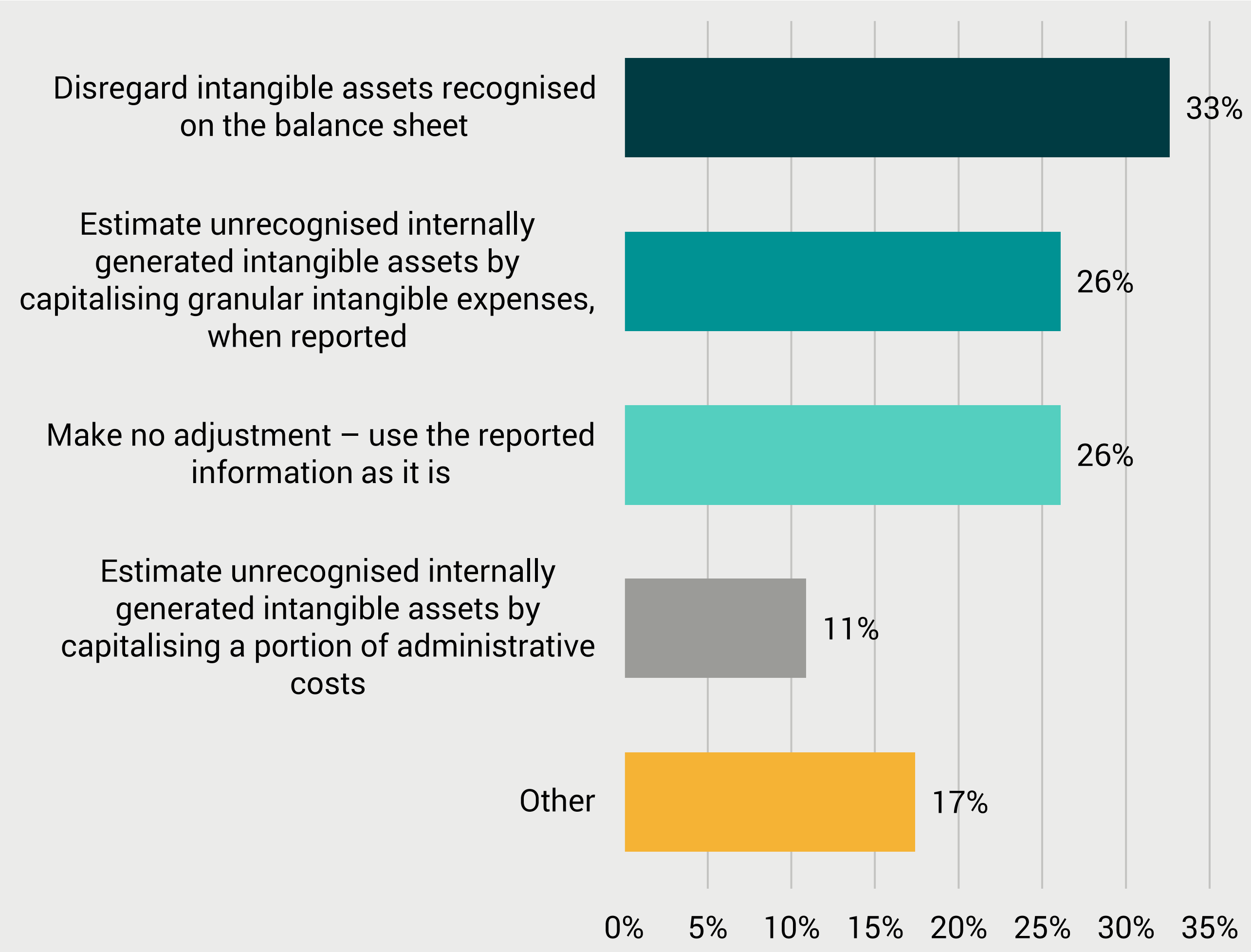
2.68 As noted earlier, due to the current requirements of IFRS Accounting Standards, the type and value of intangible assets reported on the balance sheet may differ significantly between companies that grow organically and those which have grown by acquisition. As a consequence, users may find it difficult to compare companies' performance metrics such as earnings and return on assets (ROA).

2.69 Stakeholders interviewed for the Qualitative Report emphasised that users of financial statements often need to adjust reported financial figures to create comparable sets of financial statements for investment or lending decisions.

2.70 Based on these findings, survey participants were asked about the approach they take to compare companies that grow organically with those growing mainly through acquisitions. Respondents were asked to select from a range of approaches.

2.71 The results are visually represented in Chart 7.

Chart 7: Treatment of information about intangible items (other than goodwill) when comparing companies that have mainly grown through acquisitions with those that have grown organically.



Note: All 46 respondents provided answers to this question.

2.72 Only 26% of the respondents indicated that they use figures reported in the financial statements without making any adjustments.[18] The majority of respondents make some kind of adjustment to the financial statements.

18 No respondent chose this option in conjunction with other choices.

2.73 Of the respondents who make adjustments to financial statements to enhance comparability:

a) 33% disregard recognised intangible assets altogether;[19]

b) 26% estimate internally generated intangible assets by using granular intangible expenses (when reported);

c) 11% of respondents use a portion of administrative costs to estimate internally generated intangible assets;and

d) for the 17% of respondents who selected ‘other’, the following examples were provided in their comments:

i. Estimating unrecognised intangible assets by using comparable data from a competitor, since those numbers will need to be factored into a potential acquisition in any case.

ii. Estimating unrecognised intangibles using expenses and further assessing the potential role for additional income and cash flow generation.

iii. Only disregarding some assets classified as intangibles such as cryptocurrencies due to the volatility in market prices.

iv. Relying on written narratives both outside of the financial statements and in the notes to the financial statements.

2.74 An institutional investor caveated that “investors are rarely investing on balance sheet numbers; the income statement (and cashflow) are more decision-useful”.

2.75 These responses suggest that there may be a discrepancy between general satisfaction with the current accounting requirements for intangibles, and the desire for comparability between companies that utilise different growth strategies.

2.76 It also points to a range of strategies being used by investors and underpins their demand for more detailed intangibles disclosures in the financial statements.

2.77 It would be expected that the more economically important a respondent viewed intangibles to be (see Chart 4), the more effort they would make to adjust financial statements information to facilitate comparisons between companies with different growth strategies. Table 4 below compares the responses to these two survey questions.

19 Note that respondents could select more than one option, therefore the sum is greater than 100%.

Table 4: Comparison of responses on perceived economic importance of intangibles and treatment of intangibles information in financial statements when making comparisons between companies

		Economic importance of intangibles				
		Extremely important	Very important	Somewhat important	Not so important	Not at all important
How information about intangibles is treated	Disregard intangible assets recognised on the balance sheet	31% (8)	22% (4)	29% (2)	0%	100% (1)
	Estimate unrecognised internally generated intangible assets by capitalising granular intangible expenses, when reported	35% (9)	17% (3)	0%	0%	0%
	Estimate unrecognised internally generated intangible assets by capitalising a portion of administrative costs	4% (1)	17% (3)	14% (1)	0%	0%
	Make no adjustment – use the reported information as it is	15% (4)	33% (6)	29% (2)	0%	0%
	Other	15% (4)	11% (2)	29% (2)	0%	0%
		100% (26)	100% (18)	100% (7)	0%	100% (1)

2.78 It is notable that, among respondents who viewed intangibles as “extremely” economically important, a clear majority either disregard or attempt to estimate unrecognised intangibles by capitalising some intangibles expensed in the financial statements.

2.79 Among those who viewed intangibles as “very” or “somewhat” important, a greater proportion use the reported information without adjustment, compared with those who viewed intangibles as “extremely" important.

2.81 It would be expected that the more useful a respondent views the information on intangibles in financial statements to be, the more they would use or adjust it, rather than simply disregard it. Table 5 below compares respondents' answers to these two survey questions.

Table 5: Perceived usefulness of IFRS disclosures vs treatment of intangibles when making comparisons between companies

		Usefulness of information				
		Extremely useful	Very useful	Somewhat useful	Not so useful	Not at all useful
How information about intangibles is treated	Disregard intangible assets recognised on the balance sheet	9% (1)	13% (2)	42% (8)	67% (2)	67% (2)
	Estimate unrecognised internally generated intangible assets by capitalising granular intangible expenses, when reported	27% (3)	25% (4)	26% (5)	0%	0%
	Estimate unrecognised internally generated intangible assets by capitalising a portion of administrative costs	0%	19% (3)	11% (2)	0%	0%
	Make no adjustment – use the reported information as it is	45% (5)	25% (4)	11% (2)	0%	33% (1)
	Other	18% (2)	19% (3)	11% (2)	33% (1)	0%
		100% (11)	100% (16)	100%(19)	100% (3)	100% (3)

2.82 In contrast, the less useful respondents thought the accounting information on intangibles was, the more likely they were to disregarded intangible assets when comparing companies.

2.83 Among respondents who make no adjustment, there is a wide distribution of views on usefulness of information. However, among respondents who view the information as “extremely” useful, the largest proportion of these make no adjustment to the reported information when comparing companies.

Concluding comments: current accounting

2.84 Overall, the vast majority of survey respondents (85%), irrespective of whether they were in the core or non-core group of respondents, viewed intangibles as making an important contribution to companies' competitive advantage and value creation, consistent with economic evidence drawn from the qualitative report.

2.85 However, only 52% of respondents viewed the existing intangibles information provided in IFRS financial statements as "extremely" or "very" useful. Even when the information is considered extremely or very useful, a significant proportion of respondents make adjustments to facilitate comparisons between financial statements of different entities, as noted below. The core group of respondents were somewhat less positive about the usefulness of disclosures than the overall responses indicated.

2.86 The comments provided by respondents highlighted a number of concerns around the existing accounting for intangibles under IFRS Accounting Standards (both IAS 38 and IFRS 3), including the limited nature of some current disclosures, inconsistent categorisation of intangible assets by companies and concerns about subjectivity inherent in the measurement of some intangibles.

2.87 Concerns were raised by respondents about the lack of comparability of intangibles recognised by companies acquiring them through business combinations, as opposed to the restricted recognition of internally generated intangibles (which leads to companies growing organically tending to have a much less significant recognised intangibles balance than those which have grown through M&A activity).

2.88 Furthermore, three quarters of respondents reported making at least some adjustment to company financial statements when comparing acquisitive companies with those growing organically. Their answers suggested a range of strategies being used, which supports the need for further and more disaggregated disclosures in financial statements to assist users in making the adjustments they need to make to improve the comparability of information they use in investment and lending decisions.

3. Survey results: Future Accounting

3.1 The second half of the survey focused on potential alternatives to the current accounting rules that would provide relevant information for the respondents' decision-making.[20] Respondents were presented with different recognition and measurement models for a broad range of intangible asset types and asked to identify the most relevant for their decision-making. The survey also examined respondents' views on materiality.[21]

Recognition of intangibles

3.2 Interviewees for the UKEB's Qualitative Report mentioned enhanced recognition and detailed disclosures as potential solutions to address the challenges associated with the accounting for intangibles (see Qualitative Report paragraphs 4.18 – 4.30 and 4.78 – 4.99).[22] Building on those findings, this survey gathered respondents' perspectives on their preferred accounting treatments for various intangibles.

3.3 Focusing on recognition first, survey respondents were asked to indicate their preference for either expensing through P&L (either as a stand-alone item or aggregated with other costs), capitalising on the balance sheet, or adding disclosures in the notes (in this case, without indicating whether they would like the item capitalised or expensed)[23] for a variety of intangible expenditures. Their responses to this question are shown in Chart 8 below.

3.4 Respondents preferred most internally generated intangible items to be expensed. Respondents strongly supported expensing items like advertising, "blue-sky" (exploratory) research, employee training and public relations. Where capitalisation of internally generated intangibles was preferred, it was for the ones that are already permitted to be recognised as assets under IAS 38, namely product and software development.

3.5 On the other hand, respondents expressed a preference for recognising purchased intangibles (software, brands, intellectual property) on the balance sheet, consistently with the requirements of IFRS 3. Notably, however, respondents' views were more split around customer-related intangibles. In

20 The survey questions are reproduced in Appendix D of this report.

21 As explained in Section 2 of this report, 14 partial responses were received to the survey, in which respondents answered the first half of the survey questions on current accounting but did not answer the second half of the survey questions on future accounting. This section of the report therefore analyses the 32 responses received which included answers to the second half of the survey questions.

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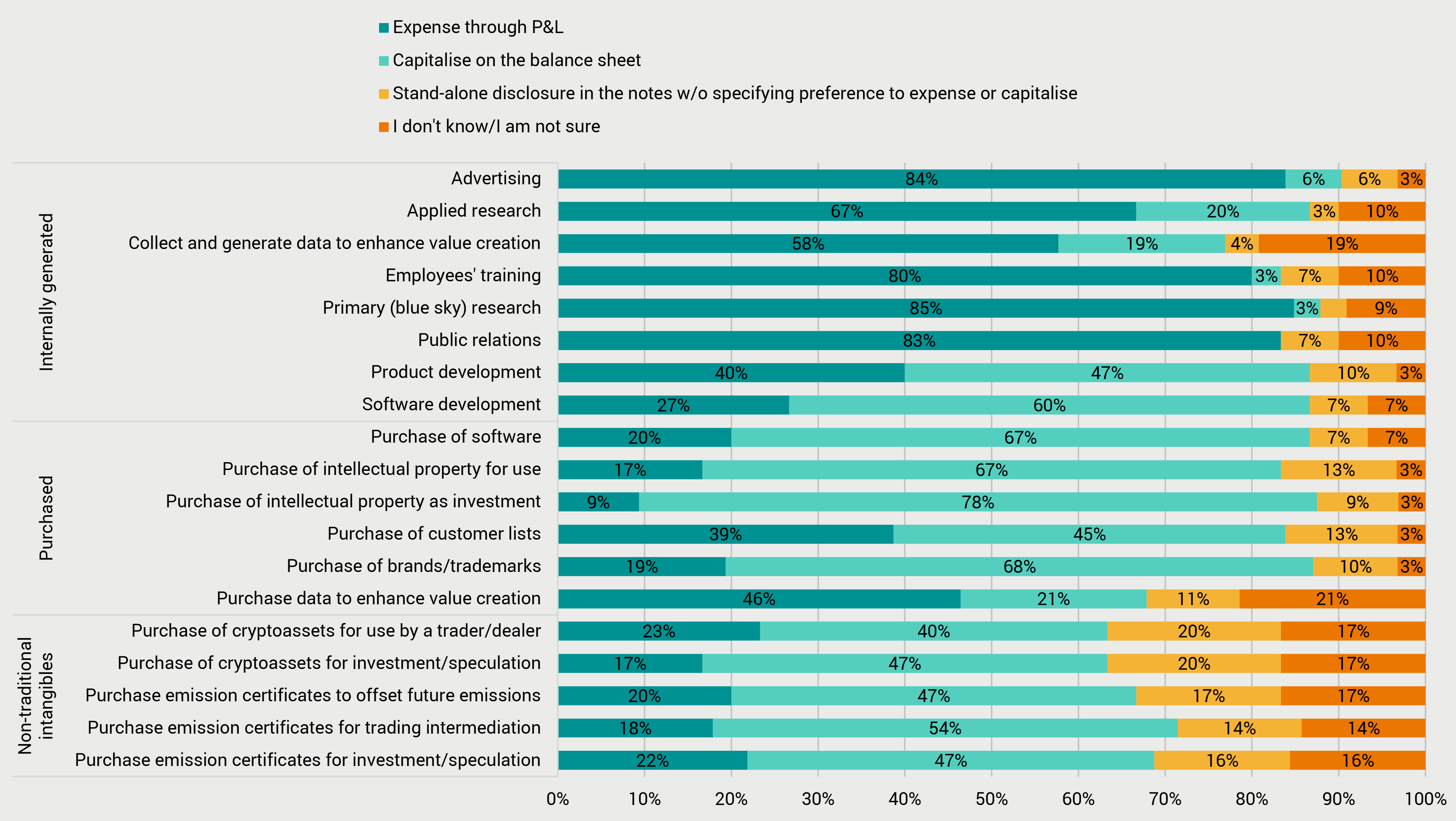
23 In earlier drafts, this choice was aggregated with "expensed" – however, in further revisions it was deemed that this choice should be reported separately.

addition, most responses (46%) suggested that data purchased for value creation should be expensed.

Chart 8: Preferred treatment for different types of intangibles



Note: Between 30 and 33 respondents provided answers to this question.

3.6 From the comments submitted, respondents indicated that they used a range of factors when deciding whether they would prefer a given intangible item to be expensed. These included whether they perceived the expenditure incurred to be a cost incurred in the ordinary course of business, and whether a given intangible item had a finite useful life. For example, respondents preferred intangibles such as training and marketing to be expensed, because they viewed them more as costs to business, rather than investment.

3.7 An institutional investor noted:

> "software development or purchased software for internal use (e.g., an Enterprise Resource Planning system), very clearly should be capitalised and amortised. When developed for external use [to generate revenue through sale], I want to know the amount spent, but I don't think it should be capitalised".

3.8 From the comments submitted, it also emerged that respondents believe capitalising acquired intangible assets provides them with useful information about the future prospects of a company. It also helps them to assess management's stewardship of resources.

3.9 An institutional investor, for example, noted:

> "I chose to have purchased assets which are either for investment purposes, or which are expected to contribute value to the business over the longer term (and which would be recognised as such in an acquisition) as balance sheet items. Purchases which I regard as part of the ordinary business of the company (training, software updates, advertising), I would put through the P&L".

Accounting for non-traditional intangibles

3.10 Respondents were asked about the accounting for cryptoassets and emissions certificates, referred to as "non-traditional" intangibles in this report.

3.11 The most frequent answer given by respondents was a preference for capitalising these items, though no strong majorities emerged from the responses. It must be noted that relatively high shares of respondents (between 16% and 17%) indicated that they were unsure about how to account for these items, even when purchased by the entity. This may suggest that users of financial statements see these items as particularly volatile, meaning that capitalisation alone may not provide particularly useful information, or that they are concerned about subjectivity in the valuation of these items, if they were to be recognised as assets. In addition, relatively high shares of respondents (between 16% and 20%) indicated that they would like to see more disclosures in the notes around these items, without indicating whether they would like them expensed or recognised on the balance sheet.

3.12 The comment boxes provided additional information regarding respondents' motivations. A financial professional stated:

"Cryptoassets in particular need their own accounting standards and to be disclosed separately with detailed disclosure of what they are, what data used to determine fair value and volatility - but the information required should be obtainable and auditable - estimates are open to huge bias and are unhelpful".

3.13 With regard to both cryptoassets and emissions certificates assets, a sell-side broker dealer highlighted how they viewed the differences between these items and traditional intangible assets:

"I think crypto assets and emissions certificates should not be conflated with intangible assets. While crypto and emissions may meet the definition of an intangible under IFRS, they are very different and require separate consideration. Intangible assets used in operating activities should be measured in the same manner as tangible fixed assets". [24]

3.14 One analyst, however, stated that they view both emissions certificates and cryptoassets as financial instruments:

"… I think of emission certificates and crypto assets as financial instruments not intangibles when done for investment or speculation".

[24] Considering the comment in 3.12 ("cryptoassets need their own accounting standard") and 3.13 ("crypto and emissions… are very different and require separate consideration"), it should be noted that a US GAAP pronouncement has recently been issued relating to the recognition and measurement of cryptoassets. ASU 23-08 *Accounting for and Disclosure of Crypto Assets,* issued December 2023. If cryptoassets meet a series of criteria, they should be shown on the balance sheet separately from other intangible assets and measured at fair value with gains and losses going through profit or loss. The update also requires notes disclosures on cryptoasset holdings in both interim and annual reports. The update applies to fiscal years beginning after 15/12/2024 with a requirement to restate the opening balance of retained earnings for the reporting period when the update is adopted. Early adoption is permitted.

Quantitative disclosures

3.15 Respondents were asked if items should be disclosed separately on the face of the financial statements (either in the P&L or the Balance Sheet) or aggregated with other line items. Respondents were also asked to indicate whether reporting on the face of the financial statements should be accompanied by further disclosures in the notes.[25]

3.16 Chart 9 below outlines respondents' preferences.

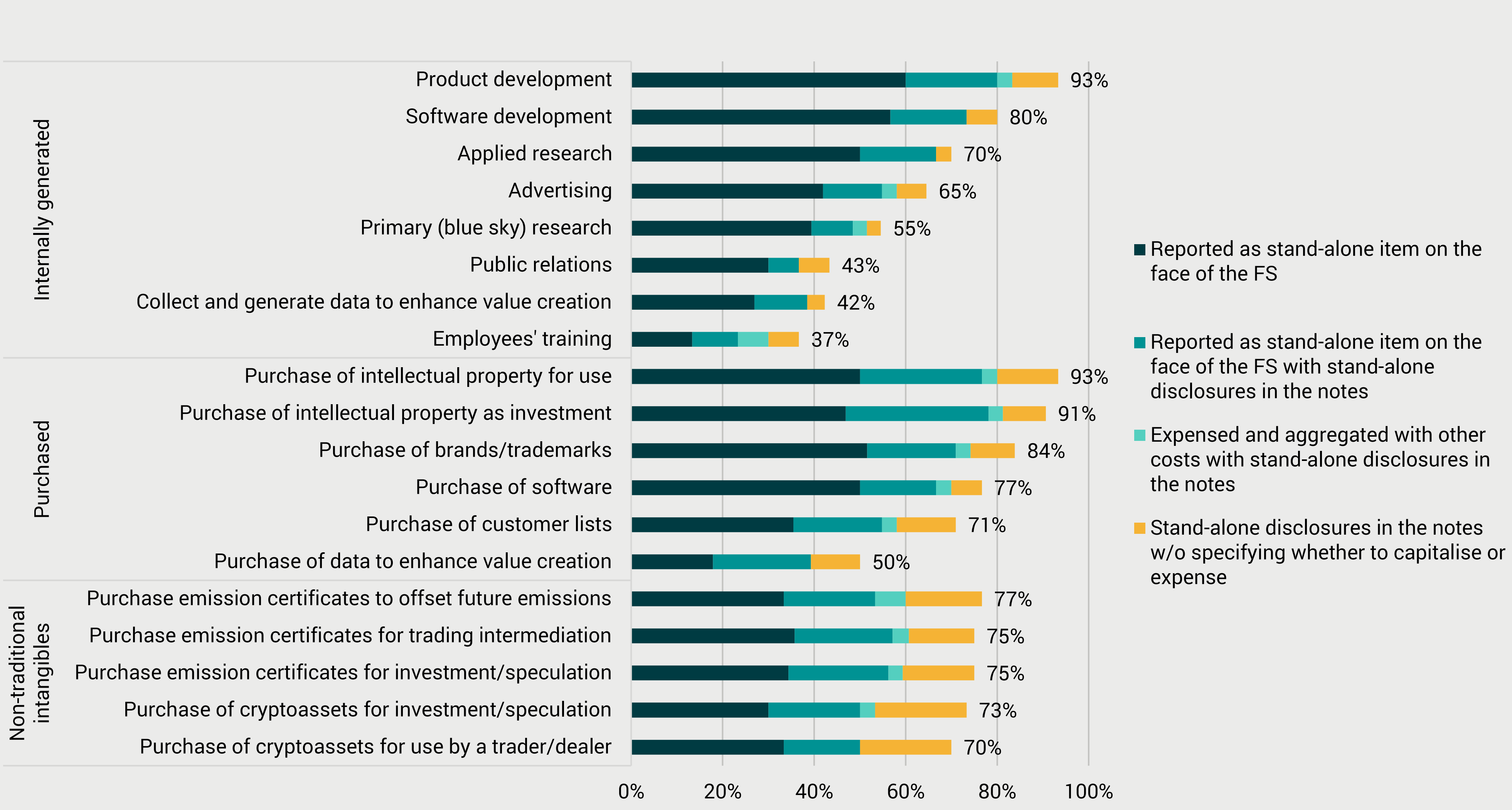
3.17 For internally generated intangibles, the preference for most items is for separate disclosure in the financial statements. A majority of respondents indicated that they wanted some level of disaggregated information for internally generated product development, software development, applied research, advertising and primary (blue sky) research. However, for internally generated data, public relations and employee training, fewer respondents indicated they would like to see these disaggregated, so it appears users are comfortable with these items being aggregated with other expenses, as they see them part of ongoing business as usual.

3.18 For purchased items, only data-related assets did not receive a majority preference for separate disclosure. For intangible assets acquired in a business combination, between 70% and 77% of respondents indicated they would prefer some degree of disaggregation. Respondents want to see clear disaggregation (and in some cases greater notes disclosure) of intellectual property assets, software and brands.

3.19 Interestingly, for non-traditional intangibles, while there was a preference for separate disclosure, it was more heavily weighted towards notes disclosure than other intangibles.

25 In principle, material intangible items would be expected to be separately disclosed. In particular, material expenses (whether intangibles or otherwise) should be disclosed separately in the notes as per IAS 1 (a requirement that is strengthened in IFRS 18 *Presentation and Disclosure in Financial Statements,* published in April 2024). In addition, and as noted, IAS 38 required companies to disclose research expenses that do not meet the recognition criteria and encourages disclosures of intangible assets that do not meet the recognition criteria. The Quantitative Report (paragraphs 2.66-2.75) finds that only the requirement to disclose research expenses leads to consistent disclosures among companies. Material intangible expenses are more rarely though occasionally disclosed (especially advertising) and intangible assets that do not meet IAS 38 recognition criteria seem to be rarely disclosed.

Chart 9: Percentage of respondents who would prefer more granular information



Note: Between 30 and 33 respondents provided answers to this question. The percentages reported in this chart do not sum to 100%, as respondents who selected the options “expense through P&L (aggregated with other costs)” and “I don’t know” are excluded from the count.

3.20 The responses to the question on preferred accounting treatment of intangibles are compared with the views of respondents on the economic importance of intangibles in Table 6 below.

Table 6: Economic importance of intangibles vs preferred treatment of intangibles

	Economic importance of intangibles									
	Extremely important		Very important		Somewhat important		Not so important		Not at all important	
	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise
Preferred treatment of internally generated items (Average)	80%	20%	80%	20%	86%	14%	0%	0%	0%	0%
Preferred treatment of acquired items (Average)	51%	49%	53%	47%	37%	63%	0%	0%	0%	0%
Preferred treatment of non-traditional items (Average)	52%	48%	58%	42%	67%	33%	0%	0%	0%	0%

3.21 Overall, the preferred accounting treatment for intangible items did not seem to be strongly related to their perceived economic importance. More specifically:

a) Most respondents (>80%) would prefer internally generated intangibles to be expensed, irrespective of how economically important they perceive intangibles to be.

b) Preferences for expensing versus capitalising were more evenly split when respondents were considering acquired intangibles, with a slight preference for capitalising among respondents who find intangibles "somewhat"important from an economic point of view[26].

c) Preferences towards expensing versus capitalising were more equally split when respondents were considering non-traditional intangibles, with a slightly preference for expensing among respondents who find intangibles "somewhat" important from an economic point of view.

3.22 It should also be noted that the respondents who answered that they found intangibles "not so" important or "not at all" important earlier on in the survey were in the partial responses. They did not answer the question about preferred accounting treatment of the various items presented.

3.23 The responses to the question on preferred accounting treatment of intangibles were also compared with the views of respondents on the usefulness of intangibles information in financial statements in Table 7 below.

Table 7: Usefulness of information vs preferred treatment of intangibles

	Usefulness of information									
	Extremely useful		Very useful		Somewhat useful		Not so useful		Not at all useful	
	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise	Expense	Capitalise
Preferred treatment of internally generated items (Average)	81%	19%	80%	20%	80%	20%	88%	12%	n/a	n/a
Preferred treatment of acquired items (Average)	54%	46%	33%	67%	58%	42%	31%	69%	50%	50%
Preferred treatment of non-traditional items (Average)	55%	45%	50%	50%	63%	37%	40%	60%	20%	80%

26 It should be noted that the number of respondents to this question varied between 4 and 20, depending on the spread of respondents across each option related the economic importance of intangibles. Therefore, one respondent could account for between 5% and 25% of responses.

3.24 Again, the preferred accounting treatment for intangible items did not seem to be related to the perceived usefulness of the disclosures. Furthermore:

a) Most respondents (>80%) would prefer internally generated intangibles to be expensed, irrespective of how useful respondents find disclosures about intangibles.

b) Preferences for expensing and capitalising are more split when it comes to both acquired intangibles and non-traditional intangibles, irrespective of how useful respondents find the current information in financial statements.

3.25 Taken together, from the responses and the comments submitted, respondents' preferences appear largely consistent with current IFRS accounting requirements, although respondents would like to see granular information, either on the face of the financial statements (balance sheet or P&L) or in the notes.

Subsequent measurement approach

3.26 In the interviews for the Qualitative Report, stakeholders expressed the view that capitalisation of costs would be generally suitable for the measurement of recognised intangible assets (similar to the treatment of internally generated development software costs under IAS 38). Only a small proportion of stakeholders, interviewed for the same report, considered fair value to be appropriate for subsequent measurement.

3.27 To understand what measurement model respondents believe could be most suitable for different types of intangibles, in the survey respondents were presented with a range of intangibles and asked to select the measurement model they deemed most appropriate. Respondents were told to assume that the intangible item was material and capitalised on the balance sheet.

3.28 The list of intangibles included a range of traditional internally generated and acquired intangible assets as well as non-traditional intangibles (e.g., cryptoassets and emissions trading certificates).

3.29 The following measurement models were provided as options for the measurement of each intangible asset:

a) Cost and amortisation with impairment;

b) Cost and impairment only;

c) Revaluation through other comprehensive income (OCI); and

d) Fair value through profit and loss (FVPL).

3.30 It is worth emphasising that this question was premised on items being capitalised, whether or not this was the respondent's preference for the intangible item.

3.31 Overall, respondents indicated a preference for the cost model for traditional intangible assets, with few exceptions. The fair value model was generally preferred for non-traditional intangible assets. Most respondents were undecided about how to measure human capital, and significant minorities were undecided about how to measure many other types of intangible assets. The fair value model was indicated as the preferred measurement model for non-traditional intangible assets held for risk management and investment purposes. This preference was weaker for traditional intangible assets. The responses to these questions can be seen in Charts 10, 11 and 12 below.

3.32 Specifically, a majority of respondents (>65%) indicated that they would prefer one of the cost models (as opposed to a fair value model) to be used for the subsequent measurement of both acquired and internally generated intangible assets.[27] This preference was consistent, regardless of whether the assets were developed for internal use or for sale. A clear majority of respondents indicated that they preferred a cost model which specifically included both amortisation and impairment elements for these assets.

3.33 However, for emissions certificates held to offset future emissions, 42% of respondents preferred fair value measurement, with 32% preferring a cost model and the rest being unsure. For emissions certificates held for other uses and cryptoassets, irrespective of use, a fair value model was preferred by the majority of respondents. This is reflective of current diversity in accounting treatments for these items, in the current absence of detailed guidance from IFRS Accounting Standards.

3.34 Human capital was the only internally generated intangible asset which had a significantly different response from the other types of internally generated assets. Most respondents indicated that they were "not sure or did not know" what the best measurement model would be for this asset. Just over half of respondents (52%) selected "I don't know or I am not sure" in response to which measurement model they would prefer. 39% of responses instead suggested a cost model, with 10% suggesting one of the fair value models.

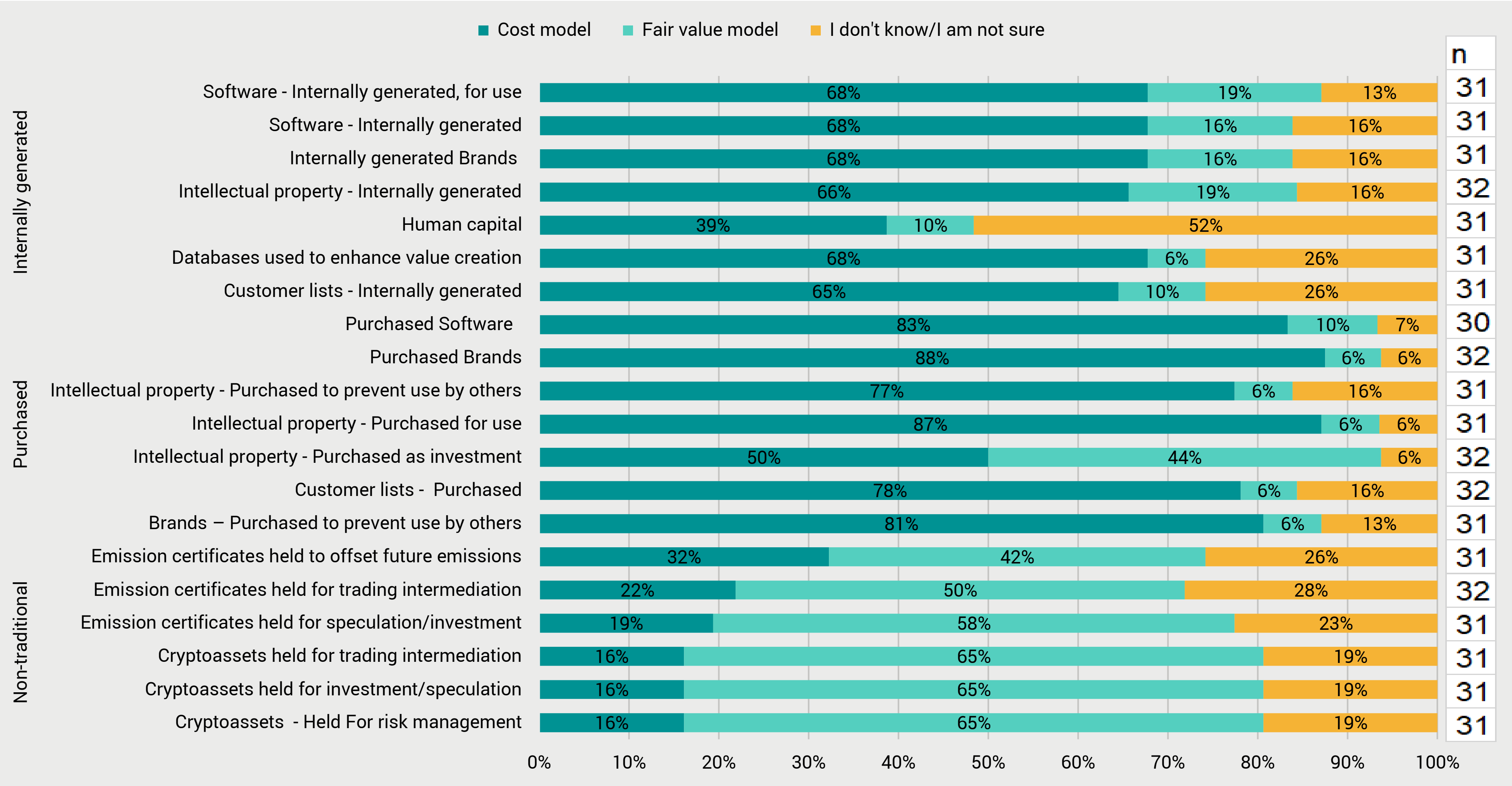
3.35 Two respondents declined to provide a preferred model for measurement. In their comments they made it clear that, from their perspective, the inclusion of human capital on companies' balance sheets would not convey meaningful information to users of financial statements. In particular they stated:

a) "I do not think human capital should be accounted for on the balance sheet" (analyst);

27 Exceptions were: Human capital and intellectual property purchased for investment.

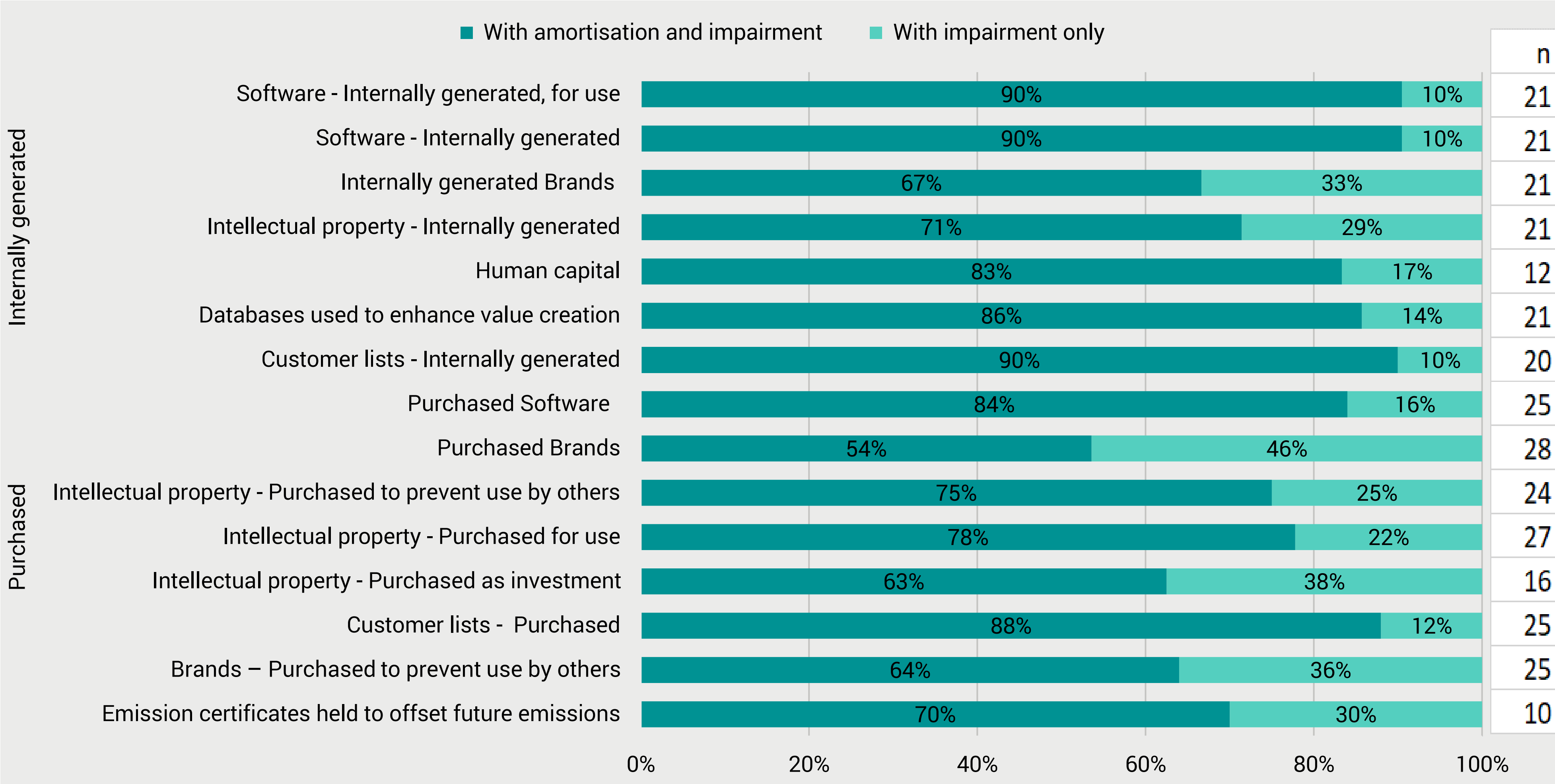
b) "I decline to give an answer on human capital and databases as this will never be meaningful information" (equity/fixed income analyst).

Chart 10: Preferred type of measurement model if intangibles were required to be capitalised



Note: Between 30 and 32 respondents provided answers for each of type of intangible.

Chart 11: Preferred type of cost model if intangibles were required to be capitalised (for those who chose a cost model)[28]



28 Breakdown shown only for those options chosen by 10 or more respondents.

3.36 A number of issues were raised by respondents in their comments, regarding cost and fair value models.

3.37 Respondents highlighted the importance of distinguishing wasting intangible assets from organically regenerative[29] intangible assets and the useful lives of each intangible. For example, an institutional investor noted that:

"…in the hypothetical situation where all intangibles are recognised on the balance sheet, the key assessment to be made is whether individual assets are wasting or have an indefinite future life… I am not sure how one would expect users to take this information and they will simply migrate to cash flows from P&L".

3.38 Respondents also raised concerns about the concept of an intangible having an indefinite life. For example, an analyst noted:

"No intangible assets have an infinite life in real life and hence anything capitalised on the balance sheet should be amortised in my personal view. I also think it is a bad idea to allow recognising valuation gains via P&L".

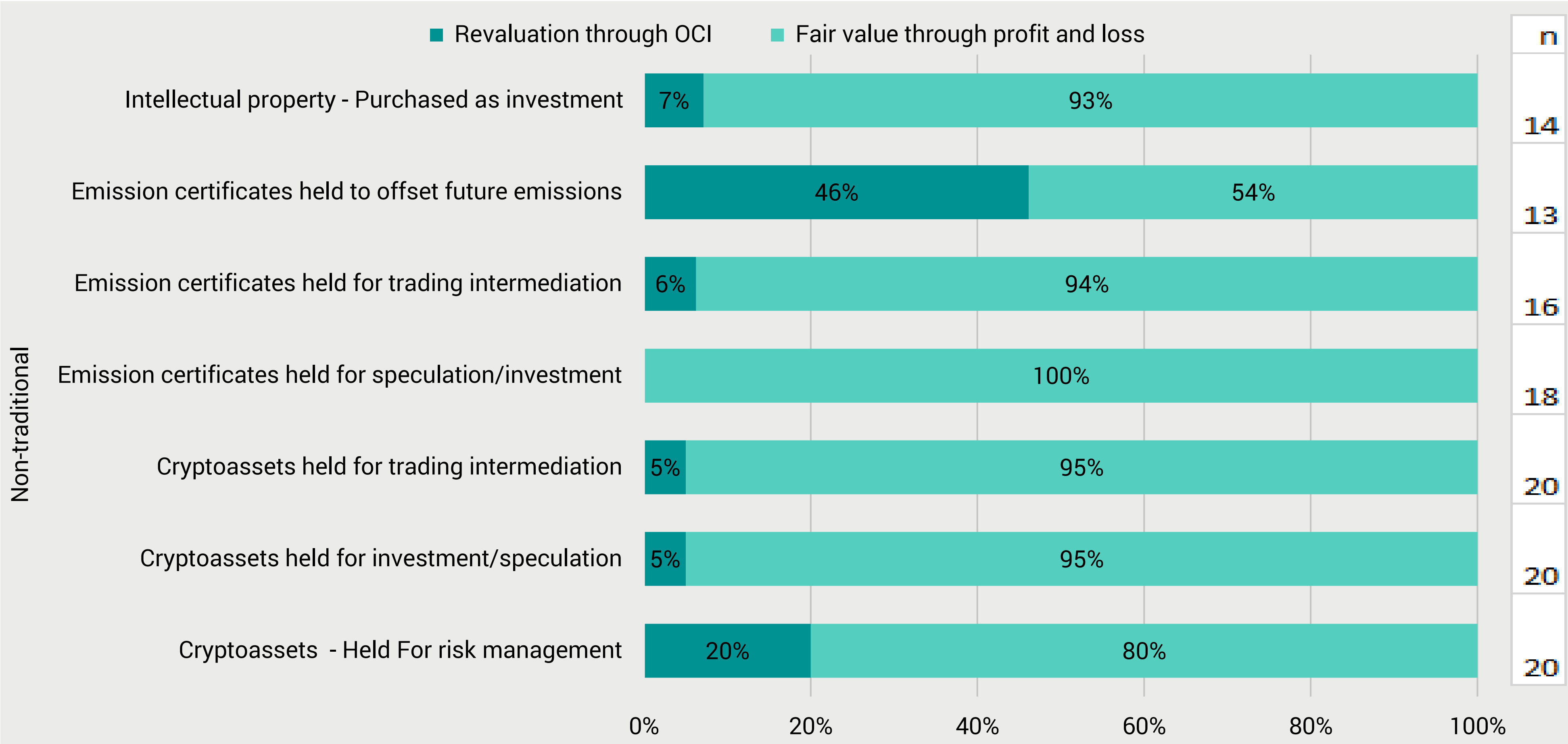
3.39 An academic researcher highlighted the transparency that capitalisation could afford respondents of financial statements:

"Any item that is acquired for speculation and/or has a highly active market where you can reasonably estimate its fair value should be valued at its latest valuation. This may result in extreme swings in the income of an investment company in a crypto asset – however that is an accurate valuation of their unrealised gains /losses for a period and should be valued as such".

3.40 Chart 12 below shows the responses on the preferred approach to fair value measurement of intangibles. For those items where fair value was the preferred measurement option, there was a strong preference for changes in value to be recognised in profit or loss.

29 Organically regenerative intangible assets are seen as non-wasting, as, over time, benefits accrete to replace the original benefits represented by the asset when it was recognised. According to this conceptual lens, organically regenerative intangibles would not be amortised as the benefits are not consumed and they do not have a finite useful life.

Chart 12: Preferred type of fair value model if intangibles were required to be capitalised (for those who chose fair value) [30]



30 Breakdown shown only for those options chosen by 10 or more respondents.

3.41 At least one retail investor supported using a fair value approach, citing in their comments the requirements of IFRS 13 *Fair Value Measurement*:

"After spending a number of years thinking about the accounting for and reporting of intangible assets under both IFRS and US GAAP, the case for allowing these assets' value to move up or down in accordance with how their value actually moves has become more compelling… I have had the opportunity to work extensively with both ASC 820 and IFRS 13 requirements for sometimes difficult to fair value assets. These two standards are remarkably robust, in my view, and with some relatively minor adjustments could be modernised and made even more effective".

3.42 The same respondent was not keen that these fair value adjustments go through other comprehensive income (OCI):

"…the revaluation through OCI model can provide quite a poor representation of economic and accounting meaning, and this is only made worse as innovations and emerging technologies create new methods and requirements around asset creation, classification, measurement, and valuation; like impairment, revaluation through OCI should be revisited as a cross-cutting issue".

Disclose intangibles' effect on performance

3.43 Although respondents indicated that the disclosure requirements of existing IFRS Accounting Standards are generally beneficial, some indicated that additional, targeted, disclosures would be advantageous. This view aligns with findings from the UKEB's Qualitative Report (paragraphs 4.78 – 4.99).

3.44 To investigate respondents' views of possible ways of enhancing disclosures, in the survey, respondents were presented with a set of suggested disclosure items, some of which are not currently required by IFRS Accounting Standards, with the objective of identifying the type of disclosure considered most important by respondents.

3.45 Respondents were asked to choose the three disclosures that they find most important for their investment/lending decisions, from the list provided to them.

3.46 Among the proposed disclosures, quantifying the expected contribution of a company's intangible assets to current or future revenues was ranked as the most important type of disclosure for investment or lending advice. 52% of respondents suggested that this type of disclosure is important for investment or lending purposes.

3.47 Respondents appeared to have a particularly positive view on other disclosures which provide users with insights into the anticipated financial impact of intangibles on a company's revenues. These included:

a) Qualitative descriptions of the expected contribution of intangibles to a company's revenue. These were considered to be important by 45% of the respondents.

b) Disclosures about the risks associated with the expected future revenues, which was chosen by 42% of the respondents.

c) Disclosures about the relevance of intangibles to the business model or value creation, which was selected by 45% of the responses.

3.48 The amortisation schedule or expected useful life of companies' intangible assets was suggested to be important by 42% of the responses.

3.49 Disclosures which were selected by fewer respondents included:

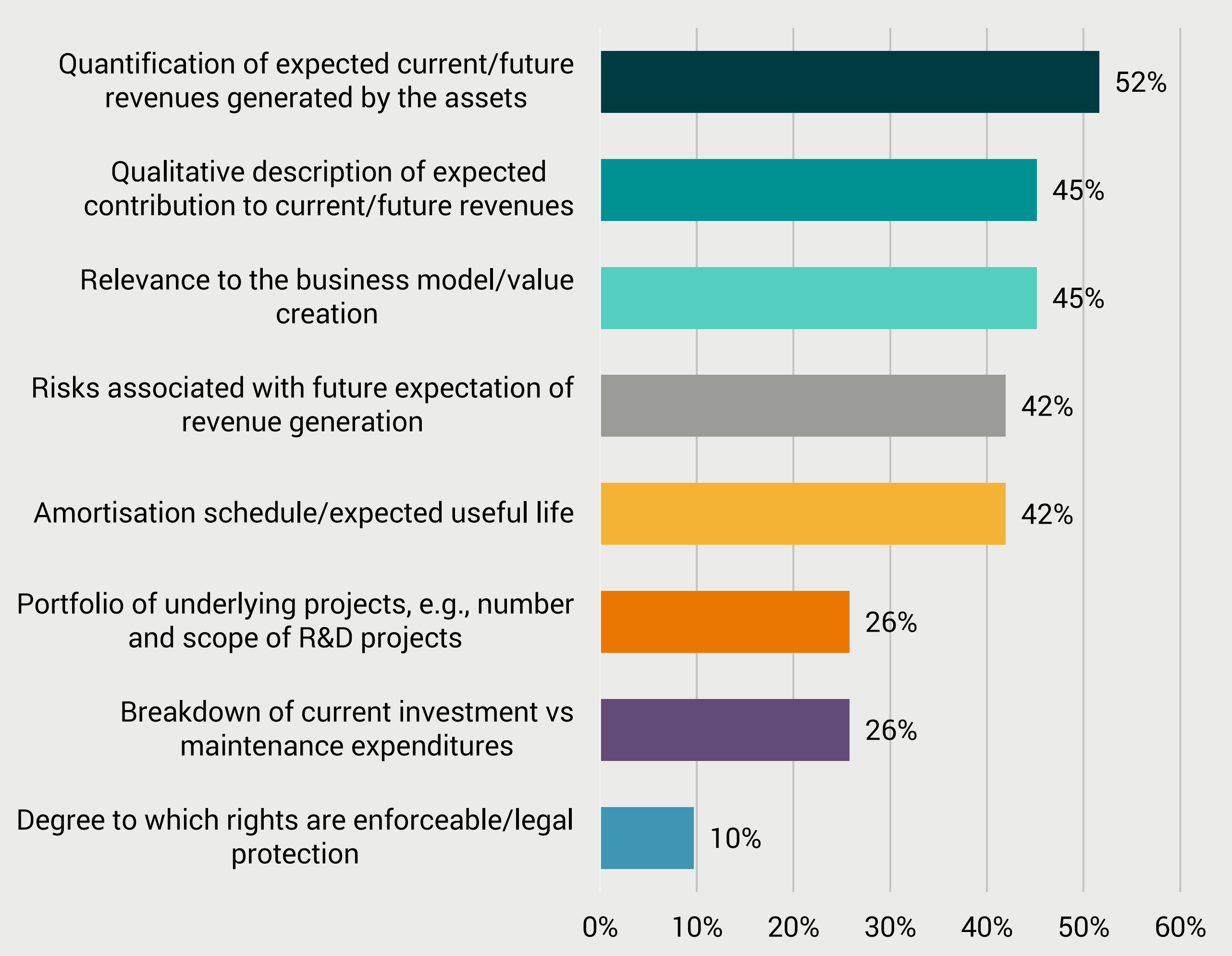
a) The portfolio of underlying projects (such as the number and scope of R&D projects), which was selected by 26% of respondents.

b) Breaking down current investment versus maintenance expenditures, which was selected by 26% of respondents.

c) The degree to which rights are legally enforceable, which was selected by 10% of respondents.

3.50 The results are presented in Chart 13 below.

Chart 13: Most relevant disclosures for investment/lending advice



Note: 31 respondents selected at least one of these answers.

3.51 Taken together, these results suggest respondents consider forward-looking disclosures about how intangibles will generate value as being most important for investing, lending or analysis. [31]

Preferred sources of information

3.52 Academic research, as well as interviews conducted for the Qualitative Report, highlights that to ascertain the benefits of intangibles to an individual company, users often resort to sources of information outside the financial statements. The reason for this is often stated to be the gap that exists between what is presented in the financial statements and the information users need.[32]

31 The most relevant types of disclosures selected remain broadly the same after excluding non-core respondents.

32 See Wyatt2008) and Barker et al (2022). .

3.53 The survey responses indicate that sources other than the financial statements are often used to gather information about a company's intangibles. However, respondents would prefer additional information on intangibles in the financial statements too.

3.54 Respondents were asked to select all the information sources other than financial statements that they use/have used, to gather information on individual companies' intangibles, (e.g., front half of annual report, company website etc.)

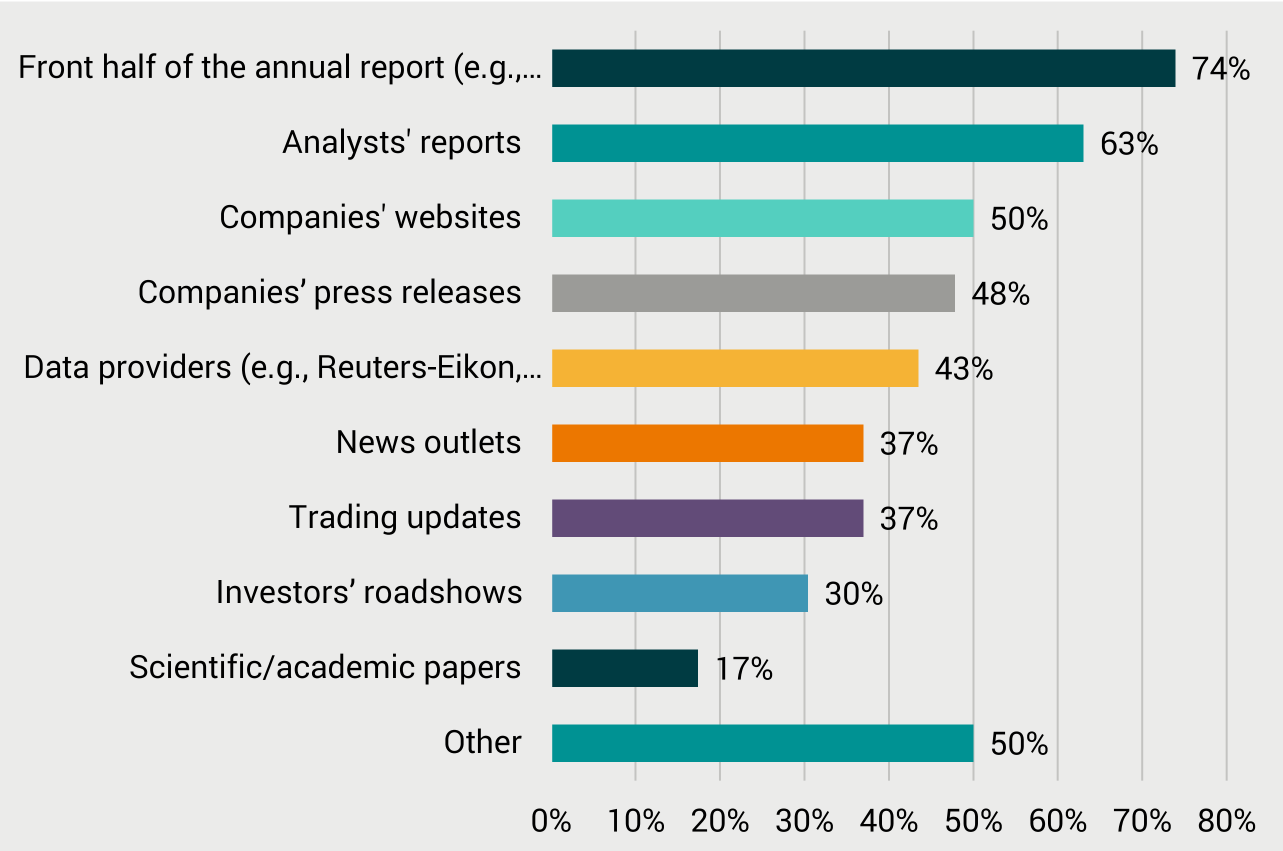
3.55 The most common responses were:

a) The front half of the annual report, which 74% of the respondents selected; and,

b) Reports prepared by equity analysts, which 63% of the respondents selected.

3.56 The responses are shown in Chart 14 below.

Chart 14: Sources of information other than the financial statements used to gather information about individual companies' intangibles



Note: All 46 respondents provided answers to this question.

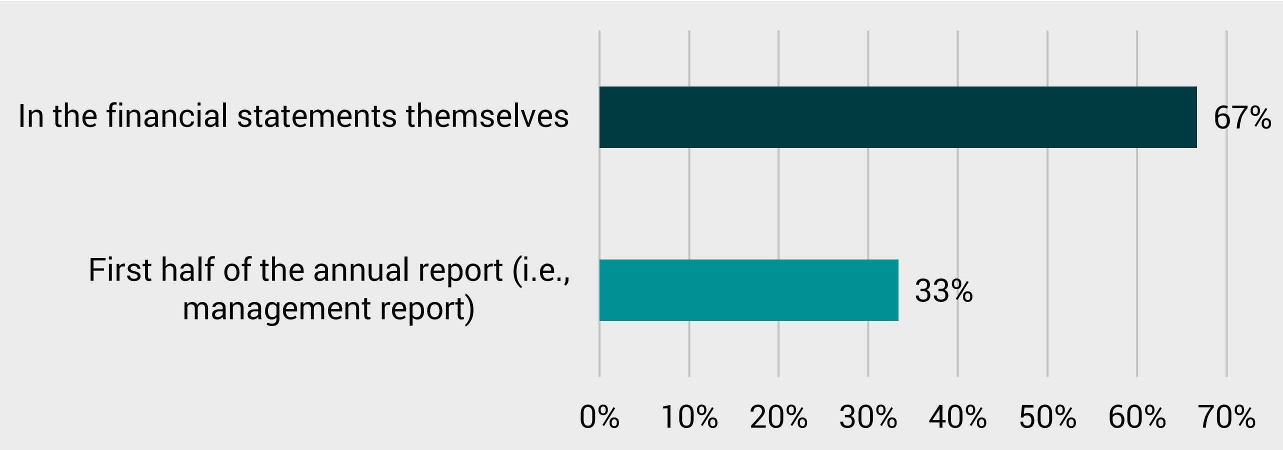
3.57 Sources of information prepared by a company, such as corporate websites and press releases, were also used by a substantial proportion of respondents. 50% of respondents suggested they use companies' websites to obtain information on intangibles and 48% of respondents indicated they used companies' press releases.

3.58 The remaining information sources which were relatively popular included data providers (such as Bloomberg) (43%), news outlets (37%), trading updates (37%), and investors' roadshows (30%)

3.59 However, when asked whether they would prefer to have additional information on a companies' intangibles in the financial statements or in the front half of the annual report, 67% of respondents suggested they would like to see it in the financial statements, while 33% of respondents suggested they would prefer additional information in the front half of the annual report.[33]

3.60 Chart 15 reports these results.

Chart 15: Preferred location for additional information



Note: 33 respondents provided answers to this question.

3.61 These responses suggest that while users of financial statements often make use of other sources of information outside of the financial statements to obtain a more holistic view of a company, they would prefer this information to be in the financial statements. This may be driven by a preference for this information to be audited and integrated with other financial information.

33 Excluding non-core respondents, did not significantly change the findings of this question. That said, the responses from investors and lenders had a minor difference with respect to the ranking of news outlets. Investors and lenders indicated that they use trading updates and investor roadshows more commonly as alternative sources of information.

Intangible materiality

3.62 As discussed in Section 2 of this report, there was broad consensus among respondents about the importance of intangibles for companies' performance.Greater disclosure related to intangibles in the financial statements would, however, increase the volume of information presented. Interviewees for the UKEB's Qualitative Report on intangibles emphasised the importance of disclosing material information to users of financial statements.

3.63 Therefore, survey respondents were first asked to what extent they believed qualitative versus quantitative factors were important when considering the assessment of the materiality of intangibles, whether capitalised on the balance sheet or expensed through P&L. A large majority of respondents (84%) suggested that both quantitative and qualitative factors are equally important. Few respondents suggested that quantitative or qualitative factors should be used in isolation: 9% of respondents suggested that only quantitative factors should be used, while 6% suggested that only qualitative factors should be used.

3.64 Respondents were then asked to indicate the qualitative characteristics that would be most important in the assessment of materiality for intangibles. Respondents indicated that forward-looking characteristics of intangibles are the most important, especially those related to amount, timing and uncertainty of future cash flows.

3.65 Specifically, when asked to select the most important factors about intangibles:

a) the potential for significant revenue associated with the intangible item was selected by 79% of respondents;

b) the relative importance of the individual types of intangibles within the industry was also selected by many respondents, with 66% of respondents selecting this option;

c) intangible items' importance to the business model or the risks associated with revenues were selected by 56% and 48% of respondents respectively;

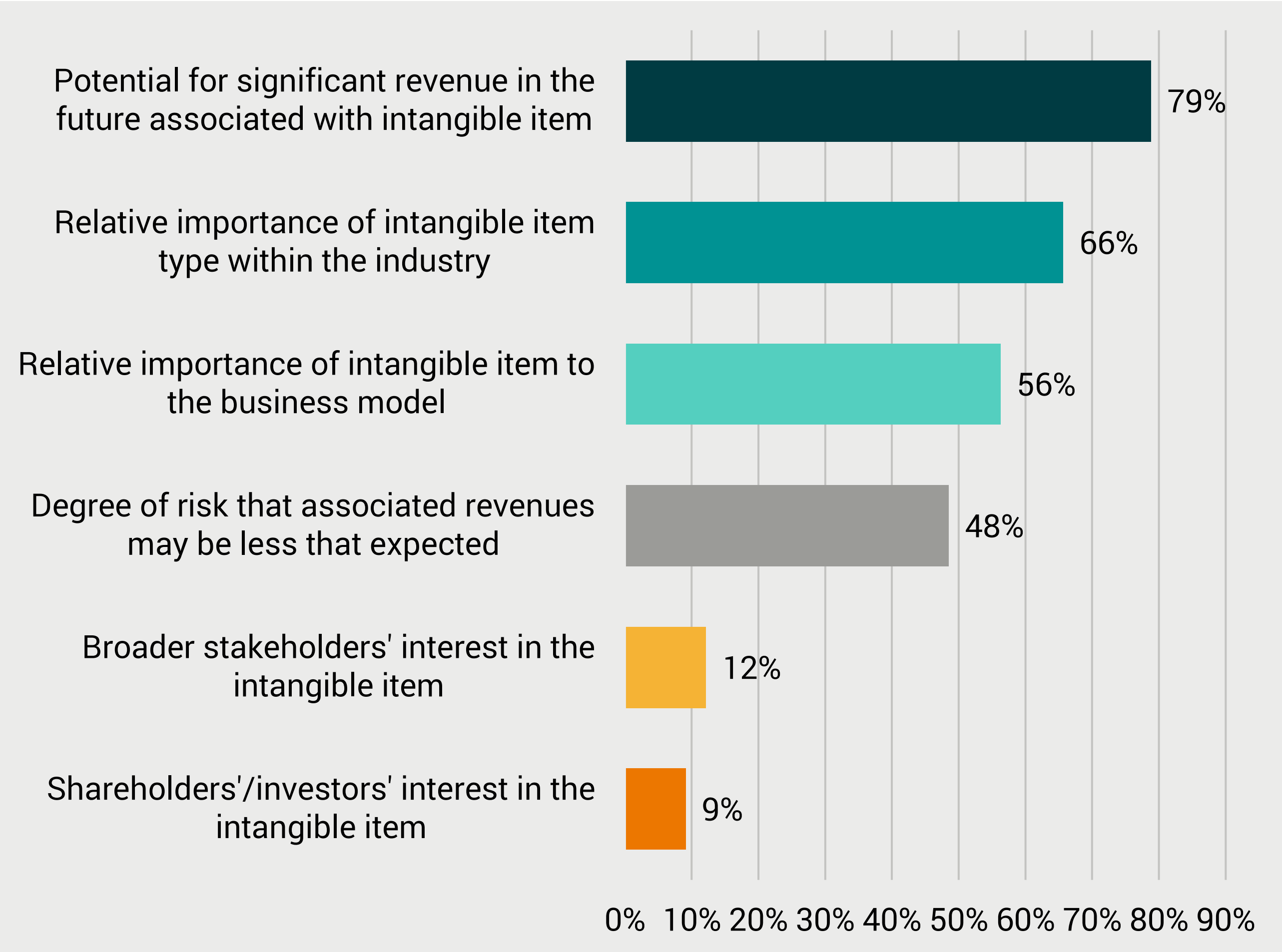
d) broader stakeholder interest in the intangible item was not considered an important qualitative factor. Only 12% of respondents (four individual responses) selected this answer; and

e) shareholders' interest in the intangible items was the least popular factor, only chosen by 9% of respondents (two individual responses).

3.66 These findings are consistent with the finding that respondents would like to see forward looking disclosures about the contribution of intangibles to current and future economic performance.

3.67 Chart 16 below presents the responses to this question.

Chart 16: Most important qualitative factors for the materiality assessment of intangibles



Note: 33 respondents provided an answer to this question.

Concluding comments: future accounting

3.68 The survey presented respondents with a range of different types of intangibles and asked them whether they would prefer that these be capitalised or expensed. The majority of respondents felt that most internally generated intangibles should be expensed, with the exception of software and development costs. This is consistent with the current treatment under IAS 38.

3.69 Regarding purchased intangibles, again the majority of respondents felt that most of these should be capitalised, in line with current treatment under IFRS Accounting Standards. There were more mixed views about capitalisation of customer-related acquired intangibles. This is interesting, given the prevalence of these acquired intangible assets noted in the research for the Quantitative Report.

3.70 Views were again more mixed about capitalisation or expensing of non-traditional intangibles, such as cryptoassets and emissions trading certificates.

3.71 When asked about preferences for separate disclosure of intangible items on the face of the financial statements or the notes, most respondents wanted some level of disaggregated information for many internally generated intangibles, but not those that are considered ‘business as usual’ operating expenses. For purchased intangibles, including those acquired in a business combination, the majority of respondents preferred disaggregated disclosure. The same trend was observed for non-traditional intangibles, but, for these, respondents favoured disaggregated notes disclosure.

3.72 When questioned about preferred measurement models for capitalised assets, the majority preferred a cost model including amortisation and impairment for traditional intangibles. For non-traditional intangibles, fair value through profit or loss was generally preferred.

3.73 Of a list of disclosures not present within current IFRS Accounting Standards requirements, disclosures providing insight into an intangible item’s expected impact on revenue generation and financial performance (both quantitative and qualitative disclosures of this nature) were the most popular among respondents. This is consistent with their views on the importance of intangibles expressed in section 2 of this report.

3.74 Regarding sources of information used, 74% of respondents use the front half of the annual report, and 63% use analyst reports. However, the preferred information source for information about intangibles would be within the financial statements for 67% of respondents. An analyst, commenting to support their preference for inclusion of this information in the financial statement, explained their view that there is “Too much management discretion in the front half”.Respondents were asked about how they make materiality judgements on intangibles, and the majority confirmed they consider both quantitative and qualitative factors. Of the qualitative factors used in determining materiality, almost 80% of respondents suggested that the potential for future revenue generation associated with the intangible item was the most important factor.

4. Next Steps

4.1 The findings from this report will be considered by the UKEB in conjunction with those in the UKEB's 2023 Qualitative Report and 2024 Quantitative Report.

4.2 The evidence gathered in this, and other, research reports are designed to stimulate debate and provide an evidence base for the UKEB's engagement with the IASB and other national standard-setters, regional organisations, and other stakeholder groups, in order to support the development of high-quality international accounting standards for use in the UK and internationally in this important area.

Appendix A: Glossary

Term	Description
Amortisation	The systematic allocation of the depreciable amount of an intangible asset over its useful life
Annual report	Annual report and accounts
Asset	A present economic resource controlled by the entity as a result of past events (*Conceptual Framework* definition)
AUM	Assets under management
Business combination	A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations (IFRS 3 definition)
Capitalised	Recognised as an asset on the balance sheet
Conceptual Framework	The IASB *Conceptual Framework for Financial Reporting* (2018)
Core group	Respondents to the survey who invest in, lend to or analyse UK companies
Cost model	Measurement at cost less accumulated amortisation and any accumulated impairment losses (IAS 38 definition)
Cryptoassets	Cryptographically secured digital representations of value or contractual rights that uses a form of distributed ledger technology (e.g. Blockchain) and can be transferred, stored or traded electronically (UK Government definition)
DBT	Department of Business and Trade
DCF	Discounted Cashflow
Emissions trading certificates/rights	Permissions to emit certain volumes of greenhouse gases under recognised emissions trading schemes

Expensed	Recognised as an expense through the statement of profit or loss
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13 definition)
Fair value/revaluation model	Measurement at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent impairment losses
Financial statements	Published annual financial statements including notes to the accounts
FRC	Financial Reporting Council
FTSE 350	UK listed companies included in the London Stock Exchange's Financial Times 350 index
FVPL	Fair value through profit or loss
GAAP	Generally accepted accounting principles, the body of regulation governing financial reporting in a jurisdiction
Goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements (IFRS 3 definition)
IASB	International Accounting Standards Board
IAS 38	IAS 38 *Intangible Assets*
IFRS Accounting Standards	Accounting standards developed by the IASB
IFRS 3	IFRS 3 *Business Combinations*
IFRS 13	IFRS 13 *Fair Value Measurement*
Impairment	A situation in which the carrying amount of an asset on the balance sheet exceeds its recoverable amount, resulting in an impairment loss to write the asset down to its recoverable amount

Intangible item	An identifiable item without physical substance
Intangible asset	An identifiable item without physical substance which meets the recognition criteria to be capitalised as an asset on the balance sheet
Internally generated	Produced inhouse rather than as a result of acquisitions
IP	Intellectual Property
KPI	Key Performance Indicator
Measurement	Quantification of an item in monetary terms to include in the financial statements
M&A	Mergers and acquisitions
Non-core group	Respondents to the survey who do not invest in, lend to or analyse UK companies
Non-traditional intangibles	Cryptoassets and emissions trading certificates
OCI	Other comprehensive income
P&L	(Statement of) profit or loss
Purchased	An intangible asset separately acquired or acquired in a business combination
Recognition	The process of capturing an item for inclusion in the financial statements
R&D	Research and development
Return on assets (ROA)	A commonly used financial ratio which measures how efficiently a company generates profits from the total assets on their balance sheet
Secretariat	The technical staff of the UKEB
UKEB	The UK Endorsement Board
Unrecognised	An item which has not been recognised in the financial statements
Useful life	The period over which an asset is expected to be available for use by an entity
Users	Users of financial statements

Value relevance	The ability of a company's financial information to influence investment and lending decisions, in turn affecting their valuation in financial markets

Appendix B: Literature Review

Users and Intangibles – Research Background

B1. This Appendix reviews findings from the academic literature on the value relevance of intangible assets, to provide further context to the present research.

B2. Value relevance refers to the ability of a company's financial information to influence investment and lending decisions, in turn affecting its valuation in financial markets.

B3. Empirically, value relevance can be tested by assessing the strength of the relationship between financial information and a firm's stock price/returns using statistical techniques.

B4. By examining the correlation between accounting metrics and stock prices/returns, researchers can gauge the degree to which accounting information influences investors' decision-making process.

B5. The underlying motivation for assessing users' views on intangible items comes from both:

a) the findings of the qualitative report, according to which users of accounts would value better and more granular information on intangibles (see paragraphs 4.78-4.99); and

b) the primacy the IASB places on users of accounts (as defined in the *Conceptual Framework for Financial Reporting* paragraph 1.2), as the main target audience of financial statements.

B6. The insights gathered from the academic literature instructed the approach to the survey and influenced the drafting of individual questions.

B7. The remainder of this Appendix summarises relevant contributions on the topic, focusing in particular on studies using UK data. The Appendix concludes by discussing how a survey approach to the research can complement the findings from the literature on value relevance, and how this report contributes to the debate on the topic.

Value relevance: general considerations

B8. As per the Conceptual Framework (paragraph 1.2): "The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity".

B9. The aim of value relevance research is to determine which accounting disclosures are decision-useful to users and to what extent this is the case. Formally speaking, accounting information is considered relevant "if it has predictive value, confirmatory value or both", i.e., can make a difference in users' decisions. In the context of equity markets, this is empirically tested by looking at whether accounting information is correlated with the firms' share price (or its returns), reflecting investors' decisions to allocate capital to a listed entity based on that information.

B10. The following paragraphs focus on the academic literature on the value relevance of intangibles, with consideration to contributions focusing on the UK.

Early contributions on value relevance

B11. The seminal contribution that sets the framework for value relevance research is the Ohlson model proposed by Ohlson (1995) and Feltham and Ohlson (1995). The papers develop a theoretical framework for value relevance and propose an empirical specification that allows quantification of the value relevance of accounting information.

B12. The model posits that the market value of a firm can be predicted by a combination of accounting variables such as net profit and book value of equity. It was one of the first models to provide a comprehensive framework to explain and measure the impact of accounting information on stock prices. The Ohlson and Feltham model for value relevance remains widely used by researchers today.

B13. Specifically on intangibles, an important contribution is Barth and Clinch (1998), who exploit the rules of Australian GAAP which, prior to the introduction of IFRS Accounting Standards in 2005, permitted the revaluation at fair value of all non-current assets with a 'long useful life', including intangible assets, to test whether these were value relevant upon revaluation. The study uses data from 350 companies listed in Australia between 1991 and 1995. Using the Ohlson model, the authors find that revaluations of intangible assets using fair value are positively associated with share prices, and therefore conclude that they are indeed value relevant.

B14. Barth and Clinch also consider how the value relevance of intangible assets revalued internally compares to intangible assets which were evaluated by external appraisers (for example, in a business combination). They find little evidence to suggest that revaluations conducted by independent appraisers are more value relevant than revaluations conducted by management.

B15. In another study, Aboody and Lev (1998) consider the value relevance of capitalised software costs to examine whether there is a case for broader recognition of internally generated intangible assets. The authors analyse data gathered from the financial statements of 163 U.S firms between 1987 and 1995. At the time, the US accounting standard for intangible assets (SFAS No. 2) required all R&D expenditure to be expensed. However, the US accounting standard for software development costs (SFAS No. 86) permitted the capitalisation of software development costs.

B16. In their analysis, the authors use regression models of lagged or contemporaneous stock returns on capitalised software development costs to test value relevance. The paper found that capitalised annual investment in software development is positively associated with stock returns. Additionally, software assets reported on the balance sheet are associated with stock prices. Capitalised software assets are also associated with subsequent period earnings, demonstrating another dimension of relevance to investors.

Findings on the value relevance of intangibles in the UK

B17. Numerous studies report a positive association between intangibles and share prices/returns for listed companies in the UK and other jurisdictions (many studies focus on the US), suggesting that, overall, intangibles are value relevant.

B18. However, and as noted in a literature review by Wyatt (2008), the relationship between intangibles reporting and share prices/returns depends on a number of characteristics. Wyatt (2008) conducted a wide-scale review of academic research on the value relevance of intangibles, looking at papers which consider different jurisdictions, industries, firm sizes, time periods, and intangible items. Wyatt's findings show that intangible items are positively associated with share prices/returns in a range of circumstances, though differences were found depending on the context. As such, while Wyatt acknowledges the value relevance of intangibles, the findings indicate that it is difficult to make generalisations about it, since the strength of the relationship between intangibles and share prices/returns varies depending on the context and in some cases may not exist at all.

B19. Individual contributions seem to be in line with Wyatt's findings. Dargenidou et. al (2021) compare the value relevance of capitalised development costs pre- and post-IFRS adoption in the UK (which happened in 2005). They show that market prices incorporate information about capitalised development costs only prior to the adoption of IFRS. The authors conclude that while capitalised development was relevant to investors under UK GAAP, where it was voluntary, mandating capitalisation of these costs as per IAS 38 conveys less relevant information to investors, because they associate these assets with a greater degree of uncertainty about the success of development projects.

B20. Exploiting the 2005 change from UK GAAP to IFRS, Shah, Liang and Akbar (2013) similarly explore whether the value relevance of capitalised R&D and R&D expenditure have changed, following the adoption of IFRS in the UK.

B21. Applying the Ohlson model to data from UK listed firms between 2001 and 2011, the authors find that capitalised R&D was value relevant over the 11-year sample period, suggesting that investors perceive capitalised R&D to be related to successful projects which will result in future economic benefit. Consistent with Dargenidou et al (2021), the authors, however, find that the value relevance of capitalised R&D declined in the years following the adoption of IFRS, compared with the period prior to IFRS adoption. In addition, R&D expenses were not found to be value relevant over the pre- and post-IFRS adoption period considered. The authors conclude that while R&D assets are indeed decision-useful for investors, mandating their recognition may have reduced their value relevance compared with allowing discretionary capitalisation.

B22. Tsoligkas and Tsalavoutas (2011) also find that capitalised R&D to be value relevant in the UK over the 2005 – 2007 period. However, in contrast with Shah et al. (2013) they show that the R&D expenses are value relevant but only for large firms, indicating that value relevance may depend on firm size.

B23. Shah, Stark and Akbar (2009) apply an extended version of the Ohlson model to advertising expense data obtained from a service provider which monitors and compiles advertising costs for firms in the UK. They show that advertising expenditures are positively associated with firms' market value, though only for non-manufacturing firms. Overall, their results suggest that information on advertising expenses is value relevant, but also that information provided by external service providers for a fee may be useful to investors when valuing firms.

B24. The results of Shah, Stark and Akbar (2009) are consistent with Ho, Keh and Ong (2005) who find that advertising expenses are value relevant for non-manufacturing firms as they are more likely to concentrate their intangible investment in advertising, as opposed to manufacturing firms, which are more likely to focus intangible investment on R&D due to their relative contributions to the entities' performance.

B25. The main conclusion from the academic research reviewed is that intangibles of various natures are value relevant, although this may vary based on accounting requirements, and across time, by firm-size, and by industry.

Contributions using other approaches

B26. Some academic and non-academic contributions have used other approaches, such as survey-based research, to investigate whether financial reporting on intangible assets is decision-useful for investors.

B27. For example, Zambon et al (2023) ran a survey to understand European users' opinions on the usefulness of reporting on recognised and unrecognised intangibles as per IFRS requirements. Differently from this paper, the authors surveyed preparers in addition to users, tested through the survey various disclosure case studies, and conducted focus groups to triangulate the survey results. With reference to findings on users, the authors reported that:

a) They were generally not satisfied with the current reporting.

b) Information on “IP and know-how”, “intangibles-related risks and opportunities” and “human capital” is currently missing from financial statements.

c) They believed that adding information about intangibles would pass a cost-benefit analysis test, though some users indicated that companies may be reluctant to add disclosures around intangibles because of commercial sensitivity.

d) They favoured added disclosures on intangibles, in Key Performance Indicators (KPIs), narrative disclosure and financial figures.

e) They preferred information on intangibles to be reported either in the notes, in the first half of the financial statement or in an integrated report, and to be standardised and audited.

How survey-based research can complement value-relevance research

B28. Value-relevance research infers decision usefulness from observable data: share prices and reported financial information.

B29. However, conclusions about the usefulness of financial information can also be drawn by directly surveying users of financial statements on the information they use to allocate capital or provide advice to their clients. In other words, survey-based research can be used to achieve a comparable outcome to value relevance research, complementing the body of evidence on the topic.

B30. Where most value-relevance studies focus on the decision-usefulness of individual disclosures for equity markets, survey research allows the researcher to:

a) directly ask users what information they consider useful for their investing/lending decisions: allowing researchers to evaluate a wide range of reporting options both in the face of the financial statements and in the notes, as well as the overall usefulness of financial disclosures;

b) test what disclosures would be most value relevant to users, for example by testing whether different recognition and measurement models would be perceived as decision useful for users of financial statements; and

c) test decision-usefulness for different user types (equity investors, lenders, analysts, credit-rating agencies).

B31. This report aims to complement the existing body of evidence on the decision usefulness of intangible assets by:

a) providing a comprehensive set of UK users' views about the relevance of current intangibles disclosures for their decision-making;

b) testing what recognition and measurement models would be most value relevant to UK users; and,

c) surveying a wide range of UK users.

B32. The above considerations fed into the survey design and the distribution approach, as discussed further in Appendix D of this report.

Appendix C: Robustness Checks

C1. The responses received were further analysed to ascertain that the overall results of the survey were not biased by certain groups of respondents.

C2. In the first instance, it was considered whether respondents who were neither investors nor lenders, i.e., not users in the strict meaning of the term, could bias the results. Therefore, analyses were restricted to a group of core respondents comprised of investors, lenders and analysts (either based in the UK and investing in the UK or abroad or based outside of the UK but investing in UK companies) and compared with the overall results to see whether a significant difference could be found.

C3. The restrictions were then relaxed by removing two sub-groups of non-traditional users, that could potentially bias the results, from the whole set of responses. Namely, academic researchers and non-core respondents who are based outside of the UK.

C4. Due to the relatively limited number of responses, it is expected that sample restrictions would slightly alter the allocation of the answers. Therefore, the analyses focus on whether a marked change in respondents' views is observed after restricting the response groups. As in the whole group of respondents, one response accounts for approximately 2% of the answers and in the restricted group it accounts for approximately 4% of the answers. As a 'rule of thumb', the analyses in the report note when a restriction generates a 5-10% change in the response allocation, or above. If no comment is made on this aspect, the change in respondents' views was smaller than the 'rule of thumb' level when the restricted group was compared with the whole group of responses. Formal statistical tests (Chi-squared) were also conducted to test whether the distribution of responses in the whole group was statistically different from the distribution of responses in the restricted group.

C5. Overall, the robustness checks indicate that, for most questions, no particular groups of respondents skewed the results of the survey. An exception to this was where respondents were asked to rate the usefulness of existing IFRS Accounting Standards requirements. The core group indicated a lower level of satisfaction for the accounting for internally generated software and development as well as the accounting for acquired intangibles. The core group also had slightly different answers to the question about the sources of information they use to gather the information, other than the financial statements. The core group selected investor roadshows and trading updates more often than the overall sample, perhaps because the core group is more likely to have access to these sources of information than the non-core group.

Restriction to the core group

C6. After excluding all non-core respondents, a total of 28 respondents remained (60% of the overall sample) as the core group, which were used for this robustness check.[34]

C7. The robustness check was conducted question by question.

C8. On the overall importance of intangibles for companies' competitive advantage, 82% of respondents in the core group suggested that they are either "very" or "extremely" important, as compared to 85% of respondents in the overall sample. Only 4% of responses in the core group (one individual respondent) suggested that they are "not at all" important, as compared to 2% of respondents in the overall sample. These responses are broadly the same as those received from all respondents overall.

C9. The results also remained broadly the same when asked whether the information currently disclosed about intangibles in IFRS financial statements is useful for investment or lending advice. 54% of responses suggested that the existing disclosures are either "very" or "extremely" useful, as compared to 52% of respondents in the overall group of responses. Only 11% suggested the contrary, selecting that the existing disclosures are either "not at all" useful or "not so" useful, as compared to 13% of respondents in the overall group.

C10. The answers to the above questions are not noticeably different from the answers which were received from all respondents. This, therefore, provides support for the robustness of the finding that respondents, irrespective of how they use financial statements, view intangibles as economically important for companies regardless of their presence on the balance sheet, but do not find the information in financial statements to be as useful.[35]

C11. When asked what the usefulness of particular accounting requirements was for investment or lending decisions, the views of core respondents differed from the overall responses for **certain** requirements. For example:

a) 56% of core respondents indicated that they find the recognition of internally generated software or development assets "extremely" or "very" useful. In contrast, 67% of all respondents indicated that this requirement was either "very" or "extremely" useful. A greater proportion of core respondents found this requirement only "somewhat" useful in comparison to the overall sample.

b) 57% of core respondents indicated that they find the recognition of acquired intangible assets "very" or "extremely" useful. 70% of all respondents indicated that they find this requirement either "very" or

34 As noted earlier, one respondent accounts for approximately4% of the responses in the core group.

35 Using a chi-squared test, the null hypothesis that a respondents' choice is influenced by their background is rejected.

"extremely" useful. A greater proportion of core respondents found this requirement either only "somewhat" or "not so" useful relative to the whole sample.

C12. However:

a) there were no significant differences between core respondents' answers to the questions about the usefulness of existing quantitative and qualitative disclosures in the notes and those received overall;and

b) differences in responses were only observed for certain requirements while there was broad consensus among all respondents when it came to all other requirements under existing IFRS Accounting Standards.

C13. Core respondents' answers on how they compare companies growing organically with those that grow through acquisition were broadly aligned with those of the whole group. Overall, the ranking of the options remained the same, with some observed changes in the number of times a choice was selected. For instance, the option to disregard intangible assets recognised on the balance sheet remained the most popular option, selected 39% of the time, as compared to 33% of respondents in the overall group. This was followed by the estimation of unrecognised internally generated assets using expense data and making no adjustment to figures reported in the financial statements. These responses were chosen 26% of the time respectively, the same proportions found in the overall group.

C14. The most commonly used sources of information other than the financial statements remained broadly the same after restricting to the core group of respondents. In particular, the front-half of the annual report, analysts' reports, companies' websites and companies' press releases remained the most commonly selected alternative sources of information. Within this group however, news outlets were selected by fewer respondents (29%) relative to the overall responses received (37%). On the other hand, trading updates and investor roadshows were both chosen by marginally more respondents within this group than in in the overall sample. In the core group trading updates were chosen 43% of the time compared to 37% of the time in the overall responses. Investor roadshows were selected 39% of the time in the core group compared to 30% in the overall group. Despite these differences the overall response to the alternative sources of financial statements broadly conveyed the same results, providing support for the robustness of this finding.

C15. The responses from core respondents with respect to their preferred treatment of intangibles also remained broadly the same as the overall group of respondents. In particular:

a) the responses suggested a preference for purchased intangibles, emissions certificates and cryptoassets to be capitalised as assets on the balance sheet; and

b) the option to expense was preferred for internally generated intangibles.

C16. Overall, the responses received from the core group of respondents were similar to the broader sample, although there were cases where marginally fewer respondents within this group preferred that a given intangible item should be capitalised on the balance sheet.

C17. This was most evident for product development, for which 33% of the core group preferred capitalisation (47% in overall sample), purchased cryptoassets for use by a trader/dealer for which 24% of the core group preferred capitalisation (47% in overall group) and cryptoassets purchased for investment for which 24% of the core group preferred capitalisation (47% in overall group).

C18. Where the option to expense an item was the preferred choice of the overall sample, the core group generally appeared to have a marginally stronger preference to do so for a given intangible item.

C19. In particular instances, this group deviated significantly from the wider sample. In the case of cryptoassets purchased for investment 33% of the core group suggested that they should be expensed (17% in the overall group). For emissions certificates purchased for trading intermediation, 32% of the core group indicated that it should be expensed while this result was 18% in the overall group.

C20. While these differences were observed, and are acknowledged, the general finding that there is a preference to expense internally generated intangibles and capitalise those which are acquired held true across the whole group of respondents.

C21. When asked what their preferred measurement basis was, a majority of responses from the core group suggested that they would prefer fair value through profit and loss only for purchased intangibles, emissions certificates and cryptoassets. One of the two cost models was mainly chosen for internally generated intangibles. These answers also mirror the overall responses to this question.

C22. Particular differences could be observed for the core group's preferred measurement model for:

a) Purchased brands – 58% of the core group indicated that they would prefer purchased brands to be measured using a cost and amortisation with impairment model in comparison to 47% in the overall group;

b) Internally generated brands – 58% of the core group indicated that they would prefer internally generated brands to be measured using a cost and amortisation with impairment model in comparison to 43% in the overall group;

c) Human capital – a larger proportion of the core group (47%) indicated that they would prefer human capital to measured using a cost and amortisation with impairment model (32% in the overall group).

C23. In response to the question regarding the most important factors preparers should consider when assessing the materiality of intangibles, 80% of core respondents suggested that both qualitative and quantitative factors are equally important. This compares to 84% of respondents in the overall group that suggested that both quantitative and qualitative factors are equally important.

C24. After excluding respondents who are neither investors nor lenders (the non-core group), the most disclosures indicated to be most relevant for investment/lending remained broadly the same. There was, however, a minor difference in the preferences of core respondents, as they indicated that the breakdown of current versus maintenance expenditures was relatively more important than compared to the overall responses.

C25. Overall, these analyses suggest that, while some minor discrepancies could be found as reported above, the results are robust to the exclusion of non-core respondents, and that the inclusion of these respondents in the overall group does not alter the main findings.

Excluding academic researchers

C26. The exclusion of academic researchers from the overall responses was not found to cause significantly different results than those observed from the respondent group as a whole. There were eight academic researcher respondents to the survey. After their removal from the responses, a total of 38 respondents remained. Given that the exclusion of academics has a smaller impact on the total number of responses compared to the restriction to the core group, as above, this robustness check had a lower potential for changing the overall responses.

C27. Nonetheless, the robustness checks conducted on the responses received excluding those of academics, show that consensus remains for the economic importance of intangibles, as well as for overall usefulness of disclosures.

C28. With respect to the preferred accounting treatment of intangibles, the results also broadly stayed the same. After excluding academics, most respondents still suggested that internally generated intangibles should be expensed and purchased intangible assets, cryptoassets and emissions trading certificates should be recognised as assets on the balance sheet. Similarly, after excluding academic researchers' responses, the preferred measurement bases for the listed intangibles remained broadly the same. The majority of responses suggested that a cost model should be used (either impairment only or with amortisation and impairment) for internally generated intangibles while fair value through profit and loss was mainly suggested for cryptoassets and emissions certificates held for investment or trading intermediation, as for the overall group.

C29. It is worth noting that conducting analyses which consider the responses of only academic researchers indicated that they were a group marginally more satisfied with the existing information about intangibles, compared with the core group and the overall group. Where overall responses may have included more responses such as “not at all” useful, “not at all” important, responses from the restricted sample of academics usually had fewer such responses.

Excluding responses from non-core respondents outside the UK

C30. Finally, robustness checks were conducted to determine whether the views of respondents who were neither based in the UK, nor of an investing or lending background, skewed the overall results. As such, a total of seven respondents were excluded for this robustness check, bringing the number of respondents to 39.

C31. As with the robustness check conducted following the exclusion of academic researchers, no notable differences in responses could be observed after the exclusion of this subgroup of respondents.

C32. With respect to the overall importance of intangibles and the overall usefulness of disclosures, the results did not significantly change after the exclusion of this group.

C33. When asked to indicate how useful they find disclosures in existing IFRS financial statements, most respondents in this group provided a similarly positive view. 43% of respondents in this group suggested this that they are either “very” or “extremely” useful view compared to 52% of overall responses. Despite this, the overall view about the usefulness of disclosures was not negative.

C34. These robustness checks indicate that the findings of this survey are not influenced or disproportionately skewed by the professional background of respondents.

Appendix D: Survey Design

D1. This section describes the methodology utilised to collect data for this report.

Aim of the survey

D2. The aim of the survey was to obtain data on user perspectives about the accounting for intangible assets, focusing both on current reporting requirements and potential future accounting models.

Survey design

D3. The overall survey design and drafting of individual questions was primarily informed by two sources:

a) Desk-based research:

i. on the value relevance of intangible assets: this is summarised in the Appendix B of this report. The academic literature on value relevance shows that the financial reporting for intangibles provides users of financial statements with decision-useful information for their investment/lending activities. However, differences exist depending on the context – a point this report aims to address by providing evidence on how UK users currently view the accounting for a range of intangible items; and,

ii. on the investment management industry in the UK: the diverse and international disposition of the asset management industry provides merit in engaging with a wider array of investors than just UK based institutional investors. The views of foreign investors and retail investors, as examples, were considered useful material for this report.

b) Stakeholder engagement (UKEB intangibles Qualitative Report): interviews with users of financial statements as well stakeholder engagement conducted after the publication of the Qualitative Report suggested that users of financial statements consider intangible assets important for their decision making, but they would like to see more information on intangibles, largely in the disclosures, in order to enhance companies' comparability but also apply their own valuation models.

D4. The survey was split into two parts:

a) The first half of the survey sought respondents' views of the current accounting for intangibles, focusing on: their economic relevance; the usefulness of overall and individual IFRS disclosures on intangibles (both in the face of financial statements and in the notes); and, the use respondents make of financial statements information on intangible assets; and

b) the second half focused on preferences for potential future accounting. Respondents were presented with alternative recognition and measurement models for a broad range of intangible asset classes and asked to identify the most relevant for their decision-making. Their views on materiality were also tested.

D5. The following filtering criteria were applied:

a) Respondents were required to use/analyse (or have used/analysed in the past) IFRS financial statements to make investment/lending decisions or provide professional advice to others; and,

b) to have experience dealing with IFRS financial statements.

D6. The survey was comprised mostly of closed-ended multiple choice and rating questions. In addition, most questions included a comment box to allow for the collection of qualitative information supplementing closed-ended responses.

D7. The survey was designed to be completed in a single 15 to 20 minute session. The average response time of respondents presumed to have completed the survey in one session was 18 minutes and 40 seconds.

D8. The survey was programmed and administered using an online survey tool. A Word version of the survey was also distributed.

Survey drafting

D9. Drafting of the survey started in March 2023. The draft survey was tested with and revised after input from:

a) The UKEB Academic Advisory Group (AAG);

b) Individual AAG members (additional 1:1 conversations);

c) Some UKEB Board members;

d) Economists at the Department for Business and Trade (DBT); and,

e) Senior UKEB Secretariat staff.

D10. A final draft of the survey was produced in August 2023, incorporating comments from all of the above.

Piloting

D11. The final draft survey was piloted with the UKEB Investor Advisory Group (IAG) during August 2023 (completed in September 2023). No fatal flaws were flagged, and positive feedback was received. The three responses received as part of the pilot were included in the pool of responses.

D12. The near-complete draft was shared for a final round of fatal-flaw feedback with the AAG in September 2023. No fatal flaws were identified.

Distribution

D13. The survey was launched on 25 September 2023 and remained open for one month.

D14. The survey was advertised through a number of channels including:

a) UKEB News Alerts;

b) UKEB and individual LinkedIn Posts;

c) numerous direct emails to individual investors/investment management companies. These included international investors; and

d) distribution lists of relevant industry and professional associations which feature users of financial statements among their members. These were:

i. The Investment Association (IA). This allowed for a comprehensive distribution to UK professional asset managers, broadly understood (as noted, IA members account for 85% of Assets Under Management (AUM) in the UK);

ii. the Corporate Reporting User Forum (CRUF). This allowed to target UK professional asset managers from a different channel, as well as retail investors/retail investors' associations;

iii. the Association of British Insurers (ABI). This allowed targeted the UK pension fund/insurance business from a different channel;

iv. the British Venture Capital Association (BVCA). This targeted venture capital/private equity investors;

v. the Chartered Financial Analysts (CFA) Society of the UK. This allowed distribution of the survey to analysts, professional asset managers/lenders, and retail investors;

vi. Other individuals and organisations, including the Footnotes Analyst, a popular blog in the accounting field, whose distribution list is likely to comprise both professional asset managers and retail investors; and

vii. academics, who distributed the survey to their contacts.

D15. The survey received coverage in Accountancy Daily and Financial Management, both publications with a readership in the financial services sector.

D16. The UKEB is confident that the distribution covered the vast majority of the asset management industry in the UK, due to distribution through relevant associations.

Limitations of survey research

D17. Survey research has several methodological limitations, including:

a) **Surveys may receive a limited number of responses.** Therefore, caution is required in extrapolating the conclusions drawn from a pool of survey responses to the wider population of stakeholders. However, this survey was distributed in a targeted manner with the help of supporting organisations, in order to maximise the distribution to respondents who use financial statements. 46 responses (with 14 partial responses) is considered a sufficient volume of responses to conduct meaningful analysis.

b) **Surveys may not reach the desired respondents.** The breakdown of respondents and robustness checks conducted comparing the responses of core users of financial statements with those from non-core respondents indicate that the respondents were users of financial statements, and whether they were core user groups: investors, lenders and analysts, or other user groups, did not significantly alter or bias their responses to the survey questions.

c) **Survey questions may be misinterpreted by respondents.** However, the survey was tested with a range of respondents, as indicated above. The analysis of responses and comments made by respondents did not indicate any questions which respondents interpreted differently to the intended question meanings when the survey was designed.

D18. It should also be noted that in analysing the survey responses for this report, consideration has been given to how the emerging themes converge with those already identified from the stakeholder interviews conducted for the UKEB's

Qualitative Report, and those emerging from the data analysis for the Quantitative Report. Therefore, data from the different sources used for each of the other two reports within the UKEB's intangibles research project has been triangulated with the survey response themes, providing additional confidence in the interpretation and conclusions drawn from the survey responses.

Survey questions

Question number	Question and response options
	Demographics
1	Do you use/analyse (or have you used/analysed in the past) IFRS financial statements to make investment/lending decisions or provide professional advice to others? * • Yes/no
2	Please indicate the years of experience you have in dealing with IFRS financial statements*? • No experience • less than 1 year • 1-5 years • more than 5 years
3	Please indicate your primary role as a user of financial statements*? • Retail investor • Institutional investor • Sell-side/broker dealer • Credit-rating agency • Lender • Analyst/researcher (e.g. equity, fixed income) • Academic researcher

	• Other (please specify): Comment box
4	Please indicate whether: • You are/your organisation is based in the UK • You invest in/lend to/trade in/analyse/rate companies • None of the above
5	Please indicate firm's approximate assets under management (£million) Comment box The main sector(s) in which you invest (if generalist, please indicate) Comment box
	Use of current accounting for intangibles In this section, we will ask a few questions about the use you make of information about intangible items currently reported in IFRS financial statements (primary financial statements and related notes). This section also covers your use of other sources of information. Note that we are not considering the accounting for goodwill in this questionnaire, unless explicitly stated.
6	Please indicate how important intangible items (e.g., research, development, brands), whether disclosed or undisclosed, are as a source of competitive advantage for the companies you invest in, lend to or provide advice about: (Please select one option) • Extremely important • Very important • Somewhat important

<table>
<tr><td></td><td>

- Not so important
- Not at all important

Please explain why you selected this option:

Comment box
</td></tr>
<tr><td>7</td><td>

Please rate the extent to which you find the following requirements for reporting on intangible items (e.g., research, development, brands) under existing IFRS Accounting Standards useful for your investment/lending decisions or advice:
(Please select one option per row)

<table>
<tr><th></th><th>Extremely useful</th><th>Very useful</th><th>Somewhat useful</th><th>Not so useful</th><th>Not at all useful</th><th>I don't know/ I am not sure</th></tr>
<tr><td>Recognising on the balance sheet some internally generated development and software</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Expensing all internally generated intangibles other than development and software</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Recognising goodwill resulting from a business combination</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Recognising on the balance sheet intangible assets purchased or acquired in a business combination</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
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	Providing quantitative disclosures about recognised intangible assets in the notes to the financial statements, e.g., useful life, amortisation and impairments						
	Providing quantitative disclosures that break down material intangible expenses in the notes to the financial statements, e.g., research expenditure						
	Providing qualitative disclosures about recognised intangible assets in the notes to the financial statements, e.g., descriptions						
	Providing qualitative disclosures about material intangible expenses in the notes to the financial statements, e.g., descriptions						
	(Optional) Please explain why you selected these options: Comment box						
8	Please indicate the extent to which you find the information about intangible items (e.g., research, development, brands) disclosed in IFRS existing financial statements useful overall for your investment/lending decisions or advice: (Please select one option) • Extremely useful • Very useful • Somewhat useful						

	• Not so useful • Not at all useful Please explain why you selected this option: Comment box
9	Please indicate how you treat information about intangible items (other than goodwill) when comparing companies that have mainly grown through acquisitions with those that have grown organically: (Please select all that apply) • Disregard intangible assets recognised on the balance sheet • Estimate unrecognised internally generated intangible assets by capitalising granular intangible expenses, when reported • Estimate unrecognised internally generated intangible assets by capitalising a portion of administrative costs • Make no adjustment – use the reported information as it is • Other (please specify): Comment box
10	Please select the sources other than financial statements that you use to gather information on individual companies' intangible items: (Please select all that apply) • Front half of the annual report (e.g. MD&A) • Companies' press releases • Trading updates

	• News outlets • Investors' roadshows • Data providers (e.g. Reuters-Eikon, Bloomberg etc) • Analysts' reports • Scientific/academic papers • Companies' websites • Other (please specify) Comment box
	What accounting is most relevant to users' decisions? In this section we will ask a few questions that aim to tease out the accounting for intangibles that could provide more useful information for your investment/lending decisions or advice.

11	Please consider the following list of intangible assets. For the following expenditures, please indicate what you believe would be the most useful accounting (assuming amounts are material and are more likely than not to generate present or future returns): (Please select all options per row that apply)

	Expensed through Profit and Loss (aggregated with other costs)	**Expensed through Profit and Loss (stand-alone item)**	**Capitalised on the Balance Sheet**	**Disclosed as stand-alone item in the notes to the financial statements**	**I don't know/I am not sure**
Primary (blue sky) research					
Applied research					
Product development					
Advertising					
Purchase of brands/trademarks					
Purchase of software					
Software development					
Purchase of customer lists					
Public relations					

	Purchase of intellectual property for use					
	Purchase of intellectual property as investment					
	Purchase of cryptoassets for use by a trader/dealer					
	Purchase of cryptoassets for investment/speculation					
	Employees' training					
	Purchase of emissions certificates for investment/speculation					
	Purchase of emissions certificates to offset future emissions					
	Purchase of emissions certificates for trading intermediation					
	Purchase of data to enhance value creation					

Collection and generation of data to enhance value creation					

(Optional) Please explain why you selected these options:

Comment box

12	In the hypothetical situation where the intangible items listed below were capitalised on the balance sheet, for each item please indicate the subsequent measurement model that you believe would be more useful for your decision making (assuming amounts are material): (Please select one option per row)

	Cost and amortisation with impairment (similar to plant and equipment measured at cost)	Cost and impairment only (similar to goodwill)	Fair value through profit and loss (similar to many financial instruments)	Revaluation through OCI (similar to plant and equipment measured at fair value)	I don't know/I am not sure
Brand – purchased					
Brand – internally generated					
Brand – purchased to prevent use by others					
Software – purchased					
Software – internally generated					
Software – internally generated, for use					

Customer list – purchased					
Customer list – internally generated					
Intellectual property – purchased for use					
Intellectual property – purchased as investment					
Intellectual property – purchased to prevent use by others					
Intellectual property – internally generated					
Cryptoassets held for trading intermediation					
Cryptoassets held for investment/speculation					
Cryptoassets held for risk management					
Human capital					

Emissions certificates held for speculation/investment					
Emissions certificates held to offset future emissions					
Emissions certificates held for trading intermediation					
Databases used to enhance value creation					

(Optional) Please explain why you selected these options:

Comment box

13	Please select the three most important disclosures about intangible items in terms of their relevance to your investment/lending decisions or advice? • Relevance to the business model/value creation • Quantification of expected current/future revenues generated by the assets • Qualitative description of expected contribution to current/future revenues • Risks associated with future expectation of revenue generation • Degree to which rights are enforceable/legal protection • Portfolio of underlying projects e.g. number and scope of R&D projects • Amortisation schedule/expected useful life • Breakdown of current investment vs maintenance expenditures • Other (please specify: Comment box
14	Where would it be most useful to see any additional information on intangible items? • In the financial statements themselves • First half of the annual report (i.e., management report) • Other (please specify): Comment box Please explain why you selected these options: Comment box

	Materiality The financial statements should only include information that is material, i.e., that can "reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports". Information may be material because of its magnitude (quantitative factors) or nature (qualitative factors).
15	What factors should preparers consider most important when assessing whether specific intangible items, on average, are material or not? (Please select one option) • Quantitative factors are more important (e.g. expenditure > 10% of expenses or assets) • Both qualitative and quantitative factors are equally important • Qualitative factors are more important (e.g. asset is strategic to the business) Please explain why you selected this option: Comment box
16	What qualitative factors are the most important to consider in your opinion? (Please select all that apply) • Potential for significant revenue in the future associated with the intangible item • Degree of risk that associated revenues may be less than expected • Relative importance of intangible item type within the industry • Shareholders'/investors' interest in the intangible item • Broader stakeholders' interest in the intangible item • Relative importance of intangible item to the business model

	• Other (please specify): Comment box
	Any other comments? Comment box

Appendix E: Supporting Organisations

The following organisations supported the UKEB with the distribution of the survey (in alphabetical order):

- Association of British Insurers;
- British Venture Capital Association;
- CFA Society of the UK;
- Corporate Reporting Users Forum;
- Investment Association.

In addition, the blog "The Footnotes Analyst" agreed to distribute the survey through their distribution list.

Appendix F: References

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