UK Endorsement Board

Intangibles research project – survey report update

Executive Summary

Project Type	Research Project
Project Scope	Significant
Purpose of the paper	
This paper asks the Board for feedback on a draft of the findings from the user survey on intangibles.	
Summary of the Issue	
The Secretariat has produced a draft of the survey report, summarising the results from the survey of users conducted during 2023.	
Decisions for the Board	
1. Does the Board have any comments on the detailed analyses and results of the draft report (Appendix A)? 2. What conclusions do the Board members draw from Sections 2 and 3 of the draft report. Do these merit inclusion in the final report? Do any of these merit elevating to the Executive Summary? 3. Does the Board agree that we should develop the 'Overview of the investment management industry in the UK' as a separate paper? 4. Does the Board believe the literature review should remain an Appendix of the survey report or be developed as a separate paper?	
Recommendation	
N/A	
Appendices	
Appendix A Draft survey report Appendix B Overview of the investment management industry in the UK	

Background

1. During 2022, the UKEB decided to undertake a multi-output, proactive research project that would contribute to the international debate on intangible items. The research considers how the accounting for, and reporting of, intangible items could be improved to provide investors with more useful general purpose financial statements to help them make better informed decisions.

2. The initial phase of the research is focused on understanding stakeholders' views (particularly investors) of the accounting for, as well as the current state of the reporting of, intangibles in the UK. This involves three reports:

    a) A qualitative report focused on stakeholder views about the accounting for intangible assets, supported by economic analysis and a review of key literature. This report was published in March 2023;

    b) A quantitative report examining the prevalence and economic relevance of intangible items for UK reporters, including an analysis of current practices among UK listed companies using IFRS Accounting Standards. This report is currently being drafted and a first draft of the report will be presented to the Board at the February meeting;

    c) An investor focussed report based on a survey of users. A draft of the report has been included as Appendix A of this paper.

Survey report update

3. The Secretariat has produced a draft of the survey report for consideration by the Board. It comprises the introduction, a discussion of survey results, and some of the planned appendices (methodology, literature review). The remaining parts of the report will be included in the final draft for consideration in the March 2024 Board meeting.

4. The report follows the structure below:

    Executive summary (to be finalised in March 2024)

    Section 1: Introduction

    Section 2: Survey overview and Survey results: views on current accounting

    Section 3: Survey results: views on future accounting

    Section 4: Conclusions (to be submitted in March 2024)

Section 5: Next Steps (to be finalised in March 2024)

Appendix A: Glossary (to be finalised in March 2024)

Appendix B: Literature Review

Appendix C: Survey Design

Appendix D: Supporting Organisations (to be finalised in March 2024)

Appendix E: References (to be finalised in March 2024)

5. As this is a draft, some content is still to be finalised, including cross-referencing.

6. Board member feedback on the content of the draft sections as well as on the style and tone are welcome. In particular, feedback on any conclusions Board members draw from the analysis included in Sections 2 and 3 and whether these merit inclusion in the Executive Summary would be helpful.

7. The research team intend to incorporate this feedback in the final version of the report to be shared with the Board at its March 2024 meeting.

Questions for the Board
1. Does the Board have any comments on the detailed analyses and results of the draft report (Appendix A)?   2. What conclusions do the Board members draw from Sections 2 and 3 of the draft report. Do these merit inclusion in the final report? Do any of these merit elevating to the Executive Summary?

Additional Papers

8. As work has progressed on the survey report, the Secretariat identified that some of the preliminary research conducted in preparation for the survey could be presented as stand-alone material. It has broader applicability than just the survey report or the intangibles project itself. In addition, having stand-alone supporting material in separate papers would help ensure the main report remains focused and succinct, thus helping readability for both the Board and external audiences.

9. For example, the Secretariat believe that the 'Overview of the investment management industry in the UK', summarising work undertaken to help with the drafting and distribution of the survey, has broader applicability than to the intangibles project alone, as it provides the UK context about users of financial statements. The research team therefore propose that this overview could be

further developed as a separate paper that would have broader applicable to the UKEB research work. A draft is included in Appendix B.

10. Similarly, the literature review included as an appendix of the draft survey report could, in the view of the Secretariat, be developed into a separate paper – the literature referred to has applicability to the forthcoming quantitative report as well as to the survey report.

11. A separate paper on robustness checks undertaken on the survey responses is also being drafted, in response to Board feedback on the survey report update at the November 2023 Board meeting.

Questions for the Board
3. Does the Board agree that we should develop the 'Overview of the investment management industry in the UK' as a separate paper? 4. Does the Board believe the literature review should remain an Appendix of the survey report or be developed as a separate paper?

Next steps

12. The Secretariat anticipates submitting a draft of the quantitative report at the February 2024 Board meeting and complete drafts for both the survey and the quantitative report at the March 2024 Board meeting.

13. Additional papers for consideration by the Board, contingent on the Board's answers to the questions above, will also be presented at future Board meetings.

DRAFT

UKEB
UK Endorsement Board

Accounting for Intangibles [Draft]

A survey of users' views

January 2024

Acknowledgements: the UKEB would like to thank [name organisation] for helping distribute the survey among participants.

DRAFT

Executive Summary

UKEB research into the accounting for intangibles

1. In response to each of the IASB's three agenda consultations (2011, 2015, and 2021), stakeholders have called for further consideration of the accounting for intangibles. The IASB added accounting for intangibles to its research pipeline in response to feedback on its Third Agenda Consultation, published in 2022. It is expected that a project on this topic will begin in 2024.

2. Respondents to the IASB's agenda consultations expressed concerns that:

   "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).

3. This report, focussed on a survey of users, forms part of the UKEB's project to understand the current concerns about the accounting for intangibles. It complements both the qualitative research report already published, and the quantitative report being developed.

Summary of sections

4. [To be completed after the January 2024 UKEB meeting]

Looking forward

5. The UKEB will use these findings as an evidence base in its future work on intangibles, including future research work, developing its own views on accounting for intangibles and its engagement with the IASB.

6. The UKEB looks forward to contributing to future discussions on the accounting for intangibles. Further research including an examination of financial statement disclosures by UK companies, and further discussion with investors to identify their preferred approach to accounting for intangibles is underway.

1. Introduction

1.1 The International Accounting Standards Board (IASB) regularly reviews its future agenda by means of a public consultation process, known as Agenda Consultation.

1.2 The IASB launched its Third Agenda Consultation in 2021 and received 124 comment letters in response.[1] Many respondents identified intangibles as an area the IASB should focus on. Respondents' concerns with the accounting for intangibles were as follows:

a) The current Standard, IAS 38 *Intangible Assets,* needs comprehensive review by the IASB as it was published in the 1990s with a focus on manufacturing businesses with primarily tangible assets. The standard is less suited to the current economic environment given the recent shift towards service-oriented businesses;

b) Due to the limitation of IAS 38's requirements, accounting for new emerging assets (e.g., emission trading rights, cloud-based computing arrangements and crypto-currencies) and transactions was seen to be "challenging" both in terms of how to account for these transactions and the information provided to users of the financial statements;

c) Some respondents believe the IASB should revisit the reasons for the differences in the recognition criteria for internally generated intangibles and separately acquired intangibles;

d) Many respondents supported introducing requirements to improve the disclosures of intangibles not recognised as assets; and

e) A few respondents asked the IASB to consider the potential overlap of sustainability with intangible items as these items are one of the key drivers of sustainable business development and sustainability reporting.

1.3 Consistently, the UKEB comment letter also identified intangibles as a priority. In particular, the UKEB recommended a comprehensive review of IAS 38, noting that any IASB review should address:

a) the extent to which IAS 38 captures relevant information on intangibles, such as cryptocurrencies, pollutant pricing mechanisms, software, and development costs; and

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1 81 respondents (65%) to the Third Agenda Consultation, in 2020, referenced intangible items, with 20 (16%) stated that "a project on intangible items was a high priority". https://www.ifrs.org/projects/completed-projects/2022/2020-agenda-consultation/request-for-information-and-comment-letters/#view-the-comment-letters.

b) whether a separate standard addressing non-financial assets would provide more relevant information where intangibles such as crypto-currencies and emissions trading rights are held for investment. [2]

1.4 Other respondents argued that revisiting the recognition and measurement criteria of intangibles could improve comparability, provide more useful information, and better reflect the importance of intangibles.

1.5 In anticipation of an IASB review of intangibles the UK Endorsement Board (UKEB) decided to initiate a research project focused on understanding UK stakeholders' views on the accounting for intangibles.[3] The UKEB aims to understand:

a) whether there are concerns with the current approach to the accounting for, and reporting on, intangibles, particularly under IAS 38 *Intangible Assets*; and

b) possible ways in which the accounting for intangibles could be improved.[4]

UKEB Report – Accounting for Intangibles: UK Stakeholders' Views

1.6 In March 2023 the UKEB published a report on UK stakeholders' views on the accounting for intangibles (the 'qualitative report'). The report, draws on accounting and economic literature, and 35 one-to-one interviews with a diverse range of stakeholders.

1.7 Some highlights are:

a) the review of the economics literature on intangibles emphasised how intangibles positively influence companies' performance, in particular profitability and productivity;

b) analysis of economic prevalence shows that intangible assets have grown from 2011 to 2021, both at a national level and on FTSE 350 companies' balance sheets. However, both national accounts and company balance sheets under-report intangibles because of national and IFRS Accounting Standards requirements respectively.

1.8 Interviews with stakeholders identified the following concerns, suggesting that IAS 38:

2 Final Comment Letter - Agenda Consultation.pdf (kc-usercontent.com).

3 The UKEB began developing and researching a project in late 2021 in anticipation of a project examining intangibles being an outcome of the Third Agenda Consultation.

4 For simplicity the rest of the report uses the term "accounting for intangibles" to mean both accounting on and reporting of intangibles.

a) is an "old standard" that, in its current form, does not address the needs of the current business and economic environment;

b) has a high threshold for recognition of intangible assets, leading to under-reporting of these items on companies' balance sheets;

c) leads to inconsistent accounting outcomes for similar assets when combined with the requirements of other standards such as IFRS 3 *Business Combinations* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*;

d) requires disclosures that do not always lead to comprehensive or useful information on intangible assets or related expenditures.

1.9 Interviews with stakeholders highlighted the following solutions:

a) any new approach to accounting for intangibles should be strongly grounded in the Conceptual Framework (2018). They considered that accounting should be principle-based, taking a broader approach relevant both to intangibles that exist today and to those that may emerge in the future.

b) some stakeholders showed appetite for recognising more intangibles on the balance sheet. They acknowledged, however, that this would require increased judgement from both preparers and users of financial statements and there were concerns about the potential for reduced understandability of the resulting financial reporting.

c) Those stakeholders seeking further recognition tended to favour a cost model for accounting for intangibles recognised in the financial statements. However, stakeholders noted that for some types of intangibles for which more reliable market measures exist (for example cryptoassets held for investment purposes) a fair value model might be more appropriate.

d) More disclosures about intangible assets were overwhelmingly identified as a proposed enhancement to the accounting for intangibles, whether or not in conjunction with wider recognition. Users of financial statements in particular called for more granular reporting of expenditure related to individual intangibles (e.g., advertising, training, research). In addition, stakeholders expressed the desire for more qualitative information about key intangibles, especially those that were integral to a company's business model.

Terminology

1.10 In this report:

a) the term “intangible assets” is used to either:

   i. refer to intangible items specifically qualifying for recognition in accordance with IAS 38; or

   ii. in the meaning intended by survey respondents when quoting them verbatim;

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 qualify as assets in the economic meaning of the term.[5,6]

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

5 In the economic literature the expression “intangible capital” is also common. See qualitative report published in March 2023, paragraphs XX-XX.

6. 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 they acknowledge 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

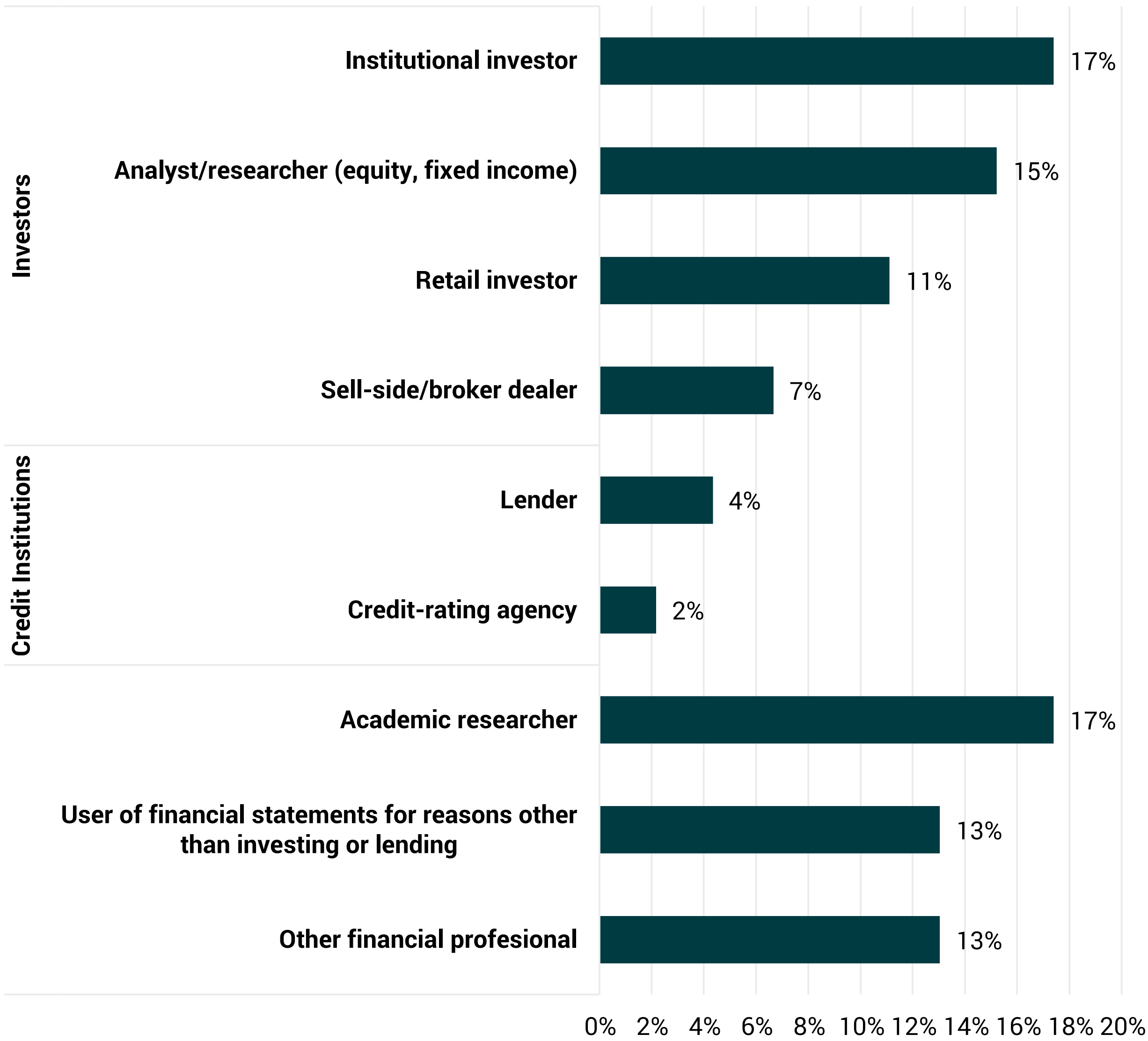
A note on methodology

2.1 This report discusses and analyses the views of users of financial statements on the current accounting for intangible items, and their preferences for accounting for intangible items, gathered through responses to a survey conducted by the UKEB in September 2023. Appendix B provides more detail on the survey design and distribution and Appendix C contains a list of the Supporting Organisations which assisted with the survey distribution.

Overview of survey respondents

2.2 The survey gathered 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 2 and the section below:

Chart 2: Respondents' occupations



2.3 As noted, the survey was primarily distributed directly to “users” consistent with the *Conceptual Framework* meaning of the term (i.e., asset managers, analysts, lenders and credit rating agencies, broker-dealers).

2.4 Due to how the survey was publicised, responses were received from a broader constituency of users than is defined in the Conceptual Framework. In particular, responses were also received from:

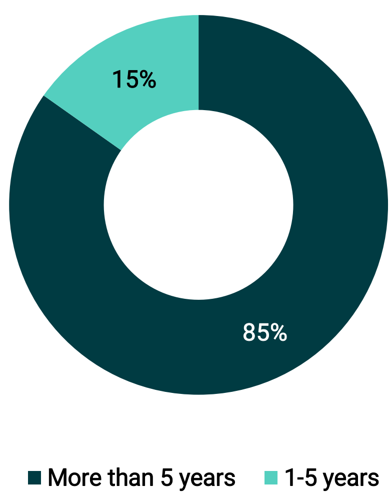
a) academic researchers[7]

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) accounting professionals, such as preparers of financial statements and auditors, who self-identified themselves as users as part of their professional activities.[8]

2.5 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. No responses were received from individuals who have less than one year of experience.

Chart 3: Respondents' years of experience



2.6 Respondents were located both within and outside the UK. More in detail:

7 According to the Conceptual Framework (2018), users are identified as potential or existing investors, lenders or creditors. Academic researchers, per se, 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 day-to-day job. [Plug in example from rate regulated project] [accountant to find another example]. The views of preparers and auditors who responded to the survey are considered useful as they have had experience working with the preparation of financial statements of companies whose business models are particularly reliant on intangible assets. These respondents may also have previous experience using financial statements for investment or lending advice.

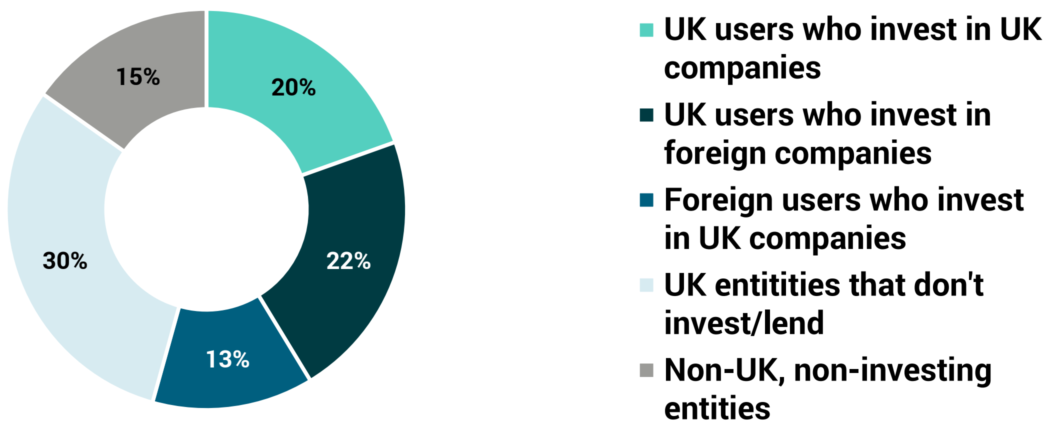
a) 33% of respondents were users of financial statements who invest in, lend to or analyse companies in the UK. These respondents were split between UK-based users (20%) and users based outside of the UK (13%)[9];

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., they do not invest in, analyse or lend to companies);

d) Lastly, 15% of respondents were users based outside of the UK and not investing in, advising, or lending to UK companies.[10] (see Chart 4)

Chart 4 Location of respondents' organisations and the location of the companies they invest in / lend to / analyse.



2.7 Respondents who invest in, lend to, or analyse UK companies are referred to throughout the paper as the core group of respondents. 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.

2.8 Partial responses to the survey were retained only if they completed the first half of the survey, i.e., all questions related to the current accounting for intangibles under existing IFRS accounting standards. None of these respondents answered questions about how the current accounting for intangibles could be improved (the second half of the survey). The partial responses are therefore expected to fully reflect users’ views on the current accounting for intangibles.

9 As noted in paragraphs **Error! Reference source not found., Error! Reference source not found.**, foreign users dealing with UK-based companies are considered UK stakeholders given the openness of the UK financial sector to international markets.

10 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 skew the result.

User perception of the current accounting

2.9 The first half of the survey tested users' perceptions of the current accounting for intangible items, focusing on:

a) their economic relevance;

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

c) the use respondents make of financial statements information on intangible items.

2.10 In the analysis that follows the size of the sample means that one respondent accounts for roughly 2% of the overall responses. Therefore, in situations in which the analysis finds a slight majority but no overwhelming support or disagreement towards a statement, the authors have cautiously noted a "split of opinions" rather than outright support, or lack of thereof.

Intangibles matter

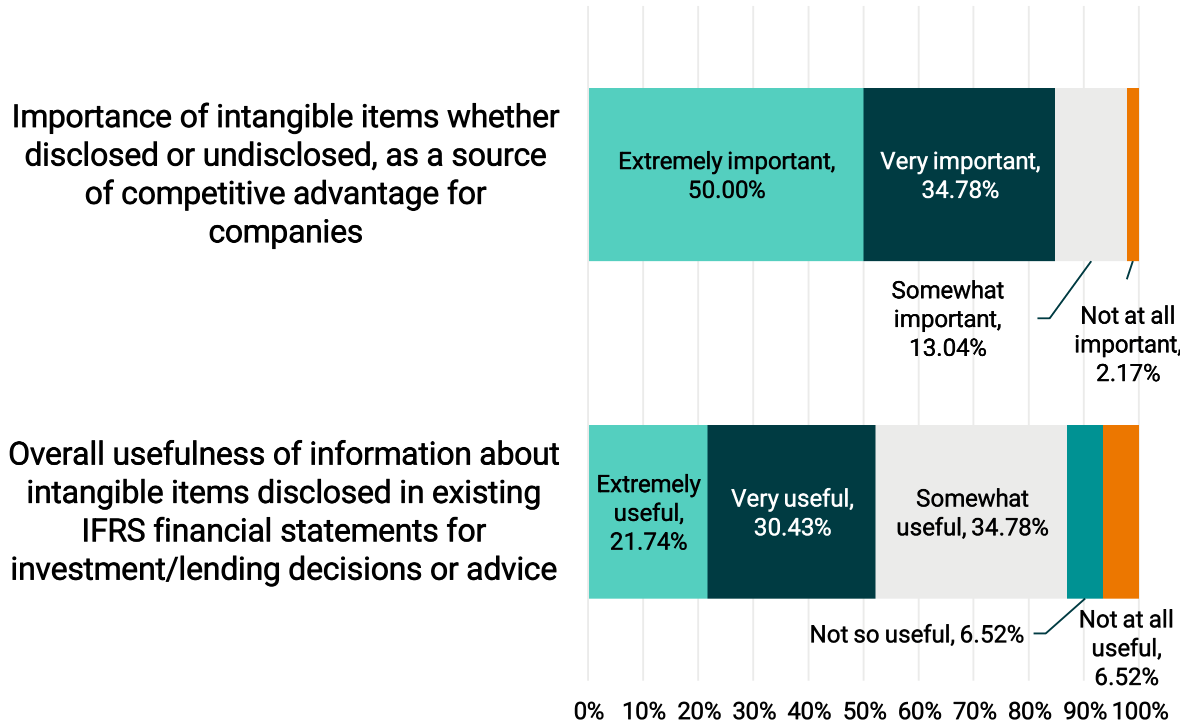
> "Clearly intangibles form an important part of most businesses. Failing to either provide disclosures or recognise intangible assets compromises the usefulness of financial statements". (Equity/fixed income analyst)

2.11 According to survey responses, users of financial statements acknowledge the economic relevance of intangibles to companies, regardless of their presence on the balance sheet. However, they don't find that the information disclosed in financial statements prepared using existing IFRS accounting standards to be as useful, suggesting there may be an expectations gap between the importance of intangible items to users, and the usefulness of information disclosed in the financial statements.

2.12 More in detail, when asked if intangible items, whether reported or unreported, are an important source of competitive advantage, 86% of respondents (39 individual responses) stated that they are either very or extremely important. Only one respondent indicated that they are not at all important (see Chart 5). This suggests 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.

2.13 However, when asked about the overall usefulness of information disclosed pertaining to intangible items for investment or lending decisions, 52% of respondents (24 individual responses) suggested that it is either very or extremely useful. 35% of respondents (16 individual responses) suggested that it is somewhat useful, while 7% (three individual responses) suggested it is not at all useful (see chart 5).

Chart 5: Economic importance of intangibles and the overall usefulness of information in the financial statements prepared under existing IFRS accounting standards.



Note: the questions were "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"; and “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”. 45 responses were received to both of these questions.

2.14 Qualitative data provided by respondents in the open-ended comment boxes attached to individual questions provided additional insights.

2.15 A number of respondents highlighted the significance of intangibles for maintaining competitiveness in the modern world and their role as predictive indicators of future cash flow and profitability. This opinion came across irrespective of respondents’ professional backgrounds.

2.16 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.”

2.17 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)

2.18 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."

2.19 While there was consensus on the economic importance of intangibles, respondents suggested that information presented under current IFRS accounting standards could be improved.

2.20 An 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."

2.21 However, most of the respondents who added a comment suggested that the information presented could be improved to some extent. One institutional investor for example 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)."

2.22 A broker-dealer noted "There are insufficient disclosures to get a proper understanding of intangible items and their importance to a firm."

2.23 Along a similar line, 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."

2.24 A financial reporting manager was concerned about the comparability of financial statements:

"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”.

2.25 Lastly, 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, assess return on operating assets).”

2.26 So, while half of respondents indicated they broadly felt that the information provided on intangibles in financial statements was useful, they also indicated that there were opportunities for improvement.

2.27 These 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.

2.28 With the shift from a manufacturing-based economy towards one which is more digital and reliant on services, companies have become more dependent on intangible assets to drive productivity and competitive advantage. From an economic perspective, intangibles have a durable impact on companies’ performance and their returns are reaped over future periods (See Para 2.5 – 2.11: Accounting for Intangibles – UK Stakeholders’ views UKEB). Therefore, better information about intangibles would be useful to assess a company’s future performance. Responses to the survey appear to be broadly in line with these considerations.

Current requirements are useful, but could be better.

> "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 Respondents were asked to evaluate the usefulness of the current accounting requirements to capitalise internally generated development and software as intangible assets (IAS 38, para 57) and not capitalise all other internally generated intangibles (IAS 38, para 63 – 64). They were also asked to rate the usefulness of the recognition of acquired intangible assets and goodwill (IAS 38 , para 33 – 37; IFRS 3, para 32).

2.30 Furthermore, participants were asked to assess the usefulness of disclosures in the notes to the financial statements.

2.31 Disclosures provided under existing IFRS requirements were broadly considered useful, both on the face of the financial statements and in the notes. However, users showed different levels of satisfaction depending on the disclosure requirement.

2.32 When asked to indicate how useful **the recognition of internally generated development and software assets** is for investing, lending or analysis, a clear majority of respondents indicated that it was indeed useful. 67% of respondents (30 individual responses) suggested that recognition of these internally generated assets it is either very or extremely useful; 20% of the respondents indicated it is somewhat useful, while only 13% of respondents (six individual responses) indicated that this is either not so useful or not at all useful.

2.33 Respondents were less supportive of **expensing all internally generated intangible items other than development and software**. Only 51% of the respondents indicated that it is extremely or very useful, 20% of the respondents indicated that it is somewhat useful, and 27% of respondents (12 individual responses) indicated that this is either not so useful or not at all useful.

2.34 In the related comment box, some respondents indicated that they would prefer the recognition of assets arising from these expenses, while others suggested that more information on expenses in the notes to the financial statements would be useful (see paragraphs 2.46 – 2.52 below).

2.35 When asked to indicate how useful **the recognition of acquired intangible assets on the balance sheet** is for investing, lending or analysis, 70% of respondents (31 individual responses) suggested that it is either very or extremely useful. 13% of respondents (six individual responses) indicated that this is either not so useful or not at all useful.

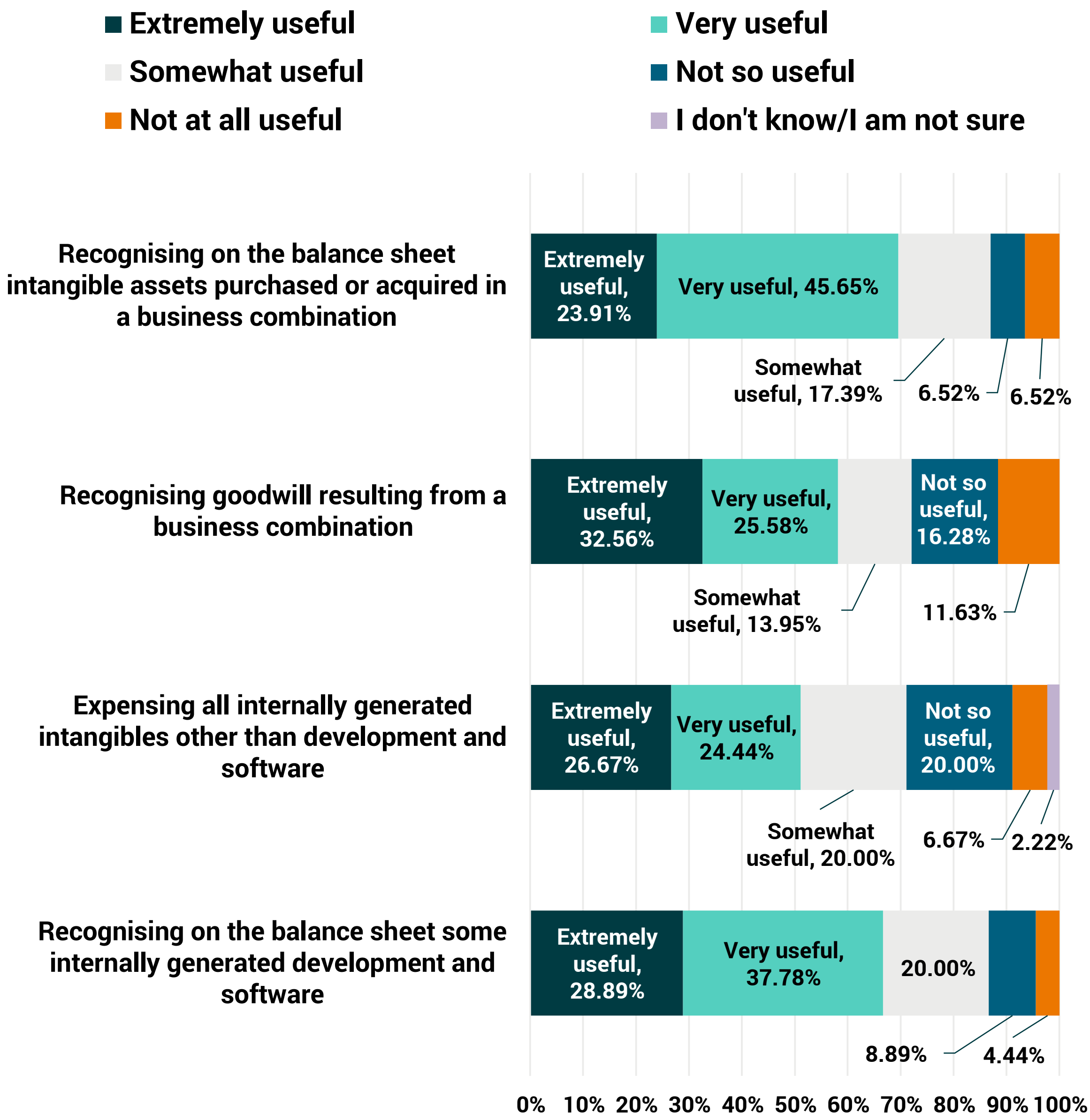
2.36 A lower proportion of respondents suggested that **recognition of goodwill arising from a business combination** was useful, nonetheless the majority of respondents suggested that it is either very or extremely useful. 58% of respondents (25 individual responses) suggested that this is either very or extremely useful, while 28% of respondents (12 individual responses) suggested that this either not so useful or not at all useful.

2.37 Chart 6 provides a visual representation of these results.

2.38 When checking for variation in the answers across respondents of different backgrounds, the core group of respondents indicated that they found the abovementioned accounting information significantly less useful than was suggested in the overall responses. This was mainly the case for recognition of only software and development costs and the recognition of acquired intangibles. 56% of the core group of respondents indicated they find the recognition of only software and development costs useful compared to 67% of respondents overall. Similarly, 57% of core respondents find the recognition of acquired intangible assets useful. This may suggest that the core group of respondents particularly value consistency and comparability of financial statements.[11]

11 Further detail is provided as part of the Robustness Checks on the survey responses

Chart 6: The usefulness of types of accounting information



Note: the question was "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" [Between 43 and 46 respondents provided answers for each of these questions]

2.39 Turning to quantitative versus qualitative disclosures in the notes to the financial statements, respondents broadly indicated that they regard quantitative *and* qualitative disclosures for expensed and capitalised intangibles to be valuable sources of information.

2.40 When asked to rate the usefulness of **quantitative disclosures in the notes to financial statements relating to recognised intangible assets**, 82% of respondents (36 individual responses) suggested they are either very or extremely useful. In contrast, just 5% of respondents (two individual responses) suggested that these disclosures are not so useful.

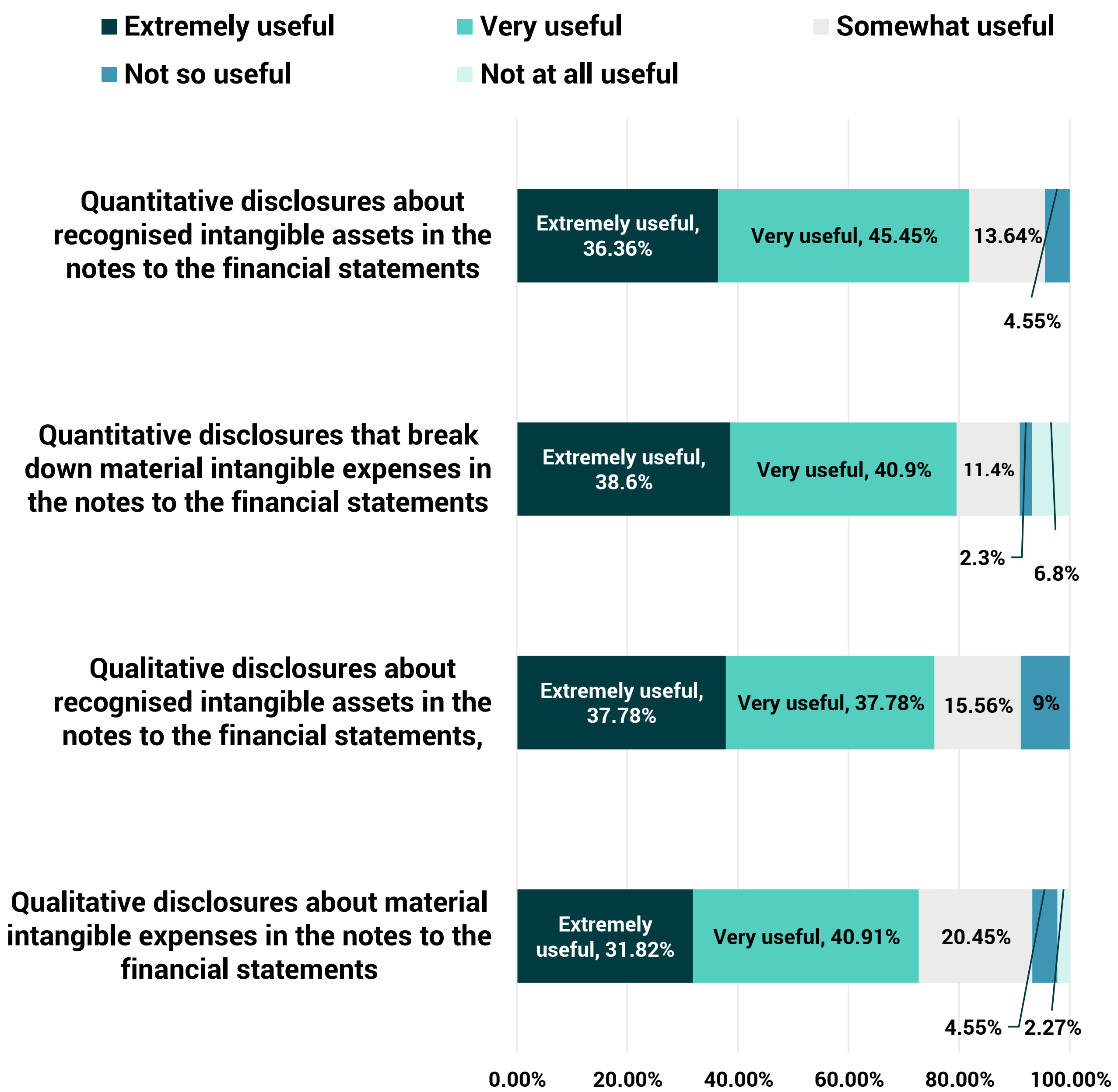
2.41 With respect to **qualitative disclosures,** such as the nature and description of intangibles, 76% of respondents (34 individual responses) suggested that this type of disclosure is either very or extremely useful **for recognised intangible assets**. 9% of respondents (four individual responses) suggested that they are not at all useful.

2.42 **Quantitative disclosures** which **break down expenses about material intangibles** were also suggested to be very useful. 80% of respondents (35 individual responses) suggested these disclosures are either very or extremely useful. Only 7% of respondents (three individual responses) suggested that they are not at all useful.

2.43 **Qualitative disclosures about material expenses** related to intangible items were also found to be useful, with 73% of respondents (32 individual responses) stating they are either very or extremely useful. 7% (three individual respondents) suggested they are not so useful or not at all useful.

2.44 Chart 7 provides a visual representation of these results.

Chart 7: The usefulness of disclosures in the notes to the financial statements



Note: the question was "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" [Between 44 and 45 respondents provided answers for each of these questions]

2.45 There were no significant differences between the views expressed by core users and other respondents in their responses.

2.46 In the comment boxes attached to these questions, respondents emphasised the importance of consistent accounting, comparability and alignment with the IFRS Conceptual Framework. In particular, transparency emerged as a central theme, albeit expressed differently by different respondents.

2.47 In relation to internally generated intangibles, an equity/fixed income analyst noted a misalignment between current reporting requirements and 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)."

2.48 An analyst noted that: "Information in the notes is vital to understand intangibles. Capitalising intangible assets is useful, but that usefulness is compromised where there is inconsistency in what is capitalised."

2.49 An equity/fixed income analyst shared a similar view, further stressing how the current accounting for internally generated intangibles limits comparability but suggesting that nothing should be recognised:

"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."

2.50 An institutional investor noted that the recognition of more intangible assets on companies' balance sheets would not be a panacea for providing useful information, instead 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)

2.51 With regard to externally acquired intangible assets, respondents highlighted the usefulness of current accounting practices and stressed the importance of information which allows investors to assess management's stewardship. 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."

b) "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."

c) "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."

2.52 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)

2.53 Taken together, the quantitative responses and the qualitative data from the comment boxes suggest that:

a) While some users noted that lack of recognition is inconsistent with the Conceptual Framework and leads to inconsistent accounting[12], some also noted that the subjectivity inherent in managements valuation leads them to be wary of management's judgement with respect to the recognition of internally generated intangibles[13];

b) users would like to see more granular information on expenses relating to intangible items which have not been capitalised as assets;

12 The Conceptual Framework (2018) (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".

13 As noted by an institutional investor "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."

c) users were generally satisfied with the accounting for acquired intangible assets as it allows users to keep management accountable.

Intangible assets are often disregarded.

2.54 Because of IFRS reporting requirements, the type and value of intangible assets reported on balance sheet may differ significantly between companies that grow organically and the ones that grown by acquisition. As a consequence, users may find it difficult to compare companies based on performance metrics such as earnings and return on assets (ROA).

2.55 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.

2.56 Analysis conducted for the quantitative report show that the ROA for pairs of companies with similar characteristics are affected by unrecognised intangible assets, and that disregarding intangibles altogether or estimating unrecognised intangibles gives a clearer view of these companies' performance and enhances comparability.

2.57 Based on these findings, survey participants were asked the approach they take to compare companies which have grown organically with those which have grown mainly through acquisitions. Respondents were presented with a range of approaches and were asked to select the ones that they apply.

2.58 The results are visually represented in Chart 8.

2.59 Only 26% of the respondents indicated that they use figures reported in the financial statements without making any adjustments.[14]

2.60 Among the remaining respondents who make adjustments to financial statements to enhance comparability:

a) 33% disregard recognised intangible assets altogether;[15]

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.

2.61 Respondents also indicated other approaches they use, such as:

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

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

a) 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;

b) Estimating unrecognised intangibles using expenses and further assessing the potential role for additional income and cash flow generation;

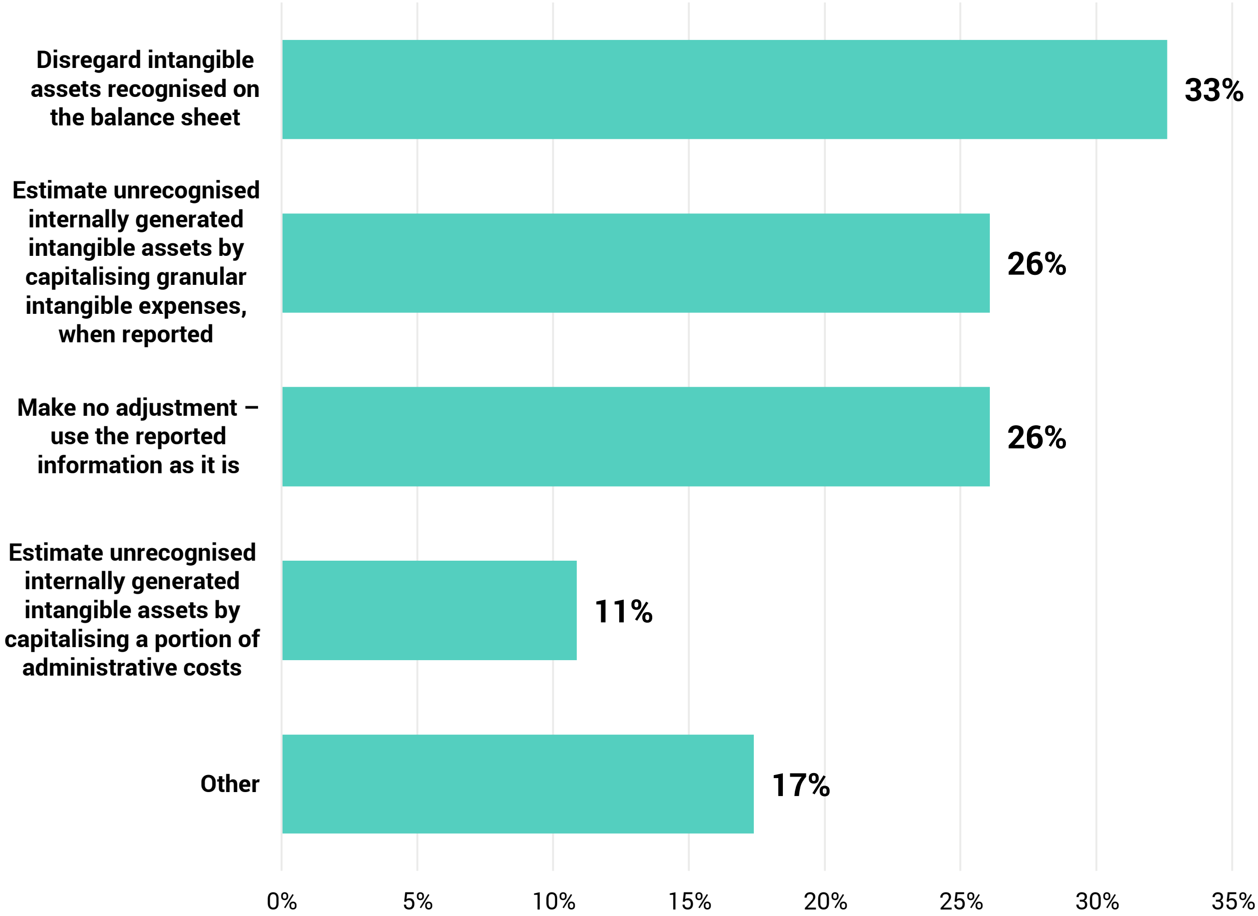
c) Only disregarding some assets classified as intangibles such as cryptocurrencies due to the volatility in market prices;

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

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

2.63 These responses suggest that there is a tension between general satisfaction with the current accounting for intangibles on a case-by-case basis, and the desire for consistency between companies that utilise different growth strategies.

Chart 8: Treatment of information about intangible items (other than goodwill) when comparing companies that have mainly grown through acquisitions to those that have grown organically.



Note: the question was "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)" [46 respondents provided answers to this question]

3. Survey results: Future Accounting

3.1 The second half of the survey focused on potential alternatives to the current 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. The survey also examined users' views on materiality.

Most internally generated intangibles should be expensed

3.2 Interviewees of the UKEB's qualitative research report on the accounting for intangibles mentioned enhanced recognition and detailed disclosures (See sections 4.18 – 4.30 and 4.78 – 4.99) as potential solutions to address the challenges associated with intangible accounting.[16] Building on these findings, this survey gathered a more granular perspective from users of financial statements regarding their preferred treatment of various intangibles.

3.3 Survey participants were asked to indicate their preference for either expensing through profit or loss (either as a stand-alone item or aggregated with other costs) or capitalising on the balance sheet a variety of intangible assets. They were also asked to indicate their preference for more detailed disclosures in the notes to the financial statements see Chart 9.1.

3.4 Responses show that users would still prefer most internally generated intangible items to be expensed, either reported as a stand-alone item of expense or aggregated with other expenses. Capitalisation was preferred for those internally generated intangibles that are already currently permitted to be recognised as assets under existing IFRS requirements. These include software, development and acquired intangible assets.

3.5 Respondents appeared to particularly desire expensing those intangibles that lack contractual obligations and clear ownership rights, such as advertising, employee training and public relations.[17]

3.6 It is notable that some respondents suggested that certain internally generated intangibles that are currently prohibited from capitalisation should instead be recognised as assets. For example, a small proportion of respondents suggested

16 UKEB Accounting for Intangibles UK Stakeholders' Views (2023)

17 These intangibles can be mapped to the "economic competencies" set in the Corrado, Hulten and Sichel framework (2005) of intangible assets. The framework categorises assets into computerised information, intellectual property and economic competencies. Colloquially speaking, these intangibles were monikered "intangible intangibles" by stakeholders interviewed in the qualitative report, who suggested that intangibles may be seen along a spectrum when it comes to legal enforceability (see paragraphs XX-XX).

that applied research and data collected for value generation should be recognised as an asset.

3.7 In stark contrast, users generally prefer capitalisation of purchased intangibles. Again, this is consistent with current accounting practice. Nonetheless, it is worth noting the apparent scepticism about capitalising purchased customer lists.

3.8 Users are less certain about crypto assets and emissions certificates, which we will refer to as "non-conventional" intangibles assets. Even when purchased, there is a non-majority preference for capitalisation, but a relatively high number of respondents indicated that they were unsure about how they should be accounted for.

Users want more granular disclosure

3.9 In addition to whether items should be expensed or capitalised, users were asked if items should be disclosed separately on the face of the financial statements (either in the Statement of Profit or Loss or the Balance Sheet) or aggregated with other expenses. Respondents were asked to indicate whether reporting in the face of the financial statements should be accompanied by further disclosures in the notes.

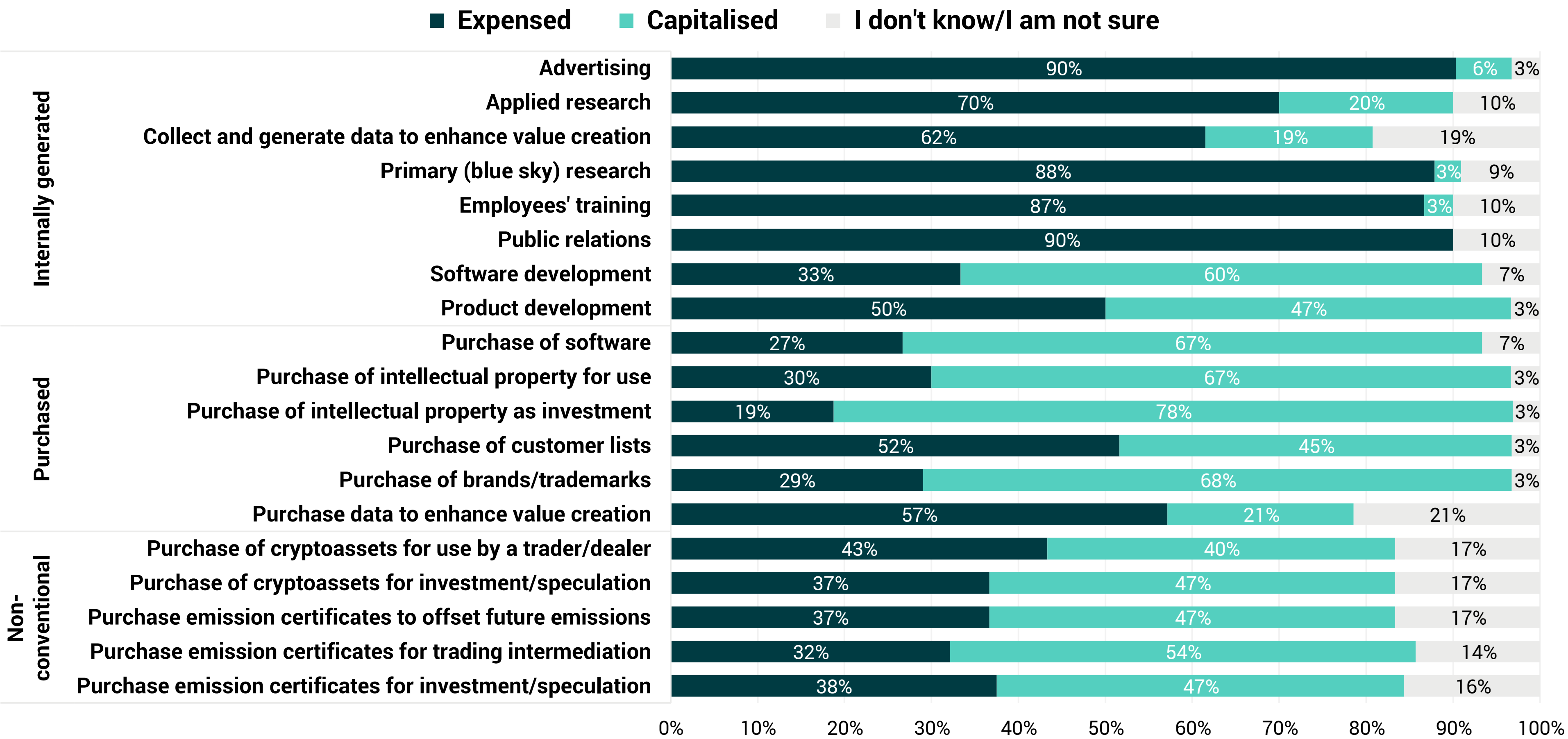
3.10 Chart 9.2 outlines respondents' preferences. While material intangible items would be expected to be separately disclosed, this question is seen to proxy for the degree to which users want to see separate (granular) information on specific intangibles, whether capitalised or expensed.

3.11 For internally generated intangibles the preference for most items is to have separate disclosure in the financial statements, though there are exceptions such as data, public relations and employee training, which users indicated they would like to see aggregated with other expenses as they see them part of the ongoing business as usual (see comments below)

3.12 For purchased items, only data related assets did not receive a majority preference for separate disclosure. Users want to see clear disaggregation (and in some cases greater note disclosure) on intellectual property assets, software and brands.

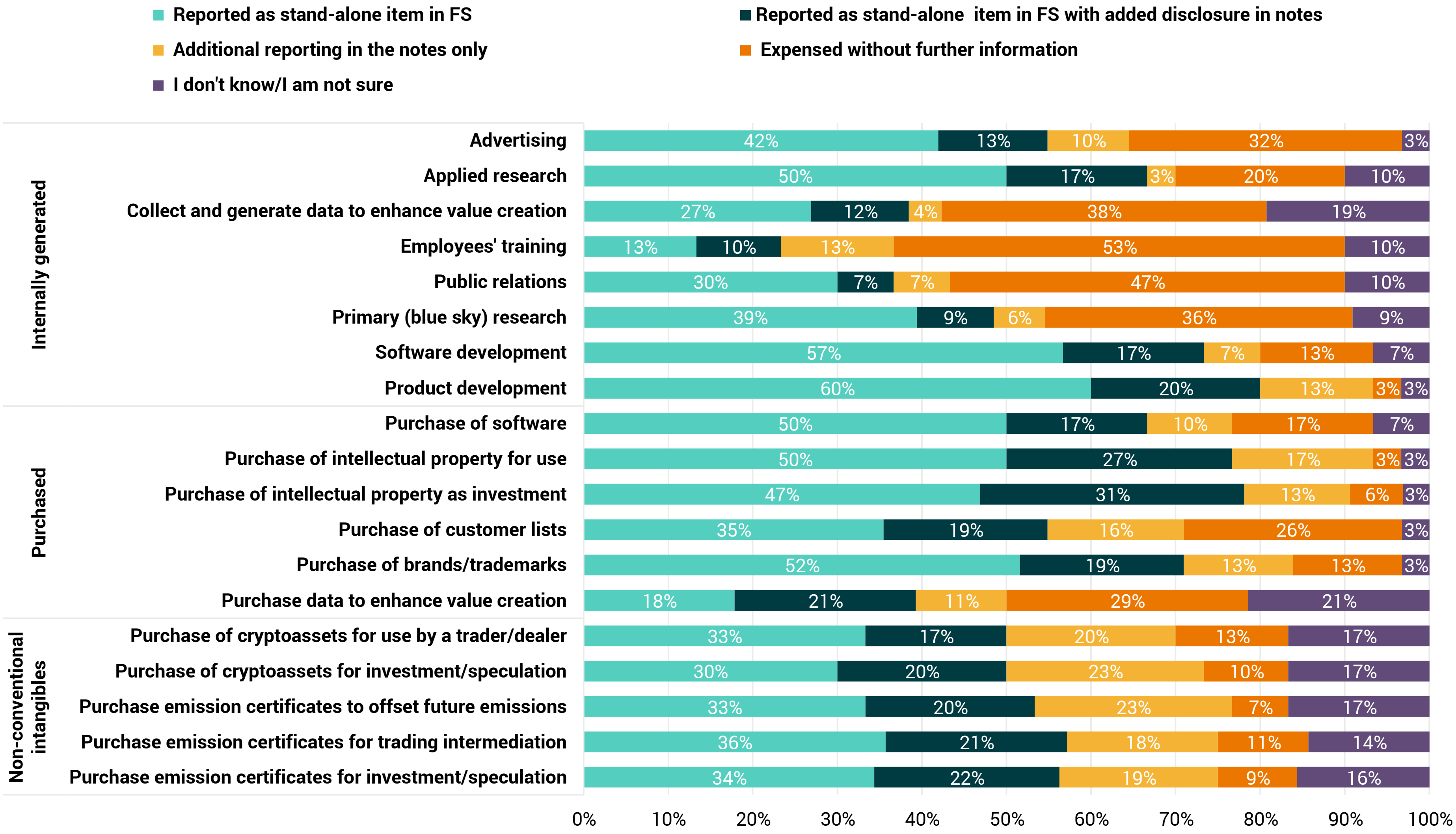
3.13 Interestingly, for non-conventional intangibles (see paragraph 5.8), while there was a preference for separate disclosure, it was more heavily weighted towards note disclosure than other intangibles.

Chart 9.1: Preferred treatment for different types of intangibles



Note: the question was "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), and select expensed through P&L, Expensed through P&L (stand-alone item) (aggregated with other costs), Capitalised on the Balance Sheet, Disclosed as stand-alone item in the notes to the financial statements" [Between 30 and 33 respondents provided answers

Chart 9.2: Intangibles for which more information would be preferred



3.14 Some respondents provided additional information about their selected options. Once again, respondents indicated they are more comfortable with acquired intangibles being recognised on the balance sheet because of the market transaction which takes place during an acquisition. These transactions provide verifiable data which is audited.

3.15 It was also clear that respondents preferred certain intangibles such as training and marketing to be expensed because they view them as costs incurred during the ordinary course of business.

3.16 An institutional investor 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."

3.17 Another institutional investor went on to note:

"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, I want to know the amount spent, but I don't think it should be capitalised."

3.18 With regard to non-conventional assets, an analyst stated "… I think of emission certificates and crypto assets as financial instruments not intangibles when done for investment or speculation."

3.19 Taken together the quantitative results and the qualitative data submitted by respondents, user preferences seem consistent with current accounting, though they want to see granular information, either on the face of the financial statements (balance sheet or statement of profit or loss) or in the notes. Suggesting that disclosure is a primary focus of users of financial statements.

If capitalised it should generally be at cost

3.20 In interviews for the qualitative research 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 also considered fair value measurement to be appropriate for subsequent measurement.

3.21 To understand what measurement model users believe could be most suitable for different types of intangibles, respondents were presented with a range of intangibles. They were told to assume that the intangible item was capitalised to the balance sheet and asked to select in this circumstance the subsequent measurement model they believe is most appropriate.[18]

3.22 The listed intangibles included a range of traditional internally generated and acquired intangible assets as well cryptoassets, crypto currencies, emissions trading, etc.

3.23 The following measurement models were provided as options for 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).

3.24 See chart 10.1.

3.25 A majority of respondents indicated that they would prefer one of the cost models be used for subsequent measurement of intangibles. This preference was consistent regardless of whether the assets were developed for internal use or for sale. Of the cost models, most went on to indicate that they preferred a cost model which included both amortisation and impairment elements, see chart 10.2.

3.26 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. 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.

3.27 Respondents indicated they would prefer a fair value model mainly for cryptoassets and emissions certificates. For cryptoassets and emissions held for different reasons, most respondents indicated that a fair value model would be preferred.

3.28 Chart 10.3 splits out the preferred approach to fair value. There were mixed views on whether OCI or Profit or Loss was preferred for recognising any movement, but it should be kept in mind that this represents a small subset of respondents views.

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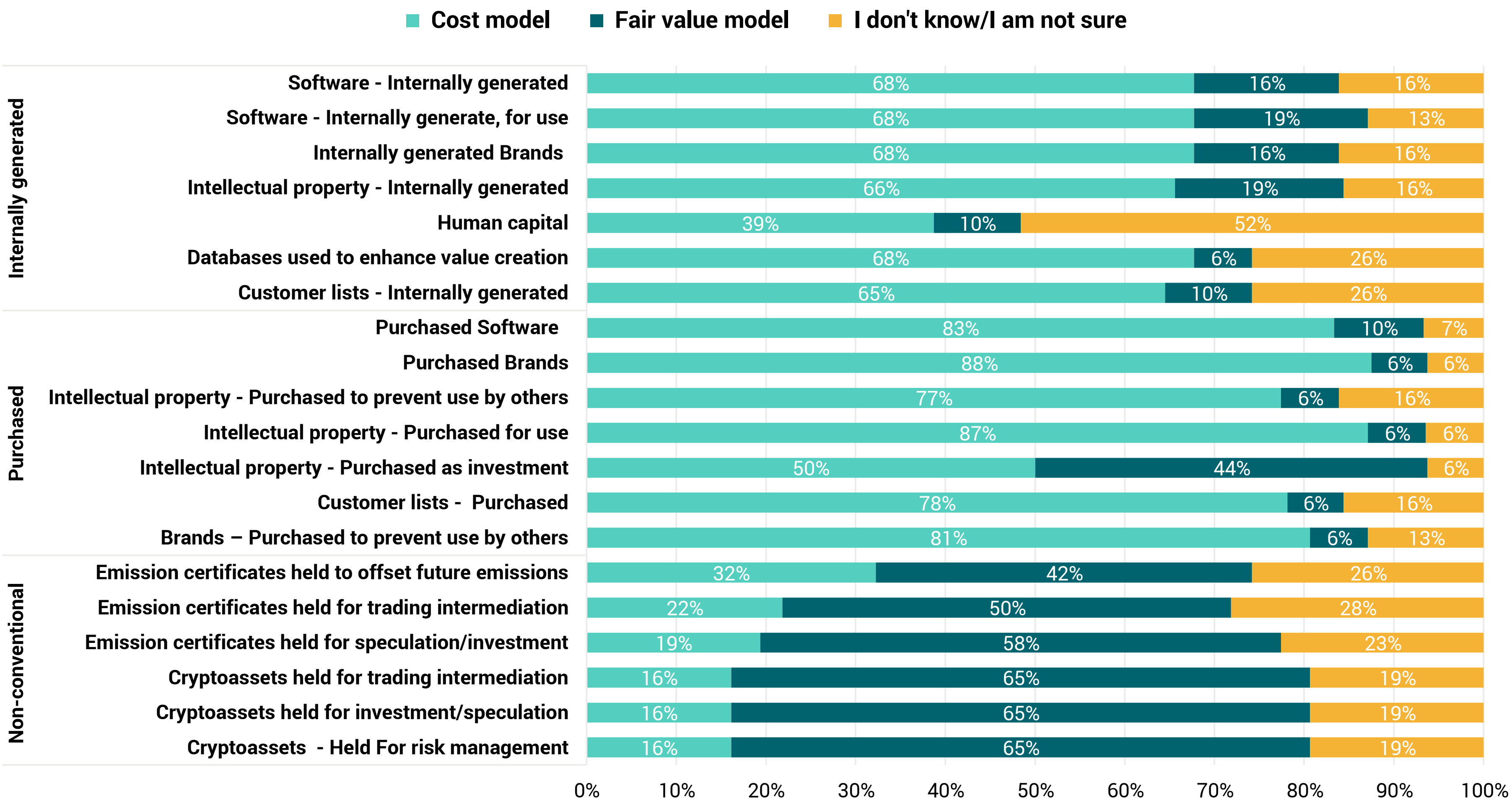
18 Materiality of the amount was also assumed.

Chart 10.1: Preferred type of measurement model



Note: the question was "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). [Between 29 and 31 respondents provided answers for each of type of intangible]

Chart 10.2: Preferred type of cost model (given a cost model was chosen)

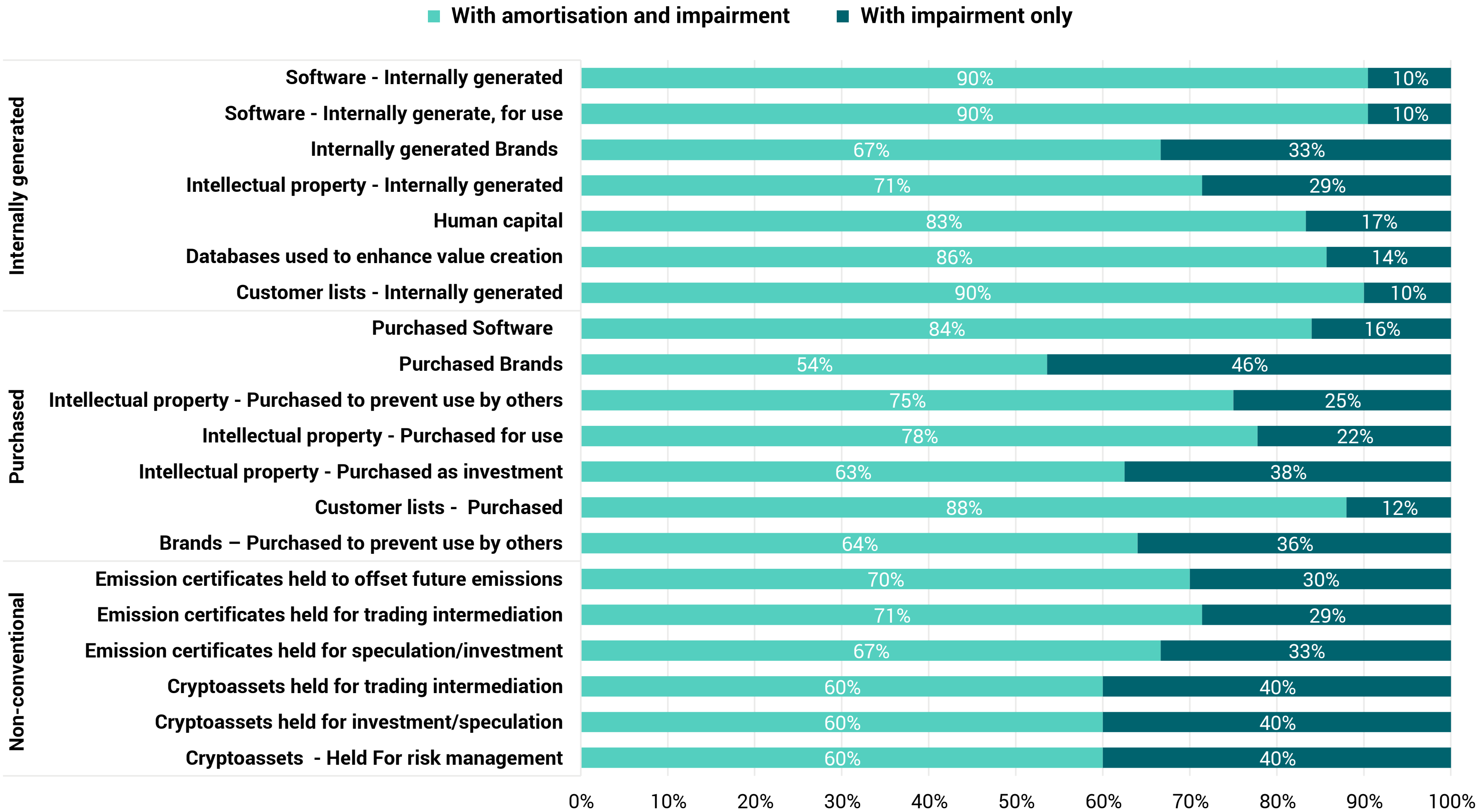
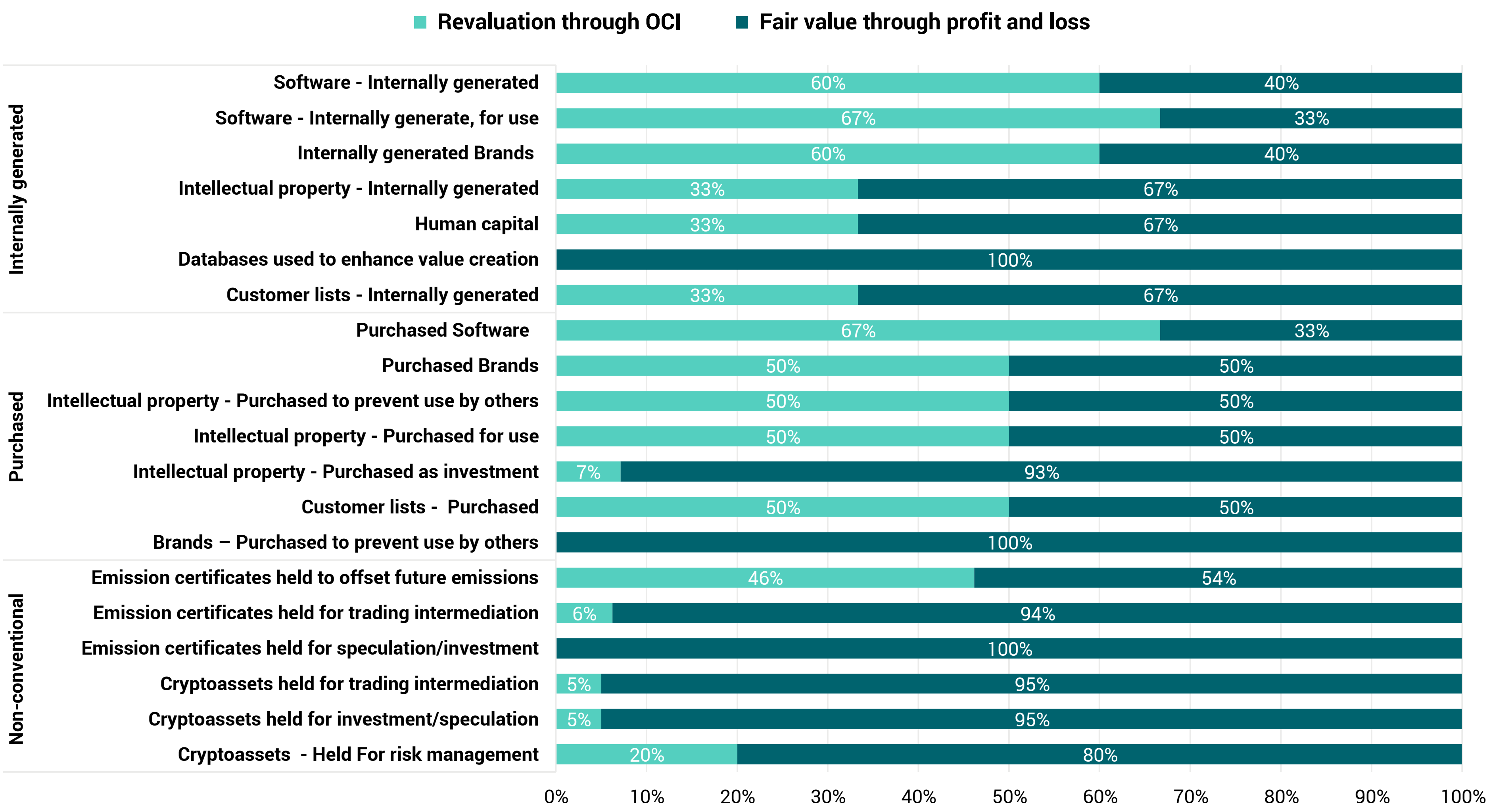


Chart 10.3: Preferred type of fair value model (given a fair value model was chosen)



Analysis of qualitative data from comment boxes

3.29 Respondents highlighted the importance of distinguishing wasting intangible assets from organically regenerative intangible assets and the useful lives of each intangible.

3.30 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."

3.31 Two respondents thought 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 and so declined to provide a preferred model for measurement.

a) An analyst stated "I do not think human capital should be accounted for on the balance sheet.

b) An equity/fixed income analyst expressed concern around the measurement of certain intangibles: "I decline to give an answer on human capital and databases as this will never be meaningful information."

3.32 Respondents raised concerns about the concept of an intangible having an indefinite life.

3.33 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."

3.34 While an academic researcher felt that

"Brand and customer life are harder to amortise as these can last for decades and are tied very closely to the performance of the business as you review them with a DCF model for the revenue earned from that brand or customer list. Therefore, it makes more sense to assess annually with an impairment review. This may lead to large assets that never get impaired as it is easier to justify with forecasts and historic data that a revenue stream is still profitable above an asset's value. …I don't think there is enough challenge on these areas from auditors and therefore, I am less comfortable with this outcome."

3.35 At least one retail investor supported using a fair value approach, citing the requirements of IFRS 13:

"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."

3.36 The same respondent was not keen that these fair value adjustment 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."

3.37 An academic researcher highlighted the transparency that capitalisation could afford users of financial statements:

"Most [intangibles] should be amortised over the useful life when it likely to be an asset of use to the company i.e., they intend to use it for a period of time or in the case of emissions at a point in time in the future – so in line with their expected usage of the certificates. 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."

3.38 A sell-side broker dealer also referred to the difference between crypto assets, emissions certificates 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."

Disclose intangibles' effect on performance

3.39 While respondents indicated that current disclosures in the notes to financial statements as required by existing IFRS accounting standards are generally beneficial, some indicated that targeted, additional disclosures would be advantageous (See paragraphs 2.46 – 2.512.482.50). This view aligns with findings from the UKEB's qualitative report (See paragraphs 4.78 – 4.99).

3.40 To investigate users' views on possible ways of enhancing disclosures, 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 users.

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

3.42 The results are visually represented in chart 11.

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

3.44 Respondents also selected 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. This was suggested 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 which was selected by 45% of the responses.

3.45 The amortisation schedule of companies' intangible assets was suggested to be important by 42% of the responses.

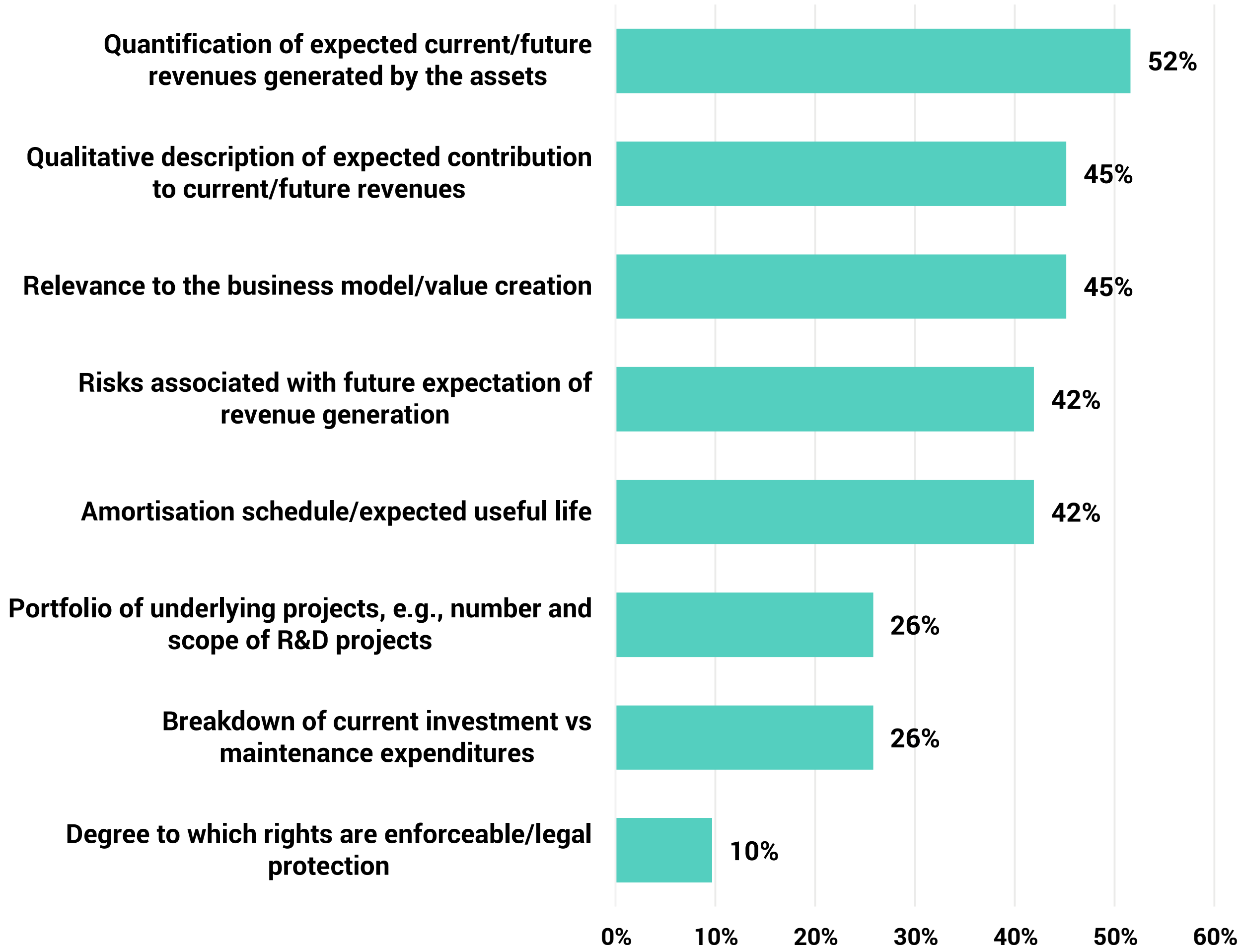
3.46 Disclosures which were selected by fewer respondents included:

a) Disclosing the portfolio of underlying projects (such as the number and scope of R&D projects), which was selected 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

Chart 11: Most relevant disclosures for investment/lending advice



Note: the question was "please select the three most important disclosures about intangible items in terms of their relevance to your investment/lending decisions or advice? (Please select all that apply)" [31 respondents selected at least one of these answers]

3.47 Taken together these results suggest respondents consider forward-looking disclosures about how intangibles will generate value most important for investing and lending decisions.

3.48 The most relevant types of disclosures remain broadly the same after excluding non-core respondents.[19]

19 Further detail can be found in the Robustness Checks on the survey responses

Preferred sources of information

3.49 Academic research, as well as interviews conducted for the UKEB's qualitative research report on intangibles, have highlighted that when it comes to 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 in what is presented in financial statements and what information users need.[20]

3.50 Findings from the results of this survey indicate that sources other than the financial statements are often used to gather information about a company's intangible assets although additional information on intangibles would be preferred in the financial statements themselves.

3.51 A list of information sources other than the financial statements, such as the front-half of the annual report and companies' websites, were presented to respondents and they were asked to select all the information sources which they use / have used, to gather information on individual companies' intangibles.

3.52 In response to this question, the most common responses were,

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

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

3.53 Sources of information prepared from within 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.

3.54 Data providers such as Reuters-Eikon and Bloomberg were selected by 43% of responses.

3.55 News outlets and investor road shows were used by fewer respondents. 37% of respondents suggested they use news outlets to gather information and 38% of responses indicated they have used investor roadshows.

3.56 Academic papers were the least commonly used information source, chosen by 1% of respondents.

20 Wyatt, A., (2008) *What Financial and Non-Financial Information on Intangibles is Value Relevant? A Review of the Evidence*,
Barker, R., Lennard, A., Penman, S., & Teixeira, A. (2022). *Accounting for intangible assets: suggested solutions*, Accounting and Business Research, 52:6, 601-630

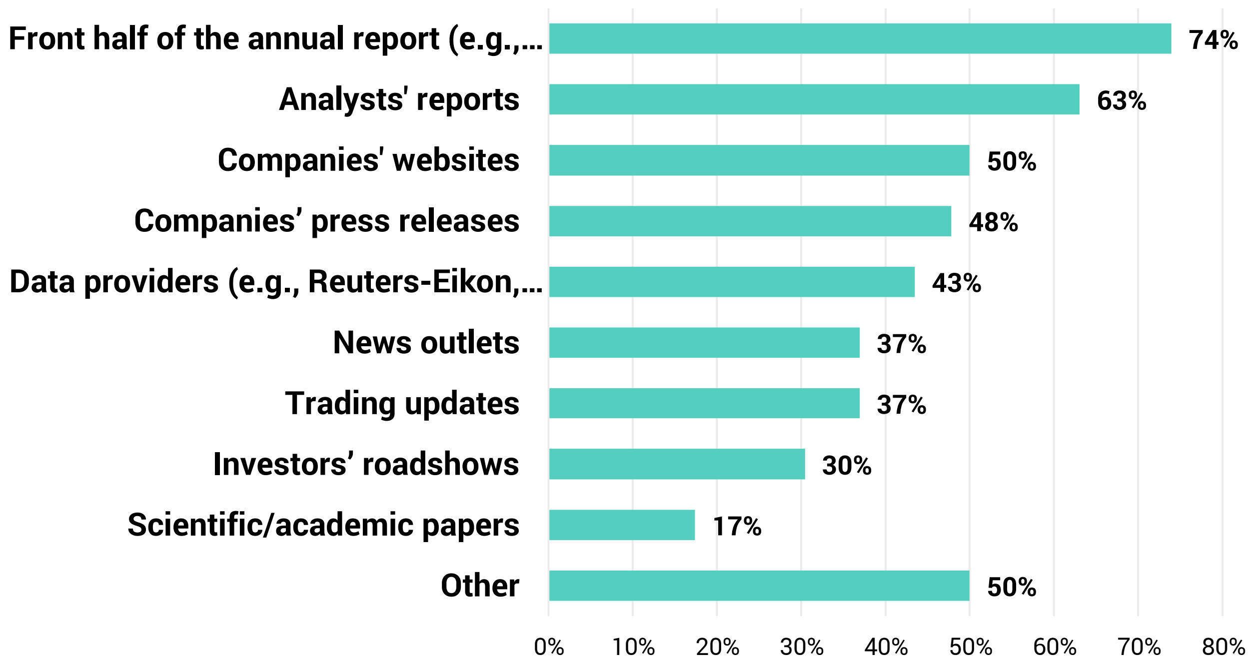
3.57 A sell-side/broker dealer mentioned using channel checks and expert interviews to gather additional information in the comment box provided.

3.58 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 32% of respondents suggested they would prefer additional information in the front half of the annual report.

3.59 These responses suggest that 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, while they would prefer this information to be in the financial statements themselves. The reason for inclusion in the financial statements seems to be driven by a preference for this information to be audited, and that it will be more integrated with other financial information.

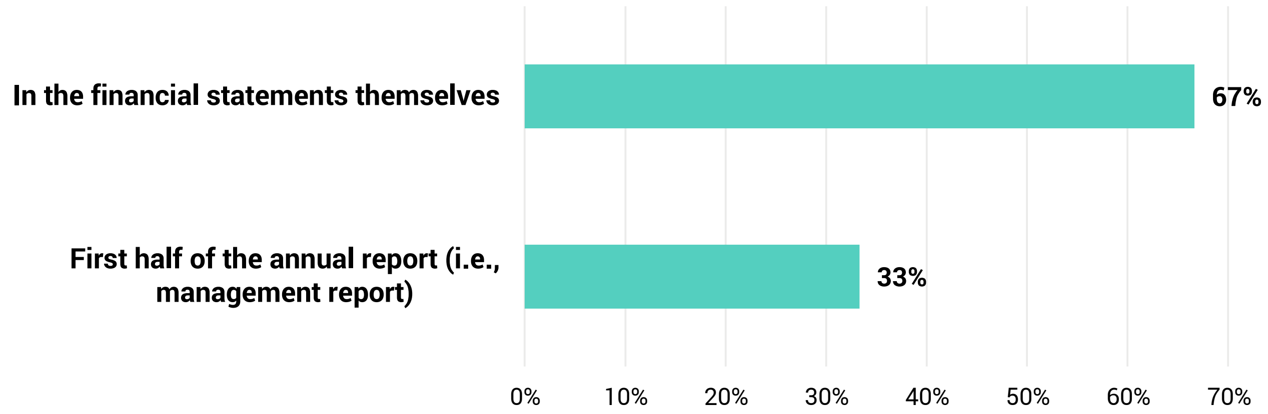
3.60 Excluding respondents which were neither investors nor lenders, did not significantly change the findings of this question. That said, the responses from investors and lenders had a minor difference with respect to the ranking of news outlets. Investors and lenders indicated that they use trading updates and investor roadshows more commonly as alternative sources of information.

Chart 12: Sources of information other than the financial statements used to gather information about individual companies intangibles.



Note: the question was "please select the sources other than financial statements that you use to gather information on individual companies' intangible items: Please select all that apply" [All 46 respondents provided answers to this question]

Chart 13: Sections in which would be useful to have additional information.



Note: the question was“ "where would it be most useful to see any additional information on intangible item”?" [33 respondents provided answers to this question]

Intangible materiality

3.61 As shown in paragraphs XX, the economic importance of intangibles for companies’ performance is broadly agreed on. Greater disclosure related to intangibles in the financial statements would, however, increase the amount of information contained. Interviewees for the UKEB’s qualitative report on intangibles highlighted the importance of disclosing material information to users of financial statements.

3.62 Respondents were firstly asked to what extent they believed qualitative factors, quantitative factors (or both) were important considerations for the assessment of the materiality of intangibles whether capitalised on the balance sheet or expensed through profit or loss. Perhaps unsurprisingly 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.

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

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

a) 79% of responses selected the potential for significant revenue associated with the intangible item.

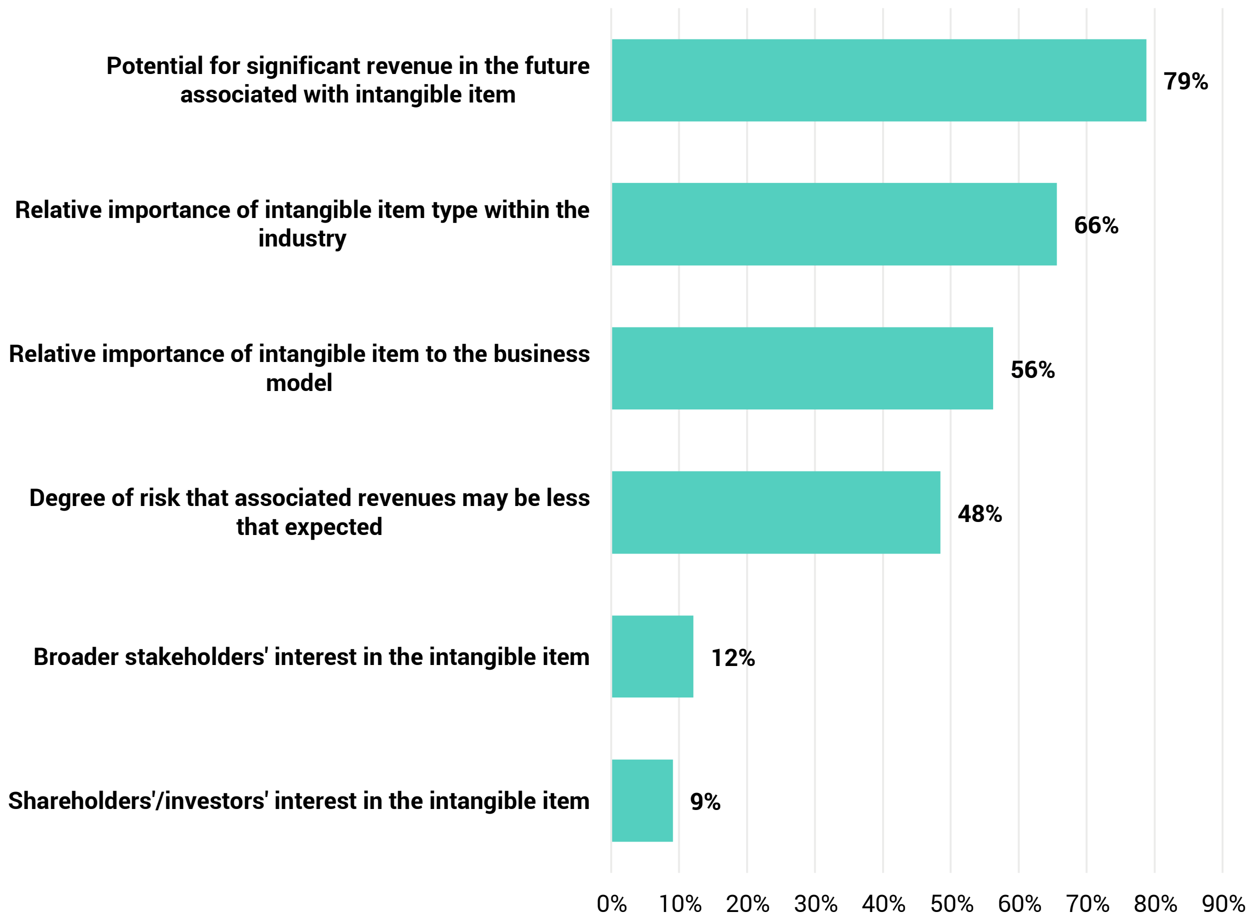
b) The relative importance of the individual types of intangibles within the industry was also selected by many respondents, with 66% of responses selecting this option.

c) Lastly, 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.

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

Chart 14: Most important qualitative factors for the materiality assessment of intangibles



Note: the question was "what qualitative factors are the most important to consider in your opinion (Please select all your apply)" [33 respondents provided an answer to this question]

3.65 After the exclusion of non-core respondents, these results did not change significantly.

4. Conclusions

4.1 [To be developed]

5. Next Steps

5.1 [To be developed]

Appendix A: Glossary

Appendix B: Literature review

Users and Intangibles – Research Background

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

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

3. 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.

4. 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.

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

    a. the findings of the UKEB's qualitative report, according to which users of accounts would value better and more granular information on intangibles (see paragraphs XX-XX); and

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

6. The insights gathered from the academic literature instructed the approach to the survey taken in this report and influenced the drafting of individual questions.

7. 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

8. As per the IASB's Conceptual Framework for Financial Reporting (2018, 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".

9. 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), thus reflecting their decisions to allocate capital to a listed entity based on that information.

10. 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

11. 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.

12. The model posits that the market value of a firm can be predicted by a combination of accounting variables such as net profit and interest expense. 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.

13. 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.

14. Barth and Clinch also considered 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.

15. In another study, Lev and Aboody (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 19975. 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.

16. 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

17. 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), thus suggesting that, overall, intangibles are value relevant.

18. 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. More in detail, 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, their 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.

19. 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 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.

20. Exploiting the 2005 change from UK GAAP to IFRS, Shah, Liang & 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.

21. 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 R&D assets has declined in the years following the adoption of IFRS. In addition, R&D expenses were not found to be value relevant over the 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.

22. 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.

23. 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.

24. 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.

25. The main takeaways from the academic research reviewed is that intangibles of varying 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

26. 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.

27. For example, Zambon, Girella, Marzo and Bonnini (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 they:

a. were generally not satisfied with the current reporting;

b. indicated that information on "IP and know-how", "intangibles-related risks and opportunities" and "human capital" is currently missing from financial statements;

c. 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. favoured added disclosures on intangibles, in KPIs, narrative disclosure and financial figures;

e. 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.

28. [More papers to be added]

How survey-based research can complement value-relevance research

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

30. However, conclusions about the usefulness of financial information can be also 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, thus complementing the body of evidence on the topic.

31. More in detail, in contrast with value relevance research, survey research allows the researcher to:

    a. directly ask users what information they consider useful for their investing/lending decisions, thus 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;

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

    Where most value relevance paper focus on the decision-usefulness of individual disclosures for equity markets.

32. 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. test what recognition and measurement models would be most value relevant to UK users;

    c. surveying a wide range of UK users.

33. The above considerations fed into the drafting of the survey to be distributed to users and in the overall distribution approach, as discussed further in paragraphs XX-XX.

Appendix C: Survey design

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

Aim of the survey

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

Survey design

36. 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 introductory section of the 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;

        ii. on the investment management industry in the UK: the diverse and international disposition of the asset management industry provides merit for engaging with a wider array of investors than just institutional investors who are based in the UK. 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.

37. The survey was split into two parts (see paragraphs 2.21-.2.25 for the theoretical underpinning).

a. The first half of the survey tested users' perceptions 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); the use respondents make of financial statements information on intangible assets;

b. The second half focused on potential solutions. 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.

38. 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 at least some experience dealing with IFRS financial statements.

39. 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.

40. 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.

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

Survey drafting

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

a. The Academic Advisory Group (AAG) at the UKEB ;

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

c. Some UKEB Board members;

d. Economists at DBT;

e. Senior UKEB Secretariat staff.

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

Piloting

44. 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.

45. 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

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

47. 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;

48. Distribution lists of relevant industry and professional associations which feature users of financial statements among their members. These were:

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

50. The Corporate Reporting User Forum. This allowed to target UK professional asset managers from a different channel, as well as retail investors/retail investors' associations;

    a. The Association of British Insurers. This allowed to target the UK pension fund/insurance business from a different channel;

    b. The British Venture Capital Association. This allowed to target BC/PE investors;

    c. The CFA Society of the UK. This allowed to distribute the survey to analysts, professional asset managers/lenders, and retail investors.

    d. 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;

    e. Academics, who distributed the survey to their contacts.

51. The survey received coverage in Accountancy Daily and Financial Management, both outlets targeting a readership in financial services.

52. The UKEB is confident that the distribution covered (at a minimum) the vast majority of the asset management industry in the UK, due to distribution through relevant membership associations (see also paragraphs XX-XX).

Appendix D: Supporting Organisations

- [To be finalised]

Appendix E: References

DRAFT

UKEB
UK Endorsement Board

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UK Endorsement Board
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UKEB UK Endorsement Board

Appendix B: Investors and the investment management industry in the UK

Background

B1. This Annex to the intangibles survey report provides an overview of the investment management industry in the UK. Developing an in-depth understanding of the investment management industry was important to achieve a comprehensive distribution of the questionnaire, as the investment management industry represents a relevant part of the population surveyed in this report.

B2. The insights herein presented are a result of research drawing from a range of sources: desk-based research, including a report developed by the Investors Association (IA), as well as perspectives gathered from stakeholder engagement and seminars. Facts and figures about the investment management industry in the UK are presented in the main body of the report. Background information on the mechanics of the asset management industry is instead contained in Appendix D.

Terminology

B3. As the words "savers", "investor", "asset manager" and "retail investors" are sometimes used interchangeably, it is important to clearly distinguish them from each other and use consistent terminology throughout the paper.

B4. In this paper the term "savers" refer to all households which possess or possessed excess funds beyond their immediate spending needs. They are motivated to save by various reasons such as retirement planning, wealth accumulation or specific financial goals.

B5. Households can allocate their savings towards a variety of uses. They may decide to invest their savings, or to keep them as liquidity in anticipation of future expenses or to purchase durable goods. If they decide to invest, they may choose to do so in different assets: housing and financial assets would be the most common alternatives, however they may choose to invest in precious metals, artworks, vintage watches or even spirits.

B6. In this paper the term "investor" refers to a saver who decides to invest their savings in financial assets. Data reported by Credit Swisse (2023) show that the average wealth per adult in the UK is just above USD $300,000 with savers investing more than 50% of their wealth in financial assets.

B7. Most investors rely on the professional expertise of financial institutions such as pension funds, banks, or insurance companies. "Asset managers" or "investment managers" in this paper are understood to be professional investors who allocate savings in financial markets on behalf of investors. These institutions pool savers' money and invest it to grow funds as efficiently as possible. Asset managers play a central role in savers' funds into investment opportunities and in so doing facilitate the accumulation of capital stock.

B8. Some investors however decide to allocate their assets to financial instruments directly, without involving asset or investment managers. In this paper these are called "retail investors". While some retail investors are sophisticated, on average they don't possess the financial literacy, time, professional expertise and resources to invest as efficiently and effectively as asset managers.

An overview of the investment management industry in the UK

B9. The investment management industry in the UK is one of the largest and most international in the world. As of 2021, according to the IA (2022), the industry managed approximately £11.6 trillion in assets. This represents nearly 14% of global assets under management (AUM) which reached £83 trillion in 2021.

B10. In comparison to other jurisdictions, the investment management industry in the UK has the second highest value of assets under management in the world (second only to the US) and is the largest in Europe. Based on these figures, the UK can be considered a global "centre of excellence for portfolio management "(IA, 2022).

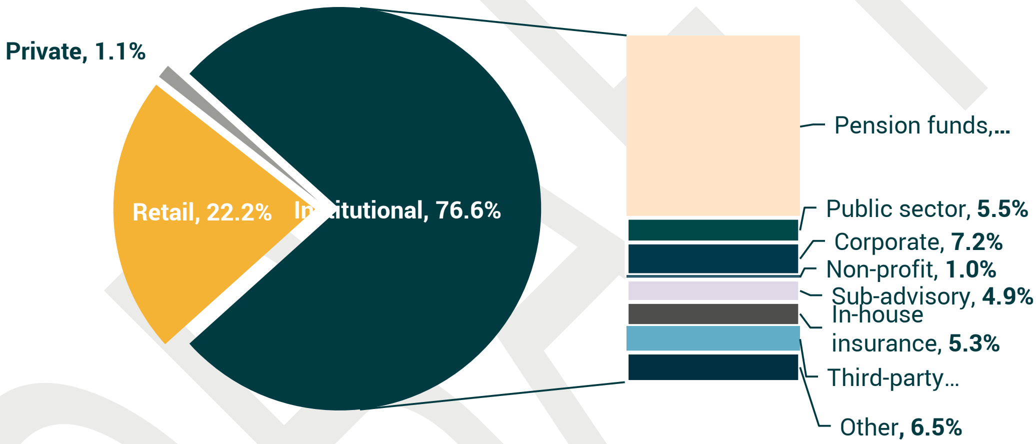
B11. The UK has a leading position as an international investment hub, as demonstrated by the sheer prevalence of international investors, whose assets constituted 46% of the total AUM of IA members as of 2021.

B12. The investment management industry is relatively intricate, in that the allocation of capital usually involves several separate asset managers who act as agents for a given investor (the principal). Additionally, it includes a very diverse range of asset managers with varying approaches. This is particularly so for the UK investment management industry, given its size. Appendix D provides some background information on the mechanics of the asset management industry.

Further breakdowns

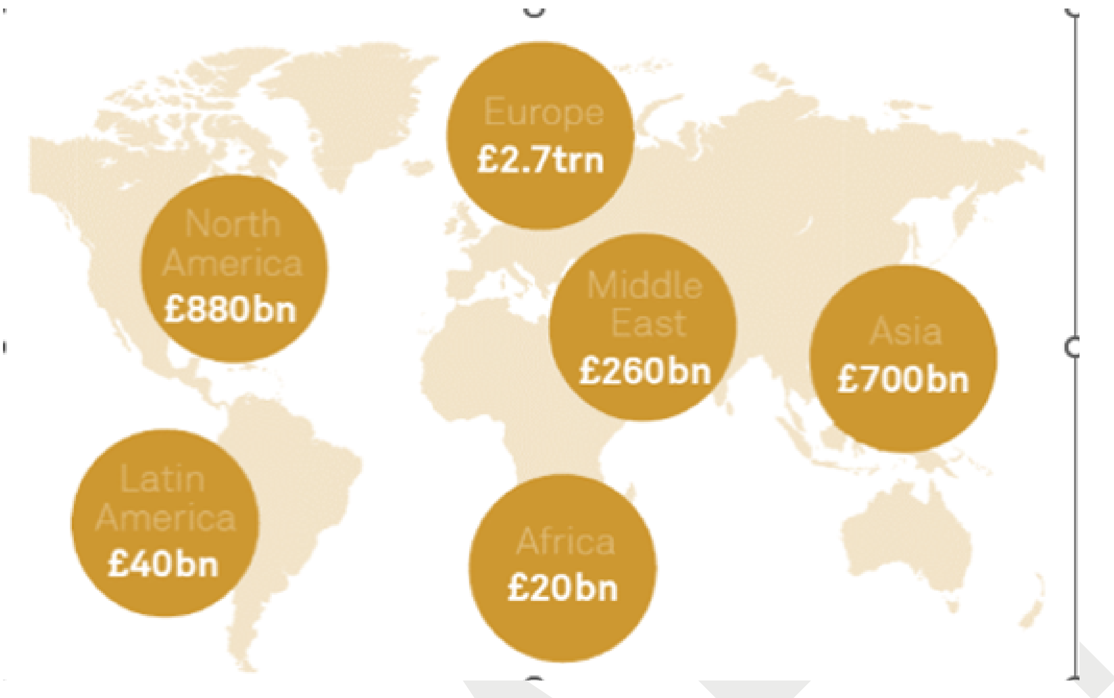
B13. **Asset manager types**: Pension funds were the largest clients of the investment management industry in the UK, accounting for 40% of total assets under management. Other institutional clients include the public sector (5.5%), corporate (7.2%), in-house insurance (5.3%) and third-party insurance (5.9%), among others. In the retail investment space, UK AUM reached a record £1.59 trillion at the end of 2021, an 11% increase over the year with annual net retail inflows at £43.5 billion. (See Figure 1).

Figure 1: Assets under management by client type



B14. **Domestic vs foreign asset managers**: Considering the geographical dispersion of clients of the asset management industry in the UK, UK clients made up 54% of the market (overseas clients made up 46%) as of 2021. Europe??? Outside of Europe, North American clients accounted for £880 billion, followed by Asia which accounted for £700 billion (See Figure 2).

Figure 2: Value of assets managed on behalf of overseas clients

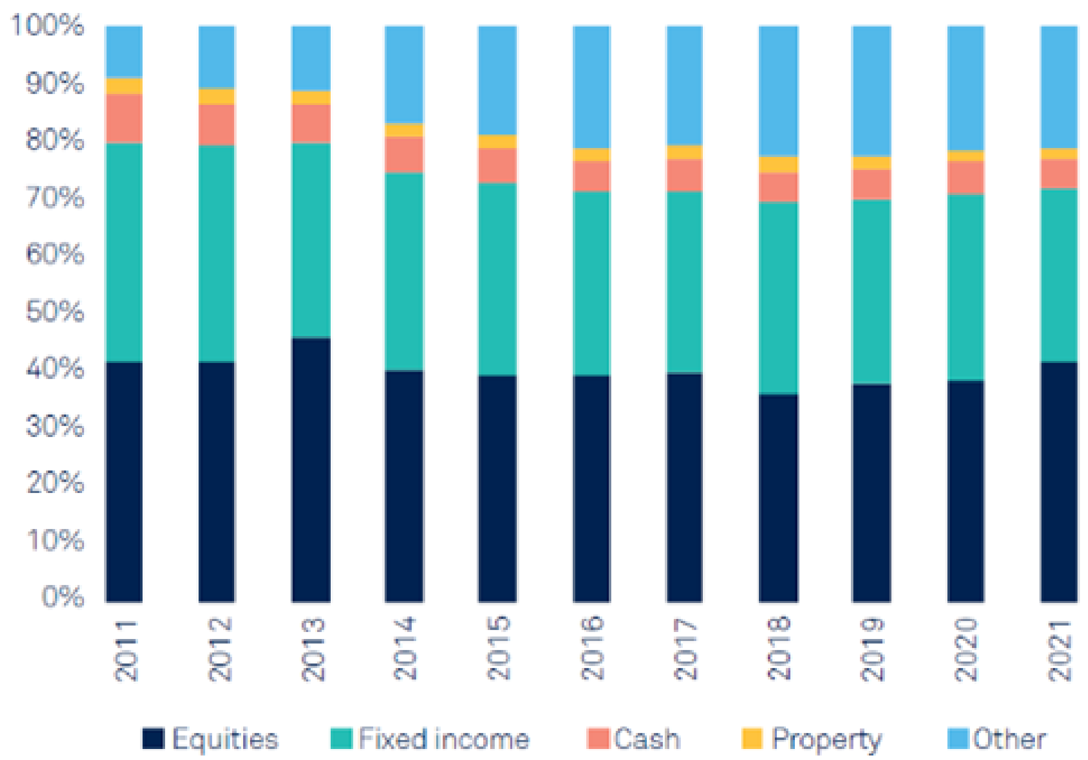


Source: Investment management in the UK 2021-2022 – Annual Survey

B15. Active vs passive: Active asset management involves fund managers taking decisions in what companies to invest in to build their portfolios. Passive management strategies on the other hand simply track (or replicate) an index or market. As of 2021, assets managed actively represented 67.8% of total AUM, compared to funds managed in passive strategies (32.2%).

B16. Asset classes: In terms of asset allocation, the proportion of total assets invested in equities has grown each year from 2018 and represented 42% investment in 2021. Investment in fixed income assets represented 30% in 2021, representing a two-percentage point fall from the year before. This is likely reflective of the recent volatility in fixed income markets. (See figure 3)

Figure 3: Overall asset allocation of UK-managed assets (2011 – 2021)



Source: Investment management in the UK 2021-2022 – Annual Survey

B17. Geographical dispersion of AUM: Considering the geographical distribution of investment holdings:

a) The majority of equity holdings were located overseas, with UK holdings accounting for only 22.8% of total holdings. North American equities accounted for 30% of equity holdings, followed by European equities (20%);

b) The majority of fixed income holdings were also located overseas, with… Anthony to add commentary

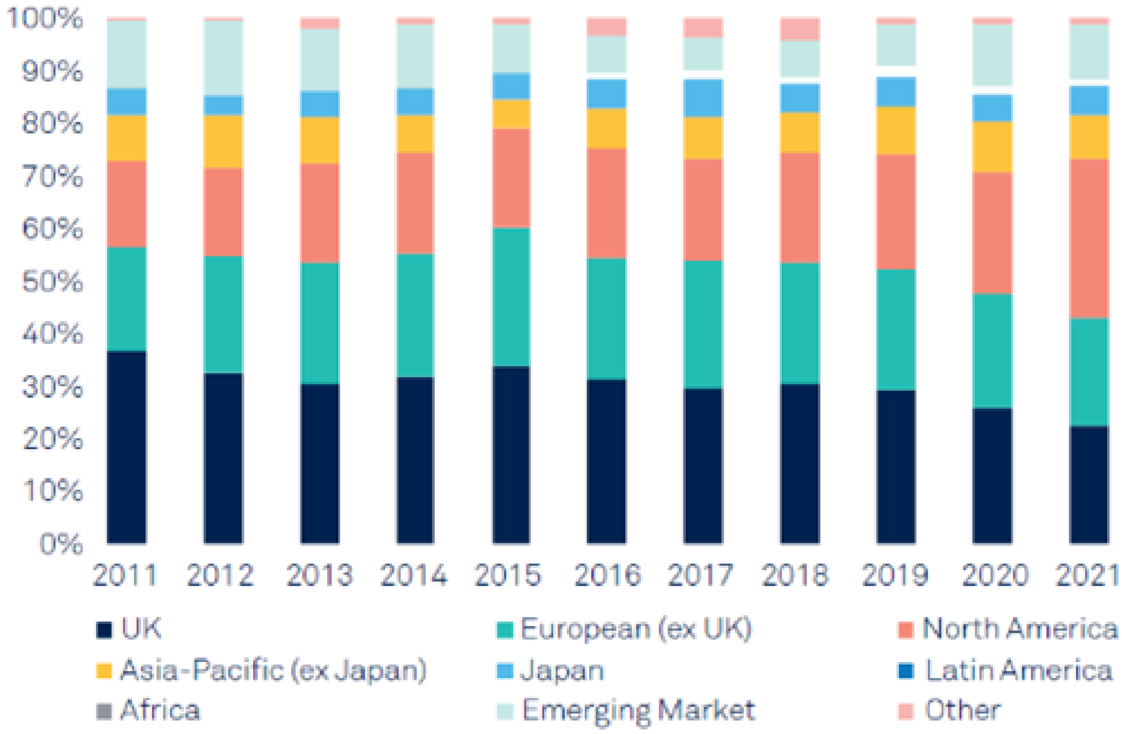
B18. Table 1 provides a summary of the breakdowns reported above.

Table 1: Summary of Assets Under Management in the UK

Total AUM by IA member firms (£m)		**9,991,691**
Active or passive (%)		
Actively managed	67.8%	
Passively managed	32.2%	
Equities, of which:	**41.7%**	
UK		22.8%
Europe (excl. UK)		20.6%
North America		30.0%
Emerging markets		19.8%
Other		6.8%
Fixed Income, of which:	**30.2%**	
UK Government		11.8%
Sterling corporate		14.6%
Other UK		18.1%
Overseas govt/corporate bonds		55.4%
Cash/Money market	**5.1%**	
Property	**2.2%**	
Other	**20.9%**	

Source: Investment management in the UK 2021-2022 – Annual Survey. Figures refer only to the holdings Investment Association member firms (£9.9 trillion).

Diagram X: UK-managed equities by region (2011 – 2021)



Source: Investment management in the UK 2021-2022 – Annual Survey

How this information was used for the survey

B19. The information presented in this section was important to draft the questionnaire but also to achieve a comprehensive survey distribution, as it allowed targeting of the vast majority of UK asset management industry using the right channels, and a range of them, thus maximising the number of responses, and the likelihood of obtaining relevant responses.

B20. The following considerations, distilled from the analyses above, influence either questionnaire drafting or the distribution of the survey:

a) Fundamental vs quant asset managers: As noted in Appendix XX, paragraph XX, quantitative investors are "headline users" of financial statements, who may not have specific insights on the usefulness of accounting for intangibles for investing and lending decisions. Filtering questions were used to target asset managers implementing a fundamental strategy;

b) Active vs passive asset managers: As noted in Appendix XX, paragraph XX, passive investors basically track indices, and may not have specific insights on the usefulness of accounting for intangibles for investing and lending decisions. Filtering questions were used to target active asset managers;

c) Pension funds: as noted, pension funds and insurance companies account for most AUM in the UK. Therefore, it was important to target these investors from different channels, thus ensuring adequate cover;

d) Foreign investors: [Anthony to draft para based on c) and e)]

e) Retail investors: as emerged, retail investors account for a relevant portion of AUM in the UK. Considering that they may have a different view from institutional investors, it was important to obtain a perspective from these users, which affected the survey distribution choices;

f) Private equity/venture capital: [Anthony to draft para based on c) and e)]

B21. Paragraphs XX-XX provide further detail on how the considerations above affected the survey distribution.

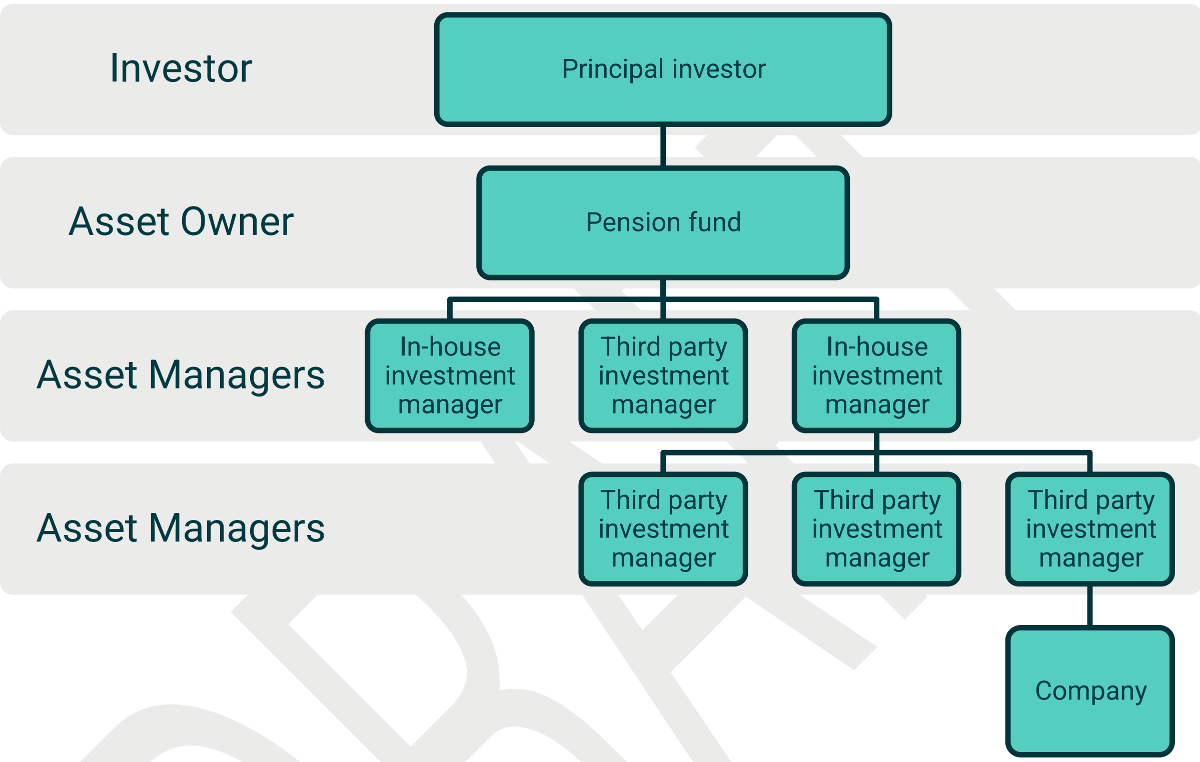
Appendix: additional information

The savings-investment transmission mechanism

B22. Asset managers may choose to invest directly in a range of assets including equity, fixed income, or property. Alternatively, they may choose to allocate all or some of their resources to more specialised investment managers to take advantage of their expertise.

B23. In this process, investors can therefore be seen as the principals whose assets are allocated by asset managers working as agents. It must be noted though that there may be several asset managers between investors' money and the ultimate allocation of their capital, as shown in the schematic in Figure XX.

Figure XX: Savings-investment transmission mechanism



Investment approaches and information needs of asset managers

B24. Asset managers make capital allocation decisions based on different types of information and analytical methods, a choice which is often contingent upon their specific investment approach.

B25. Some asset managers adopt a fundamental approach, which places emphasis on detailed information within the financial statements, company-specific performance metrics and economic indicators. These asset managers:

a) conduct a thorough analysis of a company's financial position and performance, overall business fundamentals and management quality;

b) often focus on 'enterprise value' which is comprised of operating enterprise value, the value of non-core assets, the value of debt and other claims and market capitalisation (where applicable);

c) often consider profit (net income and EBITDA), cash-flow (operating cash flow and free cash flow) and returns (return on invested capital and return on equity) as key performance indicators.

B26. Other asset managers instead adopt a quantitative approach, basing their investment decisions on quantitative analyses that utilise mathematical and statistical models applied to financial market information. Asset managers following a quantitative approach:

a) use algorithms and specialised software to identify patterns, trends and statistical anomalies in financial markets. Key quantitative factors include moving-averages and volatility measures;

b) mainly use headline accounting information such as earnings, leverage and return on capital, without considering financial statements in detail.

B27. Examples of quantitative strategies include high-frequency trading and factor-based investing.

B28. It must be noted that a sizeable amount of investors navigate a middle-ground, using both quantitative and fundamental analysis to make a capital allocation decision.

B29. As users that rely on financial statements for their investment decisions are the ones that adopt a fundamental or mixed approach, the population considered for the survey did not contain investors focusing on a purely quantitative approach.

Asset manager types

B30. As noted, asset managers as defined in this report are also often referred to as institutional investors.

B31. **Pension funds**: can be defined as institutions which pool together statutory and voluntary pension contributions from households and either invest those funds into financial assets to generate a return, or enlist the services of a specialist asset manager to do so on their behalf.

B32. Mutual funds: investment vehicles which pool money from multiple investors to invest in a diversified of financial assets. Mutual funds enable investors to gain exposure to a broad range of assets without having to directly buy and manage individual securities.

B33. Hedge funds: investment funds which pool capital from accredited institutional investors and investing in a range of financial assets. Hedge funds have more flexibility in their investment strategies, allowing them to invest in conventional financial assets such as stocks and bonds but also more complex assets such as derivatives.

UK Endorsement Board

The role of analysts

B34. The primary of role of equity and fixed income research analysts is to provide investment research on particular companies. They gather and analyse information about companies’ financial position and publish research for use by professional investors.