Good morning ladies and gentleman. Thank you Viscount Camrose for hosting this event and inviting me to speak to you about the UK Endorsement Board's latest research. I would also like to thank Director General Daren Tang and colleagues for this new report into IP financing, which highlights the interactions between accounting standards and IP finance.

I am sure you are all aware that there are nine multinational companies today with capitalisation exceeding one trillion dollars? Perhaps you also know that seven of these companies are technology companies. We can all agree, intangibles and IP are primary drivers of business and market value for such companies. But, intangibles tend not to feature on their balance sheets.

These multinationals, along with most large companies, access capital in the capital markets in the UK and around the world. Accounting is the international language all companies use to convey crucial information to their investors and other creditors. This includes, their profitability, their prospects for future revenue generation, and the assets, including intellectual property, they use to generate those revenues.

The UK Endorsement Board, of which I am the Technical Director, is responsible for influencing, on behalf of the UK, the development of the standards produced by the International Accounting Standards Board. It is also responsible for adopting them for use in the UK.

We know that accounting information reported by companies is important because it is used by investors in making their decisions about a business; whether to lend to it or buy it. But accounting information also plays a bigger role. It's a key input in the national accounts, helping governments keep track of investment and the stock of capital at a national level.

The next fact I must share is that the international accounting standard for intangibles is old. It was issued in 1998, but retains large sections originally written in the 1970s. Less AI and satellite-based tracking and more Walkmans; VCRs; Sinclair computers. And the world wide web was not even a teenager then.

So, while you may be aware of research by the Office of National Statistics suggesting that in recent years intangible assets account for more than half the investment made by UK companies at a national level.

The most recent research by the UKEB, due to be published next month, found that the balance sheets of UK listed companies, on average, only attribute 2% of their value to intangible assets, and more than two thirds of those were purchased. Internally generated intangibles, such as Intellectual Property, are virtually invisible.

So, the case for the accounting standard to evolve and catch up with business is clear. But, what do investors, the users of accounts want?

As part of our research we also surveyed investors and they want changes to accounting for intangibles. They tell us they are cautious about having more intangibles recognised in the balance sheet, often due to concerns about reliability of measurement. But they do want that information.

So, the challenge accounting standard setters face is how to alleviate the investor concerns about reliability of measurement, but also meet their needs.

The International Accounting Standards Board recognises this and is committed to reviewing their standard. We expect work to start later this year. We at the UKEB will be engaging from the start of the process, making sure the UK views are heard and addressed. But we need strong support from stakeholders to ensure the accounting reflects the economics of business today.

Thank you very much for inviting me to speak and I look forward to the discussion of the panel.

Questions

Possible Question 1:

Seema, you talked about the research being done by the UK Endorsement Board. Is there anything that has particularly surprised you in the research?

Thanks for that question, I am really looking forward to sharing the reports more widely when they are published in April. But one thing that really stood out to me was the concentration of recognised intangible assets. 97% of recognised intangibles today are held by the top 25% of UK companies. Just ten UK companies hold 64% of recognised intangibles, and one of them holds 21% alone. And these are predominantly acquired intangibles. It shows you just who many unrecognised intangibles there must be out there in UK businesses.

Possible Question 2:

Seema, you noted how important it is for people to get involved in updating this standard. What can we do?

It will be a long path, but what the IASB and the UKEB need is evidence from stakeholders. There will be various opportunities to contribute to the process. In the short term, we will be holding discussions, looking for reactions to our reports. Over the longer term both us and the IASB will undertake various outreach activities. We need you to get engaged and contribute to those events. It is really important that we can say we have heard a range of perspectives. The UKEB has a regular newsletter you can sign up for on our website where you can receive updates on our activities. And you can always talk to me or Matt for more information.

Possible Question 3:

Clearly this is a subject which has been discussed for decades. Change at the international level can be slow. Where do you see the most promise to move the dial forward?

It is fantastic that the International Accounting Standards Board have added intangibles to their research pipeline. But you are right, accounting standard setting can be a slow process, and for good reason, stakeholders need time to engage with the process to make sure we get to the right outcome.

But even while we wait for a new accounting standard, the current standards do allow for a lot of disclosure about intangibles. For example

the current standard “encourages” a description of significant unrecognised intangibles. We seldom see companies actually choosing to provide this information.

Users of financial statements need to make it clear this information is material to them and they want to see it, even if it isn’t being captured in the balance sheet. That way they could still get more of what they want.