

Research Project – Intangibles – Update

Executive Summary

Project Type	Thought Leadership
Project Scope	Significant
Purpose of the paper	
This paper provides an update on the work undertaken on the UKEB's research project on Intangibles.	
Decisions for the Board	
<p>The Board is asked for comments on:</p> <ul style="list-style-type: none"> a) The themes that are beginning to emerge from discussions; and b) The proposed next steps 	
Summary of the Issue	
<p>The UKEB is currently undertaking a research project on Intangibles. The project's objective is to contribute to the international debate on how the accounting for, and reporting of, Intangible items could be improved to provide investors with more useful general purpose financial statements to assist them to make better informed decisions. The UKEB aims to use the findings from this project to feed directly into the IASB's Intangibles Research project, a key part of its workplan over the next five years.</p> <p>To date the UKEB research has been focused on:</p> <ul style="list-style-type: none"> a) Engaging with the existing literature, both in the UK and internationally, on the economics of, and accounting for, Intangibles. b) Conducting in-depth interviews with a range of UK stakeholders to develop an understanding of the concerns with current accounting practice, and possible approaches to improving accounting. c) Beginning quantitative analysis of intangibles reported by UK listed entities. 	
Recommendation	
This paper provides an update and there are no recommendations for the Board.	

Background

1. The increasing importance of intangibles to the modern economy is ubiquitously acknowledged, as demonstrated by the numerous academic papers and books written¹ on this topic. As noted by CPA Ontario “Today, intangible assets are recognized as the key source of innovation and growth, an economic golden goose”².
2. At the same time, there has been significant discussion about the shortfalls of IFRS standards in relation to accounting for intangible items. For example, Steve Cooper, an independent analyst, co-author of The Footnotes Analyst blog, and former IASB Board Member, has stated that, “the current inconsistent and limited recognition of intangible assets causes analytical challenges for investors... We think that investors would greatly benefit from improvements to both the narrative reporting and financial statement data regarding intangibles.”³
3. These concerns have been echoed in recent surveys of users of financial statements. For example:
 - a) In 2019 the FRC published a consultation “Business Reporting of Intangibles: Realistic Proposals”. They noted when reporting the feedback received from UK investors that they “were unanimous in their support for improving the quality of reporting on intangibles”⁴
 - b) Research currently being funded by ICAS has noted that 93% of users surveyed thought that “financial reporting is lacking adequate information on intangible assets”⁵, though they also note that this view was only shared by 61% of preparers surveyed.
 - c) A worldwide survey of 170 senior investment decision makers commissioned by Columbia Threadneedle Investments concluded that, “There is agreement that analysis of intangibles provides a competitive advantage to investors, and recognition that intangible research is increasingly important in analytical work. However, while investors find information about intangibles readily available, they believe that it is often unreliable, incomplete or inaccurate.”⁶
4. The IASB has acknowledged these concerns about intangible assets. In one of his first public statements the new chair of the IASB, Dr Andreas Barckow, stated that “the rise of self-generated intellectual property and its non-addressal in the accounts”⁷ was one of the biggest challenges and opportunities facing the IASB.

¹ See for example “Capitalism Without Capital – The Rise of the Intangible Economy” and “Restarting the Future – How to Fix the Intangible Economy” both by Jonathan Haskel and Stian Westlake.

² [CPA Ontario | Intangibles](#)

³ [Missing intangible assets distorts return on capital | The Footnotes Analyst](#)

⁴ [Business Reporting of Intangibles: Realistic Proposals](#)

⁵ [The production and consumption of information on intangibles: an analysis of some preliminary results | ICAS](#)

⁶ [Grasping the Intangible: How Intangible Assets Reveal Latent Value](#)

⁷ [IFRS - Meet the new IASB Chair—Andreas Barckow](#)

5. Staff papers presented to the IASB summarising the feedback it received on its Third Agenda Consultation indicated that most respondents rated intangible assets as a high priority area. Respondents believed any review should⁸:
 - a) modernise IAS 38 Intangible Assets, to better reflect the ever-increasing importance of intangible assets in today's business models, particularly for unrecognised internally generated assets;
 - b) address new types of intangible assets, which were not envisaged when IAS 38 was developed (such as cryptocurrencies and emission rights) to ensure it results in useful information to users of financial statements; and
 - c) improve comparability between companies that grow organically and those that grow through acquisitions.
6. In early 2022 the UKEB agreed to undertake a multi-output, proactive research project that would contribute to the international debate on how the accounting for, and reporting of, Intangible items could be improved to provide investors with more useful general purpose financial statements to assist them to make better informed decisions⁹.
7. The initial phase of research is focused on understanding stakeholder views (particularly investors) of the accounting for, and reporting of, intangibles in the UK. This involves three outputs:
 - a) A report drawing primarily on qualitative research based on in-depth interviews with a range of stakeholders, supported by a review of key literature. The research is explorative by design. It will provide a better understanding of UK stakeholders' perspectives on the accounting for, and reporting of, Intangibles in the UK, and the potential economic outcomes arising from the existing accounting framework. It will be the basis for later research that will provide more explicit recommendations to the IASB. This research will also be brought to the attention of EFRAG in response to its Better Reporting on Intangibles project.
 - b) A report, and recommendations, based on more comprehensive investor outreach, further developing the learnings from the early qualitative research. The primary research will be based on outreach with investors, including interviews and a survey.
 - c) An analysis of Intangibles Reporting in the UK, focused on estimating the prevalence and economic relevance of intangible items among UK reporters, an analysis of current practices among listed UK companies using IFRS standards, including capitalisation and expensing, along with associated disclosures. An analysis of whether and how current reporting practices affects economic outcomes may also be conducted.
8. This research is being conducted jointly with the Economics Team as we believe that developing an understanding of the underlying economics of intangible items is key to developing better recommendations on how to enhance existing accounting.

⁸ [AP24D: Feedback summary – Potential projects \(part 1\) \(ifrs.org\)](#) (see paragraphs 72 – 77)

⁹ [Intangibles Project | UK Endorsement Board \(endorsement-board.uk\)](#)

Subsequent Developments at the IASB

9. In April 2022 the IASB confirmed that a research project on intangible items would be one of three projects that would be added to their work plan after the completion of the third agenda consultation.
10. The IASB staff paper¹⁰ stated that:

“[an intangibles] project should aim to comprehensively review IAS 38. Although developing enhanced disclosure requirements (such as disclosures about unrecognised intangible assets) would help to address user information needs, feedback indicates that other aspects of IAS 38 also should be reviewed. For example, respondents said that IAS 38 is an old Accounting Standard in need of modernising to reflect the increasing importance of intangible assets in today’s business models.”
11. IASB staff also noted that while they have referred 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 intangibles—or whether the project should aim to address intangible **items** more broadly. This broader approach to intangibles is consistent with the language we have used in the UKEB Project Initiation Plan¹¹.
12. The IASB staff suggested that because a comprehensive review of IAS 38 would be both complex and time-consuming it may be better to take a staged approach. They suggested some potential approaches but acknowledged that this would be better considered as part of project planning later on.
13. It is also worth noting that the IASB have chosen not to add a project on cryptocurrencies to their agenda. Rather they suggest that accounting for cryptocurrency may be considered as part of the Intangibles research project. This is consistent with the UKEB’s Final Comment Letter submitted in response to the IASB’s Third Agenda Consultation¹².

Qualitative Research Report

14. In March 2022, the UKEB project team started conducting research for the qualitative report briefly mentioned in paragraph 7a above.
15. We have undertaken a comprehensive literature review on both the economics of, and accounting for, intangible items. Based on the literature review, and given the complexity of the topic, we determined that one-to-one interviews with relevant stakeholders would be the most appropriate method for this research. Detailed qualitative data would allow us to gain a more nuanced understanding of stakeholder concerns about, and possible solutions to, the accounting for intangibles.

¹⁰ [AP24A: Projects to add to the work plan \(ifrs.org\)](#) (see Paragraph 35)

¹¹ [AP24A: Projects to add to the work plan \(ifrs.org\)](#) (see Paragraph 37)

¹² [Final Comment Letter - Agenda Consultation.pdf \(kc-usercontent.com\)](#) (see Paragraph 4(b))

16. The primary focus of intangibles research in March, April and May 2022 has been:
- a) Finding and assessing additional literature on the topic.
 - b) Developing interview questions. We used our review of the literature to help us design a semi-structured interview approach.¹³
 - c) Identifying and approaching potential interviewees as well as undertaking interviews. We have identified and approached interviewees directly through established network links and LinkedIn searches, as well as through calls in the UKEB news alert, an open call on our website, and LinkedIn posts.
17. In line with established academic practice, we aim to conduct interviews with a diverse set of stakeholders and plan to expand the sample until no significant new original themes are emerging – we anticipate that 15 to 20 interviews should suffice to achieve this outcome.

Preliminary results

Collected sample

18. At the time of writing (12 May 2022), the team has conducted, or have booked, 16 one-to-one interviews. The following table provides a breakdown of the interviews:

Background	Number of Interviews
User	4
Preparer	4
Auditor	2
Standard Setter	2
Academic	3
Other	1
	16

19. A number of interview subjects reached out to the UKEB in response to either our news alert or LinkedIn posts. We believe the range of stakeholders we have spoken with have

¹³ While we aim to address some common topics with each interviewee, we also give them the opportunity to focus on topics that are of particular relevance to them. On average interviews last between 60 – 90 minutes.

provided an appropriately diverse basis for analysis and we are starting to see common themes emerge (see below).

20. We are continuing to seek interview candidates and expect interviews to be concluded in early June.

Emerging Themes from Interviews

21. While we have not yet completed the interview process, a number of common themes are beginning to emerge. These will be discussed in much more detail in the draft report to the Board in July, but we summarise some of the points below.
22. On the whole stakeholders are looking for a substantial overhaul of accounting for, and reporting on, Intangibles. There is general agreement that current requirements fail to adequately capture key intangibles that many entities are generating, largely because the standard is relatively dated and does not cater for the realities of an increasingly post-industrial economy.
23. Unsurprisingly, there are divergent views on what a substantial overhaul would look like. Views we have heard so far can be summarised as follows:
- a) One possible approach is a rewrite of IAS 38, based on an approach similar to IFRS 15 *Revenue from Contracts with Customers*, which provides clear principles supported by specific examples.
 - b) Another approach would have the IASB expand IAS 38 (or break it up into a set of new standards) to provide more comprehensive accounting guidance that addresses the specific accounting for a more diverse range of intangibles.
 - c) Other stakeholders have suggested a more radical approach that largely abandons the distinction between tangible and intangible assets (citing the IASB Conceptual Framework which focuses on the rights assets convey). This approach would see standards based on the use of assets, rather than types of assets.
 - d) Views on measurement are mixed, but most stakeholders were open to considering fair value for intangible assets in more circumstances than currently allowed under IFRS accounting standards.
 - e) Virtually all stakeholders want to see better presentation and disclosure for expenditure on intangibles that is not capitalised.
 - f) All stakeholders commented on the need for enhanced disclosure on intangibles. Though views were split on whether this disclosure should be instead of presentation in the financial statements or in addition to it.
 - g) Another issue highlighted is the appropriate unit of account for intangibles, and whether investment in intangibles should be considered on a portfolio basis.

- h) Investors tend to focus on better information about expenditure on intangibles in their interviews. Generally they initially expressed scepticism about the benefits of any additional accounting requirements beyond cash flow information. However further discussion often elicited a more nuanced perspective. This highlights the importance of further outreach with users, but also the need to challenge and explore initial views more comprehensively.
24. We believe that these views provide us with a good understanding of the breadth of perspectives in the UK and will provide a solid foundation for subsequent discussions, particularly with investors. This will contribute to developing and refining UKEB perspectives that will inform any future input into the IASB's own Intangibles project.

Engagement with other NSS

25. We have held staff-level discussions with both EFRAG and the Australian Accounting Standards Board (AASB) to identify opportunities to complement and enhance the work being done on intangibles across jurisdictions.
26. EFRAG staff have sat in on a number of the interviews with our stakeholders. This has been a constructive engagement that has provided useful insights for both parties.
27. The AASB has undertaken some quantitative analysis of Intangible disclosures by Australian companies using IFRS Accounting Standards. We are hoping to be able to undertake some cross jurisdictional comparisons with our own quantitative research.
28. We are also expecting that discussions will continue with the AASB and EFRAG about possible future initiatives that will contribute to the IASB's Intangibles research project.

Next steps

29. We are continuing to interview stakeholders about accounting for Intangibles. We expect interviews will be completed in June.
30. A draft report summarising the results of our work will be presented at the July UKEB meeting. This draft report will be published for stakeholder comment. We currently expect a final report to be tabled at the September meeting.
31. The qualitative research findings will inform the development of more comprehensive engagement with investors. This later research is expected to include a survey as well as other outreach activities.

Timeline

2022													2023		
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb		
PHASE 1															
PIP							Draft Report		Final Report				Final Report		Final Report
	OUTREACH -EFRAG REP.														
	Plan	Outreach		Finalise											
	INVESTOR OUTREACH														
	Plan	Administer					Analyse								
	INTANGIBLE REPORTING IN THE UK														
	Plan	Research				Finalise									
PHASE 1															
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb		
2022													2023		

Questions for the Board

32. Does the Board have any comments on:

- a) The themes that are beginning to emerge from discussions with interviewees shown at paragraph 23; and
- b) The proposed next steps shown at paragraphs 29-31.