Research Project on Intangibles – Update

Executive Summary

Project Type	Thought Leadership
Project Scope	Significant

Purpose of the paper

This paper provides a summary of key findings from the Research Project on Intangibles currently being conducted and proposes an amended Project Initiation Plan (PIP).

Summary of the Issue

As set out in the Project Initiation Plan (PIP) approved in April 2022, the UKEB project team has been working on a report into stakeholder views on accounting for intangibles, drawing primarily on qualitative research based on in-depth interviews with a range of stakeholders, supported by a review of key literature.

Our key finding to date is that stakeholders are looking for a substantial change to the accounting for intangibles from IAS 38 *Intangible Assets,* with the objective of providing greater recognition of, and enhanced information about, intangible items.

Subsequent to the approval of the PIP at the Board's May meeting, we have increased the number of stakeholder interviews from 16 to over 30. This has enhanced the research by allowing us to engage with more perspectives on accounting for intangibles particularly user perspectives. However, this also means there is a substantially increased amount of data that needs to be analysed and incorporated into the final report. We therefore propose amending the PIP to allow greater time to complete the research. We do not believe this will impact the UKEB's ability to influence the IASB project given their current timeline.

Decisions for the Board

The Board is asked to:

a) provide comments on the Summary of Findings; and
b) approve the amended PIP.

Recommendation

We recommend the Board approve the amended PIP.

Appendices

Appendix 1	Amended Project Initiation Plan
Appendix 2	Summary of Findings

Background

1. As set out in the Project Initiation Plan (PIP) approved in April 2022, the UKEB project team has been working on a report into stakeholder views on accounting for intangibles, 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. The report will form 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.

2. The primary focus of intangibles research to date has been:

   a) Finding and assessing relevant literature on the topic.

   b) Developing interview questions: we used our review of the literature to help us design a semi-structured interview approach.

   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.

Summary of Findings

3. A summary of findings from the interviews analysed to date is provided at Appendix 1. At the highest level our findings could be described as: stakeholders are looking for a substantial change to the accounting for Intangibles from IAS 38 *Intangible Assets* that will provide greater recognition of, and enhance the information provided about, intangible items. Any new standard needs to take account of an organisation's strength of rights over intangible items and their use in the organisation's business model.

4. Stakeholders are concerned that IAS 38 does not allow recognition of some intangibles they believe should be recognised, that there can be significant differences between firms that grow organically versus those that grow through acquisition, and that there is not enough disclosure about intangibles-related expenditure.

5. In response to these concerns stakeholders have also suggested a number of opportunities to enhance the accounting for and reporting on intangibles.

6. What is clear is that any new standard on accounting for intangible items should be developed in a way that is "future proofed". So, rather than focussing on specific types of intangibles currently common in companies, it should take a broader approach that will be relevant for both intangibles that exist today, and that may emerge in the future. The approach will also need to address the development over time of legal and other rights as well as of related markets.

Questions for the Board

7.	Does the Board have any comments on the summary of key findings to date?

Amended PIP

8. When the Secretariat last updated the Board in May we had planned to conduct 16 one-to-one interviews, to be concluded by early June. The Board encouraged us to engage with more users of financial statements. Subsequent to those discussions we have significantly increased the number of interviews conducted, including with a number of users of financial statements. All interviews will be concluded in July. The following table provides a breakdown of the interviews to date:

Background	Number of Interviewees at end May	Number of Interviewees at end June
User	4	13
Preparer	4	6
Auditor	2	2
Standard Setter	2	2
Academic	3	6
Other	1	3
	16	**32**

9. We believe that the additional interviews have enhanced the research by allowing us to engage with more perspectives on accounting for intangibles. However, this also means there is a substantially increased amount of data that needs to be analysed and incorporated into the final report.

10. Also subsequent to the Board's May discussion, the IASB has requested that the UKEB contribute to their research on making material judgements. This project provides an ideal opportunity to contribute the views of UK stakeholders and there is a clear link between the accounting for intangible items and the role of materiality. By their nature intangibles necessitate greater consideration of qualitative factors when assessing their materiality. We have explored this issue with stakeholders in interviews and the IASB has already expressed interest in seeing our findings.

11. We have also continued to identify and engage with relevant academic research that we can incorporate into the final report.

12. Based on this we propose amending the project PIP as shown at Appendix 2. The amended text is highlighted in grey in that document.

13. The amended PIP proposes initial consideration of the draft of the report at the September 2022 Board meeting, a 90-day consultation period, and for the final report to be presented at the January 2023 meeting.

14. The Secretariat reached out to EFRAG staff who are content to consider the September 2022 draft report as part of the feedback on their Intangibles project. We have also kept them informed about our activities and findings and have identified a high degree of commonality in what we have heard from stakeholders.

15. The updated PIP includes amendments to the timeline for output 2 – Investor Outreach and 3 - Analysis of Intangible Reporting in the UK to account for additional time spent on output 1.

16. We have also updated the PIP to explicitly address the fact that the proposed timetable does not include publication of a draft paper or an invitation for stakeholder feedback for outputs 2 and 3. This is because we believe they are more in the nature of research papers that contribute to wider discussions on cross-cutting issues in financial reporting, rather than discussion papers which include preliminary views from the Board. This is consistent with the Draft Due Process Handbook[1], specifically paragraphs 7.11[2] and 7.29 – 7.31[3]. If it were decided to include an invitation to comment, an additional 4 months would be required for each output.

17. The Secretariat does not expect this amendment to the project timetable to impact our ability to influence the IASB. The IASB website notes that it "will start work on [the intangibles project] when the IASB and stakeholders collectively have sufficient capacity to make timely progress on them". Based on IASB discussions, we do not anticipate significant progress at the IASB until at least 2024.

18. The Secretariat has also deleted the tentative plan for phase two of the project. We are having conversations with a number of other National Standard Setters about possible collaborative or complementary research projects. We believe it would be better to present a new Project Initiation Plan in mid-2023 that would set out a more comprehensive plan for phase two.

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[1] Draft Due Process Handbook.pdf

[2] "7.11 The common categories of research outputs derived from the UKEB's research programme are explained below:
(a) Discussion papers, as documents that include an overview of specified technical issues, possible approaches to addressing these issues and preliminary/final views from the Board and an Invitation to Comment; …
(c) Research papers, to contribute to wider discussions on cross-cutting issues in financial reporting;"

[3] "7.29 This section applies only to a research project that invites stakeholder comments.
7.30 Input and feedback received on a research document may be recorded, assessed, the evidence evaluated, and then incorporated into the analysis and discussion of the technical issues in a feedback statement. For the objectives and content of this statement refer to paragraphs 5.24–5.29 of this Handbook.
7.31 For a research project that involves issuing a research document that invites stakeholder comments, the Secretariat summarises the due process activities undertaken in a closing control report called 'due process compliance statement'. For a description and content of this Statement refer to Section 11 of this Handbook."

Questions for the Board

19. Does the Board:

a) have any comments on the amended PIP; and
b) approve the amended PIP?

Appendix 1: Research Project on Intangibles – Summary of Key Findings to Date

Overview

1. This paper sets out a summary of the key high-level findings from the interviews with stakeholders conducted to date as part of the Research Project on Intangibles. This paper is intended to facilitate discussion with Board Members on these findings. We also include the proposed structure of the report in Annex 1.

2. Analysis of the interviews is ongoing, and this paper does not provide a summary of all matters. We have, however, included some quotes to illustrate the views we have heard from stakeholders. We also include a proposed outline of the structure of the report.

3. Our findings to-date can be summarised as: stakeholders are looking for a substantial change to the accounting for Intangibles from IAS 38 *Intangible Assets* that will provide greater recognition of, and enhance the information provided about, intangible items. Any new standard needs to take account of an organisation's strength of rights over intangible items and their use in the organisation's business model.

The economics of intangibles

4. Intangible assets are defined in IAS 38 as identifiable non-monetary assets without physical substance. They can include computerised information (software and databases), innovative property (research and development (R&D), creative content and design), and economic competencies (training, branding and business processes).

5. Beyond their non-physical substance they generally have a number of economic characteristics that make them different from tangible assets and this impacts the accounting for these items. Among these characteristics are that they are:

   a) tacit – often not codified and are embedded in people;

   b) non-rivalrous - can be used simultaneously by multiple users without depleting the asset or reducing their usefulness;

   c) partially excludable - property rights on intangibles cannot be easily defined, nor enforced; and

   d) complementary – create synergies in conjunction with other assets, no matter whether tangible or intangible.

6. This unique combination of characteristics means that the relationship between cost, risk and benefit is much more variable than generally seen in tangible assets. This intrinsically makes the accounting for intangibles more difficult and has perhaps been the historic reason for fairly restrictive accounting for these items. But as intangibles have become more important to the economic success of organisations, better

information is needed to support high quality decision making by users of financial statements.

7. Intangibles are often key drivers of abnormal returns for investors. This could be a technology company's brand, a pharmaceutical company's patents or a retail company's logistics management for example.

8. This makes addressing the accounting for intangibles an increasingly pressing issue as the prevalence and importance of intangibles has risen significantly in the economy from both a macro and micro perspective.

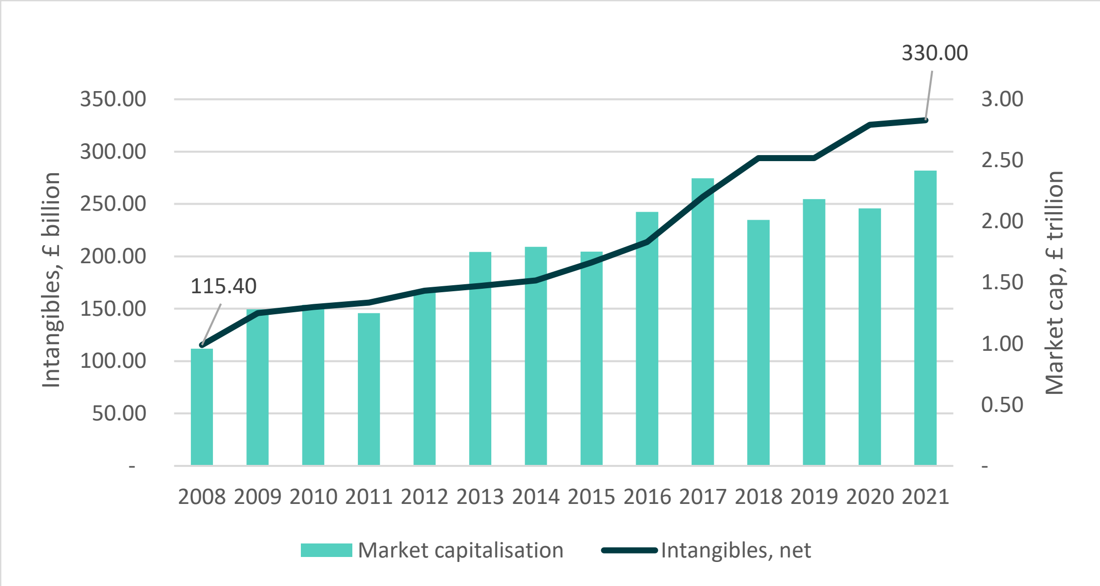
9. As discussed below many expenditures that would be considered intangible assets from an economic perspective are currently excluded from recognition under IAS 38. Companies expense many items that may contribute to internally generated intangible asset if accounting standards allowed capitalisation. For example, Unilever alone expensed over £6 billion in advertising costs in 2021. 33 companies on the FTSE 350 identified training expenses with a total expenditure of £406 million. Finally, FTSE 350 companies in 2021 expensed over £22 billion in R&D. While development can be capitalised, much of this expenditure is probably research expected to generate future returns.

10. Therefore, the value of intangibles on companies' balance sheets represents a "lower bound" on their potential economic value. However, there is a clear correlation between the growth in intangibles year on year and the value of M&A deals, a result directly attributable to the ability to recognise intangibles mor easily when accounting for business combinations.

11. We are currently attempting to use national accounts and survey data to provide alternative estimates of intangible assets in the economy.

12. Despite these limitations, intangible assets have been growing on companies' balance sheets, as shown in Figure 1.

Figure 1: trend in intangible assets, FTSE 350 companies

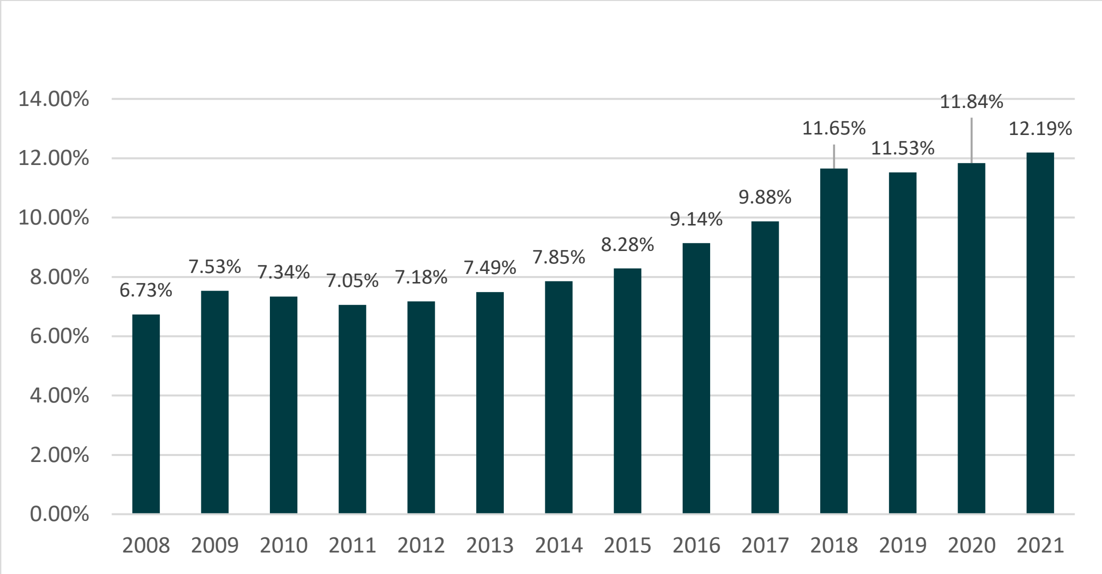


Source: Reuters-Eikon. Intangible assets figure excluding goodwill.

13. As evident from the graph, over the period 2008-2021, intangible assets of FTSE 350 companies have grown significantly, having a total book value of £330 billion as of 2021 year-end, nearly triple (or a 185% increase) what they were in 2008, when they stood at £115 billion. By comparison, over the same period total assets increased by 60.6% (from £7.1 to £11.5 trillion), PPE increased by 76.3% (from £500 to £879 billion), and market capitalisation increased by 88.5% from 2009 (from £1.3 to £2.4 trillion). Intangible assets therefore grew at a faster pace than assets overall, physical assets and market valuations.

14. Excluding the financial sector (banks, insurance companies and financial services firms), over the 2008-2021 period intangible assets as a share of total assets grew by 5.46 percentage points, amounting to 12.2% of companies' balance sheets as of 2021 year-end (see Figure 2).

Figure 2: intangible assets over total assets, FTSE 350 companies (excluding financial sector)



15. Given this growth in intangible assets and their importance to organisational value it is unsurprising that the IASB has faced increasing calls to address the accounting for intangible items.

16. 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.

17. The IASB staff paper 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."

18. In anticipation of this decision by the IASB the UKEB, along with a number of other standard setters around the world including EFRAG and the Australian Accounting Standards Board (AASB), commenced projects looking at intangible items.

19. The UKEB is focussing on understanding the needs of users to inform future standard setting on intangibles by the IASB. As a first step we have interviewed around 30 stakeholders to develop an understanding of stakeholder concerns with the current accounting for intangible assets, and to help identify possible approaches for accounting that reflects the underlying economics and better meets investor needs.

Concerns with current accounting

20. A number of IASB Board Members have observed that they first wanted to understand what is wrong with IA3 38 that leads stakeholders to want to see changes to this standard.

21. Most stakeholders we interviewed commented on IAS 38 being an old standard. While this in itself is not a problem, it embodies a number of issues that stakeholders would like to see addressed.

Limited recognition

22. Many stakeholders identified inconsistencies with the Conceptual Framework which has been updated a number of times since IAS 38 was first issued. This means that the Standard no longer reflects current thinking on what constitutes an asset and therefore does not adequately capture key intangibles that many entities are generating.

23. To be recognised as an intangible asset IAS 38 requires expenditure to meet a different definition of "asset" and "control" from that in the Conceptual Framework. Even then, many internally generated assets must simply be expensed without further consideration under the current IAS 38 requirements.

24. For those items that do meet the definition of intangible asset, recognition of internally generated intangibles under IAS 38 is limited to the development phase. The criteria for entering the development phase are considered somewhat arbitrary and open to significant interpretation leading to substantially different accounting outcomes for different entities, even in the same industry.

25. IAS 38 requires many specific types of internally generated intangibles to be expensed. These include marketing expenditures, internally generated brands, training, customer lists and similar. Almost all stakeholders commented that this prohibition from capitalisation of expenditure that could otherwise be deemed as contributing to an intangible asset fails to capture useful information about many intangible items.

26. Also, while some types of intangibles are specifically identified by IAS 38, there is no mention of more recent innovations such as algorithms, cryptocurrency or Artificial Intelligence, all of which may already, or could in the future, represent significant intangible value. Given the pace of innovation in the intangible space it is hard to know what specific items will be relevant in the future.

Limited consistency

27. There are significant differences between the accounting for internally generated intangible assets (frequently expensed), acquired intangible assets (which use a cost model) and intangible assets acquired through a business combination (which use a fair value model).

28. Stakeholders commented that this leads to significant differences in the accounting for otherwise comparable companies, dependant on whether they have grown organically or through acquisitions.

29. There are also substantial differences in the accounting if the intangible item is captured by a different standard, e.g. exploration and evaluation under IFRS 6 *Exploration for and Evaluation of Mineral Resources* or leases under IFRS 16 *Leases* . IFRS 6 permits many expenditures to be capitalised that might otherwise be characterised as research under IAS 38 and therefore expensed.

Limited disclosure

30. While there are a substantial number of disclosure requirements for recognised intangible assets under IAS 38, there are virtually no requirements related to intangible expenses. Given that most internal expenditure on intangibles is currently required to be expensed, we heard numerous comments that the current requirements are inadequate.

31. Stakeholders also identified a range of additional disclosures they believe would enhance the usefulness of information about intangibles. This enhanced disclosure reflects the importance of intangibles and the potential uncertainty around their value to the organisation. These are discussed below.

32. Does the Board have any comments on the concerns of stakeholders regarding IAS 38 emerging from the research to date?

Stakeholders are looking for change

33. On the whole stakeholders are looking for a substantial revision of the accounting for, and reporting on, intangibles.

> "The IASB needs to be ambitious with [this] project, including both recognition and measurement of intangibles."

Opportunities for improvement

34. During our interviews we also discussed with stakeholders how the accounting for intangibles could be improved. Unsurprisingly, there were divergent views on what a substantial revision would look like, but a number of common themes are emerging.

Enhanced recognition and consistency

35. Most stakeholders wanted any new standard for intangibles to recognise and capitalise a greater range of expenditure, potentially including research, training, and certain marketing expenditure in some circumstances.

36. A majority of stakeholders were generally comfortable with capitalisation of many costs associated with intangibles, particularly where there were clearly identifiable rights attached to the associated intangible item. They view this as an important step in addressing the issues of standard inconsistency and differences between organic and acquisitive growth.

37. A number of users were nervous about over-capitalisation of internally generated intangible assets, particularly where there were no clear legal rights that provided certainty over the existence of an asset.

38. During discussions, most stakeholders agreed that accrual accounting, which would not only capitalise costs but would also require amortisation (tied to a reasonable useful economic life) and impairment, would provide more relevant and reliable information.

39. Feedback on use of fair value was more mixed. Many stakeholders thought there should be more fair value measurement of intangibles. However, there was a general acknowledgement that this would increase volatility in the financial statements as valuations of intangibles are likely to be more volatile. As one academic noted:

> "Economic volatility is a reality when it comes to intangibles, this should be reflected in the financial statements".

40. Preparers were concerned that users of financial statements would over-react to such fluctuations. Users of financial statements were concerned that fair value would make

it more difficult to understand the financial statements, particularly where markets were less active or non-existent.

Enhanced disclosure

41. The majority of stakeholders observed that at the very least disclosure requirements related to intangible expenditures that are not capitalised must be enhanced. They want more granular information about the nature of expenditure, including but not limited to specific information on marketing, IT, training, and research.

42. This view was consistent to all users of financial statements interviewed, with one noting that:

    "We spend a lot of time trying to figure out the intangible spend… Enhanced disclosure on expenses would be useful, like a breakdown of R&D and clear identification of marketing expenses."

43. Stakeholders want to understand the relationship between such expenditure and the organisation's business model. Further, they request information on whether the entity is expecting to maintain or enhance future cash flows.

44. While all stakeholders commented on the need for enhanced disclosure on intangibles, only a few thought that enhancing disclosure alone was enough.

45. For many investors we interviewed (as opposed to stakeholders more generally) improved disclosures was their primary recommendation with regard to accounting for intangibles. However, when the possible approaches identified below were discussed (see paragraph 53), there was often agreement that more could be done to improve the accounting in terms of recognition, measurement and disclosure for intangible items. Only a few thought that enhancing disclosure alone was sufficient.

46. Many stakeholders talked about the need for enhanced disclosure on risks associated with capitalised intangibles to compensate for the greater uncertainty about their value.

47. They also believed there could be more information linking intangibles to related Key Performance Indicators (KPIs). This would help address concerns about over-capitalisation. For example, management could link useful life and impairment directly to the drivers of value intangibles are expected to provide. As one user noted:

    "Key drivers of value for intangibles would be useful to disclose. For example, employee churn by division, or customer satisfaction (net promoter score)."

48. A number of stakeholders thought that information on these key drivers would be central to future ESG reporting, and that these relationships would be important to highlight and would provide particularly useful information.

49. Does the Board have any comments on the possible improvements to accounting for intangibles emerging from the research to date?

Materiality matters

50. The issue of materiality was raised in many interviews. Almost every stakeholder interviewed wanted increased granularity of disclosure. It was observed that intangibles are important drivers of value, but carry increased risk and uncertainty, and so greater disclosure and finer detail would be required to help users of financial statements assess their impact.

51. Stakeholders were asked how this could be balanced with concerns about information overload. Most felt that for intangibles qualitative factors are more important than quantitative ones. These qualitative factors are likely to be derived from the relationship between the intangible item and its importance to the business model.

52. In this context some stakeholders expressed concerns about commercial sensitivity, but again stakeholders identified materiality as the overriding factor. As one user noted:

    "There is always a trade-off between efficient allocation of capital and commercial sensitivity. Materiality is the key, but is not done well currently."

Ways forward

53. Some clear directions are beginning to emerge and will be picked up as part of the next steps for this project. These include

    a) Any new standard on accounting for intangible items should be developed in a way that is "future proofed". So, rather than focussing on specific types of intangibles currently common in companies, it should take a broader approach that will be relevant for both intangibles that exist today, and that may emerge in the future. The approach will also need to address the development over time of legal and other rights as well as related markets.

    b) Two key elements that should drive the accounting seem to be emerging:

        i. *The use of the item* (or alternatively its relationship to the business model). The accounting for intangible expenditure related to items contributing to the operations of the entity may be different from those that are being developed to create new opportunities for the entity, or even those items that are being invested in for speculative purposes.

        ii. *The strength of rights over the benefits that accrue from the expenditure.* Expenditure on patents represents a strong right protected by patent law and the courts. Expenditure on brands (marketing) may represent a weaker right, though could be associated with trademarks. Related to this is also the quality of information available to support valuation of intangibles. The weaker the right over the intangible asset the more important disclosure becomes, and the more important it is that management can relate the expenditure to measurable outcomes or KPIs.

54. An appropriate accounting standard will balance measurement uncertainty with disclosure while harnessing all the informational benefits that accrual accounting brings, surfacing management information to overcome informational asymmetry. This includes better information on expected returns, useful life and value of assets.

55. Does the Board have any comments on ways forward for developing an accounting standard for intangibles emerging from the research to date?

Next steps

56. We are continuing to interview stakeholders about the accounting for intangible items. Interviews will be completed in July 2022.

57. A draft report summarising the results of our work will be presented at the September 2022 UKEB meeting. This draft report will be published for stakeholder comment. We currently expect a final report to be tabled at the January 2023 meeting. This allows for a 90-day comment period.

58. The qualitative research findings will inform the development of more comprehensive engagement with investors that is under development and expected to be completed in H1 2023. This later research is expected to include a survey as well as other outreach activities.

59. Does the Board have any other comments on the current research into accounting for intangible items?

Annex 1: Structure of Final Report

Executive Summary

1. The economics of intangibles
2. Concerns with current accounting
3. Opportunities for improvement
4. Materiality matters
5. Ways forward
6. Conclusions
7. Next steps

Appendix 1 – Research method

Appendix 2 – Summary of interviewees

Appendix 3 – Literature review

Appendix 2: Project Initiation Plan: Intangibles Research

Project Type	Thought Leadership
Project Scope	Significant

Overview

1. The UKEB delegated functions include responsibility for "participating in and contributing to the development of a single set of international accounting standards." Undertaking pro-active thought leadership activities is key to the UKEB's ability to effectively deliver this statutory function.

2. The UKEB's Terms of Reference (ToR) further explain that with regard to thought leadership, the UKEB shall:

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

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

   c) Engage with accounting and reporting and endorsement and adoption bodies in other jurisdictions, in order to improve influence and understand best practice.

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

3. We believe that a project on intangibles, as described below, clearly supports the UKEB meeting these responsibilities.

4. The increasing importance of intangibles to the modern economy is ubiquitously acknowledged, as demonstrated by the numerous academic papers[1] and books[2] written 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"[3].

5. At the same time there is significant discussion about the shortfalls of IFRS Standards[4] in relation to accounting for intangibles. EFRAG has published a comprehensive report, outlining a range of concerns with current accounting for intangible assets and possible approaches to improving their reporting.[5]

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1 See appendix 2 for examples of publications on intangible assets.

2 See for example Haskel and Westlake (2018), "Capitalism without Capital: The Rise of the Intangible Economy" *Princeton University Press*

3 Ontario CPA Insight (2021), "You Can't Touch This: The Intangible Assets Debate", https://www.cpaontario.ca/intangibles

4 See for example Barker, Richard & Lennard, Andrew & Penman, Stephen & Teixeira, Alan. (2021), "Accounting for intangible assets: suggested solutions". *Accounting and Business Research.*

5 EFRAG Discussion Paper: Better Reporting on Intangibles

6. Concerns about the accounting for and reporting of intangibles are not only confined to academic discussions and national standard setters. Steve Cooper[6], 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."

7. These concerns have been echoed in surveys of users. For example:

   a) In 2019 the FRC published a consultation "Business Reporting of Intangibles: Realistic Proposals"[7]. 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" [8]

   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", though they also note that this view was only shared by 61% of preparers surveyed.[9]

   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."[10]

8. The IASB has acknowledged these concerns about intangibles. 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" was one of the biggest challenges and opportunities facing the IASB.[11]

9. Staff papers presented to the IASB summarising the feedback it received on its Third Agenda Consultation[12] indicated that most respondents rated intangible assets as a high priority area.[13] Respondents believed any review should:

   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;

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6 Missing intangible assets distorts return on capital | The Footnotes Analyst

7 00 Intangibles-title 1..2 (frc.org.uk)

8 Feedback-Statement-FINAL.pdf (frc.org.uk), para 6.

9 The production and consumption of information on intangibles: an analysis of some preliminary results | ICAS

10 Intangible Assets, note it is unclear whether this was exclusively in the context of GAAP requirements, though they are similar to IFRS in many ways.

11 IFRS - Meet the new IASB Chair—Andreas Barckow

12 https://www.ifrs.org/projects/work-plan/2020-agenda-consultation/

13 AP24D: Feedback summary—Potential projects (part 1) (ifrs.org)

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.

10. Based on that feedback we expect intangibles to form a key part of the IASB's agenda for the next five-year period.

11. A pro-active thought leadership project on intangibles will enable the UKEB to fulfil its responsibility to proactively participate in the development of high-quality accounting standards by leading the UK debate on accounting and reporting of intangibles as well as contributing to and actively participating in the international debate on a timely basis.

Objective of the project

12. Given the significance of intangibles to the UK and global economies in the twenty-first century, and the expectation that a project on accounting for such items will form a key part of the IASB's agenda in the future, it is important that the UKEB pro-actively contributes to this significant area of standard development.

13. "Intangibles" encompasses a wide range of possible topics and avenues for research. The UKEB believes that it is well placed to focus on elements of investor needs when it comes to accounting and reporting of intangibles. This will act as a useful starting point for, and input into, the accounting solutions to be devised by the IASB.

14. The context for the research is:

How could the accounting for, and reporting of, Intangible Items be improved to provide investors with more useful general purpose financial statements to assist them to make better informed decisions?

15. Key elements of this context are:

a) Accounting and reporting[14]: The context for any research will be accounting and reporting in accordance with IFRS Accounting Standards, and the annual financial statements. Specifically, the research will consider elements of classification, recognition, measurement, and disclosure of intangible items. This does not necessarily mean that the current approach of the IFRS Accounting Standards should constrain possible solutions. It may be that new or expanded standards need to be developed to capture useful information.

b) Intangible Items: This term is a placeholder for a broad range of non-physical items that are not within the scope of IFRS 9: *Financial Instruments*, and is not necessarily intended to be the same as defined in IAS 38: *Intangible Assets.* Part of the research would seek to identify what investors consider the most relevant

[14] The remainder of this proposal will use the term "accounting for intangible assets" to include both accounting and reporting.

intangible items, and whether current definitions adequately capture the extent and nature of these items.

c) Investors: The *Conceptual Framework for Financial Reporting*[15] identifies the primary users of financial reports as existing and potential investors, lenders and other creditors that cannot require reporting entities to provide information directly to them. We believe that a focus on investors who rely on General Purpose Financial Statements (GPFS) will provide useful information while helping limit the extent of research that will need to be undertaken. These users make key decisions that involve buying, selling or holding equity instruments; or exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

16. Within this context we will focus on exploring with investors the areas they see as deficient in the current reporting for intangible items under IFRS Accounting Standards and possible solutions that they believe would address these concerns. This will include examining current reporting practices for intangibles in the UK.

17. The research could be extended later to engage with investors to explore new ways of thinking about the issue of accounting for and reporting on intangibles. A pre-requisite for this would be to consider with other stakeholders, such as academics and preparers (especially in sectors that have intangible items identified as particularly relevant by investors) possible alternative approaches that may not have been considered and which could meet investors' information needs. We would want to facilitate discussions between key stakeholders to develop solutions.

18. The research would be based on a bottom-up or inductive approach. In the initial phase, research would build from investors' needs and observations of practice to develop proposals. This can be contrasted with the top-down or deductive approach that would start with the conceptual framework and develop solutions rooted in accounting theory.

19. This approach will allow us to contribute to and reflect on the work being done by others in this area, such as EFRAG and the AASB. By building on our links with investors we believe we will be able to provide an important perspective on any solutions proposed by others.

20. It will also build on previous work in the UK by the FRC, for example, the FRC's 2019 consultation "Business Reporting of Intangibles: Realistic Proposals".

Key planning assumptions, constraints and timeline

Project timeline and resource capacity

21. As noted below this project is split into two phases, each with a number of milestones, and an overall expected duration of up to 3 years. The immediate focus is on understanding the reporting landscape for intangible assets in the UK and investors' views. Later work could extend this research into developing more comprehensive proposals to address those findings.

15 See Chapter 2: *Objective, usefulness and limitations of general purpose financial reporting*

22. This timeline would fit into the IASB's expected review of intangible assets, that is likely to be a long-term project commencing later in 2023. Therefore, we believe that the first phase of research could feed into the IASB's preliminary thinking by describing current reporting practice and investors' concerns. The second phase of the research could feed directly into an IASB project on Intangibles in 2024 or 2025.

23. We currently expect that the project would require input from the following technical staff:

    a) 40-50% of one accounting specialist project director on a consistent basis;

    b) up to 40% of a member of the economics team at various stages to support specific outputs; and

    c) 25% of a project manager on a consistent basis to support the project.

24. Production of regular outputs is important to retaining interest and momentum in the project over its lifetime, and is factored into the resource allocation. For example, one early output proposed is a paper addressing questions asked in EFRAG's Discussion Paper: *Better Reporting on Intangibles*. This will require significant activity in the first half of 2022.

25. It is also important to acknowledge that additional research opportunities and outputs could be identified or emerge while the project is underway. Any significant changes to the research outputs or timetable will be presented to the Board.

Assumptions

26. Once established, the UKEB's user and academic advisory groups will form a key part of any outreach. We may also be able to utilise the IASB's Investor contacts, along with the knowledge of our liaison IASB Board Member.

27. We do not plan on setting up an *ad hoc* external group at this point in time. However, a sub-group of UKEB Board members to provide ongoing advice would be useful. We believe a group of three or four Board members, including an investor and academic representative would be appropriate. They would be regularly consulted and appraised of progress on the project and would provide an important link back to the Board.

28. We will look to academics to support the research, in particular during Phase Two, to help identify alternative approaches to addressing the accounting for intangible assets. As noted, a future academic advisory group will play a key role in supporting engagement with academics. We would also look to bring academics and users together as part of some of the outputs discussed below and may consider commissioning empirical research, if appropriate.

29. It is expected that a number of the activities to be undertaken as part of this project will have synergistic opportunities to collaborate with and contribute to other UKEB projects. For example, there is overlap with the Goodwill and Impairment research currently being undertaken. We will actively look for ways to incorporate cross-sectional thinking and help ensure maximum impact for this thought leadership project.

30. We also see this project as an opportunity to engage with other NSS and international stakeholders (including the IASB). We will actively look to collaborate with others to enhance the research activities being undertaken and increase the impact of the work being done. Some of these opportunities are noted below, others will emerge over time.

Risks

31. Traditionally, it has been difficult to engage with investors. Though provision of information to investors is the focus of accounting information, the time scales involved in development of accounting standards makes it difficult to engage with this key stakeholder group as they are more focussed on what they are seeing today in financial statements.

32. Maintaining the momentum, consistency and quality of the project over a long period of time can be difficult. We intend to mitigate this by allocating a lead project director to the project with responsibility for coordinating the ongoing involvement of other members of the team at appropriate junctures.

33. The IASB's specific plans regarding the scope and timing of the intangibles project may not be known for some time. We are planning on the assumption we will be able to contribute to the early stages of the project. The UKEB project timelines and milestones will need to remain flexible in order to respond to developments at the IASB to ensure the UKEB outputs are timely and have maximum impact on the activities of the IASB.

Outputs

34. The research project is currently framed around two phases with five major outputs. Subsequent outputs are expected to build on preceding ones. Phase Two would be subject to a review of the preceding research, and any expectations around the timing and nature of the IASB's plans with regards to Intangible Assets. This would be an opportunity to develop additional or alternative outputs.

Phase One

Major Output 1 - Report on UKEB outreach on EFRAG research paper (Q1 2022 – Q1 2023)

35. In H1 2022 we will conduct outreach with UK stakeholders based on questions asked in the EFRAG research paper – Better Information on Intangibles. See summary of this paper in Annex A below.

36. The work will be based primarily on qualitative research involving gathering feedback from a range of interested stakeholders. This is expected to include both detailed discussions with interested individuals and broader survey type research. However, we also expect it to be informed by the initial qualitative work being undertaken as part of output 3 discussed below.

37. The IASB have requested that the UKEB contribute to their research on making material judgements[16]. This project provides an ideal opportunity to contribute the views of UK stakeholders and there is a clear link between the accounting for intangible items and the role of materiality. By their nature intangibles necessitate greater consideration of qualitative factors when assessing their materiality. We have explored this issue with stakeholders in interviews and the IASB has already expressed interest in seeing our findings.

38. We will seek to work with EFRAG on some outreach with stakeholders, including investors. For example, we are considering joint roundtables on specific elements of the EFRAG report.

39. We expect to publish a draft report on the outreach with an invitation to comment in September 2022, with Board approval of the final report in January 2023. This allows for a 90-day comment period on the report as per the draft due process handbook (paragraph 7.27).

Major Output 2 – Investor Outreach (Q1 2022 – H1 2023)

40. In 2022 a key focus will be engaging with investors to better understand their perspectives on the reporting of intangibles in the financial statements. This will take the form of a range of outreach activities including developing and administering an investor survey.

41. The focus of the outreach will be on understanding investors' information needs and practices. It will seek to examine:

    a) the intangibles investors consider as most important to their decision making;

    b) how well their information needs about intangibles are currently served; and

    c) investor views on the opportunities for improvement to the accounting for, and reporting of, intangibles in general purpose financial statements.

    d) some additional questions relevant to other UKEB projects that overlap with this work.

42. The survey development and analysis will be supported by the UKEB economics team and we will also explore opportunities to work with the FRC Financial Reporting Lab.

43. We will take a proactive approach to engaging with investors in the UK as we consider this a great opportunity to build connections with them.

44. We plan to publish a report summarising the key findings from the outreach in mid 2023. This report will summarise the feedback received as a result of the outreach undertaken. This is in the nature of a research paper that is intended to "contribute to wider discussions on cross-cutting issues in financial reporting". In accordance with the draft due process handbook (paragraph 7.11(c)) we do not therefore intend to

[16] IFRS - IASB call for research on Making Materiality Judgements

include an invitation to comment when this report is published, and hence it will not have a comment period.

Major Output 3 – Analysis of Intangible Reporting in the UK (Q1 2022 – Q1 2023)

45. In parallel with the first two major outputs we would also undertake an analysis of the reporting of intangible items in the annual financial statements of UK companies.

46. To better understand the current reporting on intangible items we will undertake a review of the nature and extent of current reporting in the UK. An analysis of current practices among listed UK companies using IFRS standards would allow examination of the accounting for intangibles (including capitalisation and expensing), along with associated disclosures. The analysis may also gather data that is useful for other projects being undertaken by the UKEB, including on goodwill and impairment.

47. This may also be an opportunity to engage with UK academics to support and enhance this research, for example by commissioning targeted empirical analysis. The UKEB may consider funding research through a competitive grant process to encourage and support appropriate research.

48. A multi-functional Secretariat team – including economist, academic and accounting technical – is likely to be needed for this work given the need to gather quantitative information which would then require comprehensive analysis.

49. We intend to publish a report in early 2023 that summarises the findings of the research. This report will summarise the feedback received as a result of the outreach undertaken. This is in the nature of a research paper that is intended to "contribute to wider discussions on cross-cutting issues in financial reporting". In accordance with the draft due process handbook (paragraph 7.11(c)) we do not therefore intend to include an invitation to comment when this report is published, and hence it will not have a comment period.

Phase Two

50. Phase Two would be subject to a new PIP to be presented to the Board in mid-2023. It is expected that additional outputs would be proposed, particularly in 2023 that would support the ongoing project, and any IASB activity in this area.

51. We also plan to engage directly with other National Standard Setters including EFRAG and the Australian Accounting Standards Board who are also planning to undertake extended research projects on the accounting for intangibles. This may provide the opportunity to develop collaborative research proposals.

Other Minor Outputs

52. In addition to the primary outputs highlighted above, we expect to publish other minor outputs that utilise work already being undertaken. These will be of varying degrees of formality and size and will be intended to publicise and maintain interest in the research work. Examples could include:

    a) Short articles on the UKEB Website and in other media.

b) Podcasts and videos highlighting aspects of research undertaken.

c) Regular short posts on UKEB social media.

d) Hosting and/or co-hosting topic specific events with a range of stakeholders.

e) Participation in events run by others in both the academic and user communities.

f) Contributions to research being undertaken by other National Standards Setters.

g) Supporting and contributing to a special issue in an Academic Journal.

53. These outputs would be expected to involve to varying degrees both the Secretariat and UKEB Board members. We will continue to explore other opportunities to collaborate with interested parties. We are aware of a number of organisations that are currently undertaking research, or considering undertaking research, in this area. In addition to the NSS activities already discussed, work being undertaken by Professional Bodies and others will also be relevant avenues for collaboration.

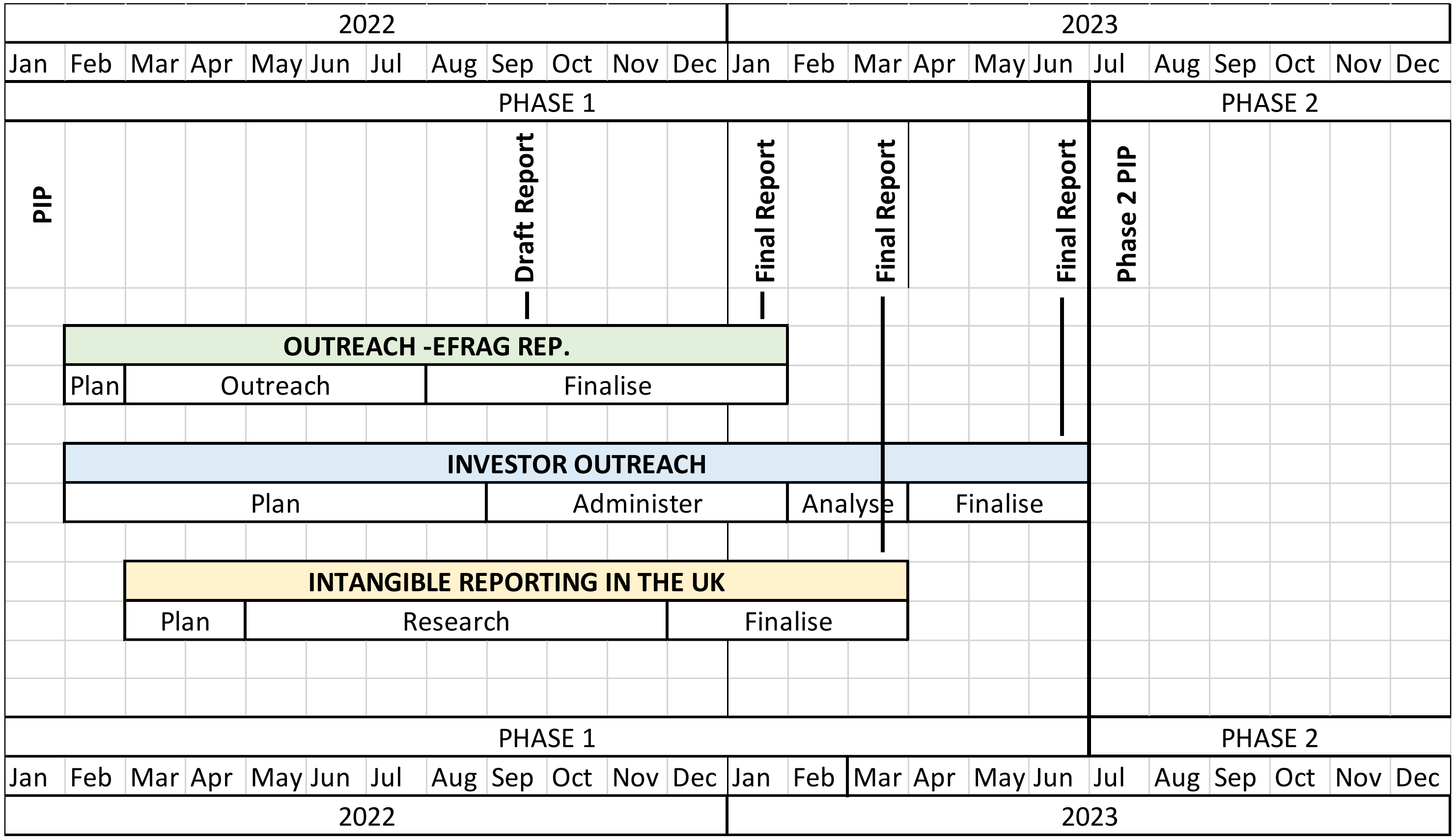
Project closure

54. Each output will comply with the expected due process requirements appropriate to the nature of the output.

Project timeline

55. The proposed high-level project timeline is as follows (a graphical representation is included on the next page). Note that dates are indicative only, and subject to revision as the project develops:

Date		**Milestones**
2022		
PHASE 1		
January		Project Initiation Plan
February		Commence Output 1 - Report on UKEB Outreach on EFRAG Research Paper Commence Output 2 - Investor Outreach
March		Commence Output 3 - Analysis of Intangible Reporting in the UK
July	**Board**	Approve Draft Report – Output 1
2023		
PHASE 1 – Cont.		
Jan	**Board**	Approve Final Report – Output 1
March	**Board**	Approve Final Paper – Output 3
June	**Board**	Approve Final Paper – Output 2
PHASE 2 (Subject to Approval of PIP)		
July	**Board**	Phase 2 Project Initiation Plan


2022
2023
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
PHASE 1
PHASE 2
PIP
Draft Report
Final Report
Final Report
Final Report
Phase 2 PIP
OUTREACH -EFRAG REP.
Plan
Outreach
Finalise
INVESTOR OUTREACH
Plan
Administer
Analyse
Finalise
INTANGIBLE REPORTING IN THE UK
Plan
Research
Finalise
PHASE 1
PHASE 2
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2022
2023

Annex A

Work being undertaken by others

National Standard Setters

1. The Australian Accounting Standards Board (AASB) is looking at the current requirements of IAS 38, with a focus on improved disclosure[17].

2. Given the focus of this research is on current requirements of IFRS Standards, and restricted to IAS 38, we expect limited overlap in any research project undertaken by the UKEB. While some of their findings may help inform our thinking, we expect to look much more widely at the issue.

3. EFRAG is undertaking a much larger project termed "Better Information on Intangibles"[18]. It has published a 70-page Discussion Paper outlining current issues and possible avenues for improvements of measurement and disclosure of intangible assets. The paper notes that the value relevance of financial statements is decreasing, which could be due to missing information about intangible assets. It considers three approaches for better information on intangibles:

   a) Recognition and measurement in the primary financial statements;

   b) Information on specific intangibles in the notes to the financial statements or in the management report; and

   c) Information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report.

4. The scope of EFRAG's discussions goes beyond the existing definition of assets in financial reporting and also covers sources of possible economic benefits that would not be controlled by an entity.

5. The work being undertaken by EFRAG is likely to be directly relevant to any UKEB research project. Given their focus on better information on intangibles it would be expected that this work may help inform proposals for alternative accounting presented to stakeholders for discussion.

6. We will also be able to utilise some of the background work EFRAG have already undertaken, such as their literature review.

17 Intangible Assets: Reducing The Financial Statements Information Gap (aasb.gov.au)
18 EFRAG research project on better information on intangibles - EFRAG

Academic and other research

7. There are a significant number of research papers looking at intangible assets. Presented here is a sample of a few of the studies that will contribute to this research project.

   - Amir Amel-Zadeh, Martin Glaum & Thorsten Sellhorn (2021): Empirical Goodwill Research: Insights, Issues, and Implications for Standard Setting and Future Research, European Accounting Review. This paper reviews the empirical literature on the determinants and decision usefulness of goodwill reporting.

   - Barker, Richard & Lennard, Andrew & Penman, Stephen & Teixeira, Alan. (2021). Accounting for intangible assets: suggested solutions. Accounting and Business Research. 1-30. 10.1080/00014788.2021.1938963. Drawing on relevant research, we evaluate solutions for intangible asset accounting that contrast with balance sheet recognition, and we compare these with current practice under IFRS.

   - Chalmers, Keryn & Clinch, Greg & Godfrey, Jayne & Wei, Zi. (2010). Intangible Assets, IFRS, and Analysts' Earnings Forecasts. Accounting and Finance. 52. 10.1111/j.1467-629X.2011.00424.x. We investigate whether the adoption of IFRS in 2005 by Australian firms has been associated with a loss of potentially useful information about intangible assets.

   - CPA Ontario (2021). You can't touch this: The intangible assets debate.

   - EFRAG (2020). A Literature Review on the Reporting of Intangibles.

   - Financial Reporting Council (2019). Business Reporting of Intangibles: Realistic Proposals.

   - Financial Reporting Council (2021). Feedback Statement: Business Reporting of Intangibles: Realistic Proposals.

   - ICAS (forthcoming). The Production and Consumption of Information on Intangibles: An Empirical Investigation of CFOs and Investors

   - Nichita, Mirela. (2019). Intangible assets -insights from a literature review. Journal of Accounting and Management Information Systems. 18. 10.24818/jamis.2019.02004. Research Question: How do researchers address the definition, measurement, recognition and potential of intangible assets to generate future economic benefits when a formal structure for reporting them is highly controversial?

   - Nwogugu, Michael. (2019). Intangibles Accounting Regulations and the "Global Intangibles Economy": Belief-Revision, Enforcement Theory and Financial Stability. 10.1057/978-1-137-44704-3_5.