



BUSINESS REPORTING OF INTANGIBLES: REALISTIC PROPOSALS

Issued 31 May 2019

ICAEW welcomes the opportunity to comment on the Business Reporting of Intangibles: Realistic proposals, published by Financial Reporting Council in February 2019, a copy of which is available from this [link](#).

We welcome the FRC's paper on the business reporting of intangibles which we believe is a helpful contribution to the ongoing debate in this area. We also welcome the practical approach taken in the paper which in our view has resulted in some interesting ideas being identified, particularly around narrative reporting.

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KEY POINTS

HELPFUL CONTRIBUTION

1. We welcome the Financial Reporting Council's paper on business reporting of intangibles. For many entities, intangibles are an important factor in the creation of value for their business, yet under the current reporting framework their value is not always reflected in the financial statements.
2. In recent years ICAEW has sought to contribute to the debate on the reporting of intangibles. Indeed, our 2007 Information for Better Markets (IFBM) conference was dedicated to the topic of intangibles. More recently, our 2017 IFBM conference was on the topic of *Corporate reporting: is it heading in the right direction?* As part of this conference Baruch Lev produced the academic paper *The deteriorating usefulness of financial report information and how to reverse it* which suggested that financial statements are no longer fit for purpose, with intangibles being a contributing factor.
3. We believe the FRC's paper is another helpful contribution to the ongoing discussion in this area, in particular the clear analysis of the underlying issues and the suggested solutions.

IMPROVED DISCLOSURE

4. We agree that there is scope for better disclosure around intangibles that have not been capitalised on the balance sheet and recognise the potential benefits of disclosing details of expenditure on 'future-orientated intangibles'. However, as already noted in the paper, how to distinguish intangibles expenditure that is expected to benefit future periods from that which is recurrent is a major challenge. Without clarity on this point, significant judgement would be required by management, which could lead to an unhelpful lack of comparability. In our view this is a significant challenge that would need to be explored further if taken up by standard setters as a possible way forward.

NEXT STEPS

5. We note that one of the aims of the paper is to develop practical proposals that can be expected to be implemented in the near future. We welcome this practical approach and believe the paper has identified some interesting ideas, particularly around narrative reporting. As a next step, it might be appropriate for the Financial Reporting Lab to carry out a project to experiment and assess best practice around narrative reporting of intangibles, as highlighted in the paper. In our view, obtaining evidence of what works well in practice and gathering user views would be a logical next step and a helpful contribution to this debate.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree that it is important to improve the business reporting of intangibles?

6. Yes. As noted in our comments above, intangibles are an important factor in the creation of value for many entities, yet under the current reporting framework their value is not always reflected in the financial statements. We welcome the FRC's contribution to the discussion around ways to improve the business reporting of intangibles.

Question 2

Do you agree that an intangible should be recognised at cost under the two conditions set out above in (i)?

7. We broadly agree with the discussion paper's analysis of the current recognition requirements of intangibles in accordance with the Conceptual Framework and IAS 38 *Intangibles Assets*. However, as discussed in our response to Question 5, we do not believe it is necessary at this stage to amend or clarify the recognition criteria for intangibles in accounting standards. Instead, we believe it would be more helpful to focus on ways to improve the narrative reporting of intangibles, as discussed in our responses below.

Question 3

Do you agree with the assumptions the paper makes regarding measurement uncertainty of intangibles

8. Yes. We agree with the analysis set out in paragraphs 2.15 to 2.29 of the discussion paper outlining the difficulties in measuring the value of intangibles.

Question 4

Do you agree that existing accounting standards should be revisited with the aim of improving the accounting for intangibles?

9. At this stage we believe the focus should be on finding ways to improve the narrative reporting and disclosure of information on intangibles rather than to revisit existing accounting requirements. That said, we recognise that the debate amongst academics, policy makers and other interested parties about the pros and cons of recognising a greater range of intangibles on the balance sheet is likely to continue, and may be influenced for example by developments in data analytics.

Question 5

Do you agree with the above proposals relating to expenditure of intangibles?

10. As noted above, we agree that there is scope for better disclosure around intangibles that have not been capitalised on the balance sheet and recognise the potential benefits of disclosing details of expenditure on 'future-orientated intangibles'. However, how to distinguish intangibles expenditure that is expected to benefit future periods from that which is recurrent is a major challenge. Without clarity on this point, significant judgement would be required by management which could lead to an unhelpful lack of comparability. In our view this is a significant challenge that would need to be explored further if taken up by standard setters as a possible way forward.

Question 6

Do you agree with the proposals aimed at improving the quality of information on recognised and unrecognised intangibles in narrative reporting?

11. Yes, we would welcome further investigation on the proposals aimed at improving the quality of information on recognised and unrecognised intangibles in narrative reporting. The

Financial Reporting Lab might also be able to assist in this research in order to experiment and assess best practice around narrative reporting of intangibles.

Question 7

What are your views about how the various participants involved in business reporting could or should contribute to the implementation of the proposals made in the paper?

12. As noted above, we believe this is an area where the Financial Reporting Lab could provide interesting insights from investors and preparers.

Question 8

Do you use additional information other than the financial statements when assessing and valuing intangibles? If so, can you please specify what additional information you use.

13. This question is not applicable to ICAEW.

Question 9

Do you have any suggestions, other than those put forward in this paper, as to how improving the business reporting of intangibles might be achieved?

14. We have no further comments at this stage.