

## Business reporting of intangibles: realistic proposals

Discussion Paper issued for comment by the Financial Reporting Council in February 2019

Comments from ACCA  
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Further information about ACCA's comments on the matters discussed here can be requested from:

Richard Martin  
Head of Corporate Reporting  
[richard.martin@accaglobal.com](mailto:richard.martin@accaglobal.com)  
+44 (0)20 70595748

Yen-pei Chen  
Manager, Corporate Reporting and Tax  
[yen-pei.chen@accaglobal.com](mailto:yen-pei.chen@accaglobal.com)  
+ 44 (0) 207 059 5580

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### ACCA



+44 (0)20 7059 5000



[info@accaglobal.com](mailto:info@accaglobal.com)



[www.accaglobal.com](http://www.accaglobal.com)



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

## GENERAL COMMENTS

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ACCA welcomes the opportunity to provide views in response to the FRC's Discussion Paper on the business reporting of intangibles. This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting.

The issue of the reporting of intangibles is a very challenging one and merits more attention than it currently receives. So we welcome FRC's paper in addressing it. On the one hand intangibles are of growing importance in corporate activity and on the other they do not fit very well in the current financial reporting model and other narrative forms of reporting of them could be improved and made more comparable and consistent.

We agree with the paper's promotion of better disclosures and narrative reporting of intangibles.

However the recognition of intangible assets cannot be ignored. The diverse nature of intangibles and the distinction between tangible and intangible items should be more fully explored, especially as concerns their recognition as assets. Arguably this paper moves too easily to the conclusion that in most cases recognition as assets is not a desirable way forward. In our view greater recognition of the investment in intangibles should be part of any reconsideration of the reporting of intangibles. It is a fundamental approach of accounting and financial reporting that expenditure to benefit the performance in future periods should be distinguished from that which is consumed in supporting current performance.

## AREAS FOR SPECIFIC COMMENT

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### ***Question 1***

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

Yes. The intangibles are of growing significance as has been demonstrated by a number of studies, but do not fit very well with current reporting as noted above.

ACCA and Deloitte have recently published a study on the accounting and reporting of R&D expenditure (available at <https://www.accaglobal.com/uk/en/professional-insights/global-profession/the-capitalisation-debate.html>) This study covering all available IFRS companies since 2005 indicates

- the low level of companies reporting any R&D activity at all in their financial statements

- that of those few that do, most expense all of the costs immediately, with the suspicion that this may represent a management policy decision rather than compliance with IAS38
- the disclosures associated with the predominant treatment are much less than when development costs are capitalised
- there is not extensive disclosure in the rest of the annual report to compensate for the low level of information in the financial statements

### **Question 2**

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

No. The conditions are too restrictive especially in respect of costs having to be estimated at the outset of a development project and cannot be exceeded even if the scale of the project and the potential benefits might change significantly. No such restriction exists for tangible items of property, plant and equipment for example.

In our view the standards should start from the position of applying comparable recognition conditions to all assets, as envisaged in the Conceptual Framework.

One reason for this is that the boundary between tangible and intangible assets is not always so clear. Software or TV programmes for instance are primarily in a digital (and so perhaps intangible) form but that may be stored on a tangible disc or other item. This aspect is not really explored in this paper.

Furthermore having identified in paragraph 1.4 the diverse nature of intangibles and that the different types may share few qualities in common, it would be helpful to assess any proposed recognition criteria against those different types. The paper appears to move swiftly to the conclusion that more extensive recognition of intangible assets is not a realistic proposal for any type of intangible. The paper discusses customer loyalty and a skilled workforce as examples of intangibles that would fail recognition criteria, but does not consider data about customers which is commonly thought to be the key driver of value for many businesses and which might better meet the criteria.

### **Question 3**

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

We agree that there are significant uncertainties involved with measuring intangibles, especially at fair value. However we consider these issues need further exploration and that this paper concludes too quickly that little progress can be made in terms of recognition and measurement and that only other routes are worth pursuing.

We note that in terms of cost measures it may well be that current accounting systems are less oriented to identifying the cost of intangibles than of other assets.

In terms of fair value we note that some of the issues identified in paragraph 2.2, for example the effect of synergies, are applicable to most tangible assets as well as intangible. Also the approach of IAS38 (in paragraph 2.23) in terms of assets acquired in a business combination is at variance with the conclusions of this paper. This discrepancy could be explored further.

#### **Question 4**

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

We agree.

The paper notes that the approach of IAS38 as regards intangibles separable from the goodwill might be reconsidered and so whether IAS38.34 and IAS38.63 constitute a coherent approach.

In addition we would note that other aspects of IAS38 might be similarly reassessed – for example whether the approach (the six tests) on development costs in IAS38.57 sets too high a bar on recognition as an asset, and whether the approach of not recognising any past expenses as part of any asset is appropriate (IAS38.71).

Overall IAS38 both in terms of disclosure and recognition should be revisited. In recognition terms we are aware that users' views vary on whether more recognition would be desirable. Some important stakeholders are very interested for example in the ownership and value of intellectual property and its taxation and transfer pricing. The question of intangibles in a business combination is part of the accounting for goodwill issue. The proper application of IAS38 currently is also a corporate governance issue. In common with many issues improving disclosures is not always a complete solution.

#### **Question 5**

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

Yes. As noted in our report on R&D, the current disclosures particularly of intangible expenditure written off as incurred are minimal and should be enhanced and provide greater analysis of the costs involved.

#### **Question 6**

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

Yes we agree. While sectoral standardisation of the metrics as suggested in paragraph 10(v) is desirable, experience suggests that it may be difficult to achieve.

**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?***

We agree with what is briefly covered in Section 5. It could have been worth acknowledging the efforts of different frameworks, guidance and standards in this area to improve the quality of information available that are entirely consistent with the paper's proposals.

