

# **The production and consumption of information on intangibles:** An empirical investigation of preparers and users

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## Foreword

The debate over the valuation and reporting of intangibles, and whether a compelling case exists for a change in the way they are reflected in corporate reporting, is by no means a new issue. Indeed, as the importance of service-based organisations, driven largely by data, information and intellectual property, has grown within the global economy, an increasing focus has been placed on the intangible drivers of value within companies and how these act as indicators of the future prospects and underlying value of a business.

This continuing debate on intangibles has occurred against a wider context: (a) concerns voiced over the relevance of financial statements to meet their dual objectives of providing relevant information for valuation and stewardship assessment purposes under the International Accounting Standard Board (IASB)'s Conceptual Framework for Financial Reporting; and (b) a contemporaneous exponential rise in sustainability reporting where 'value' is interpreted not just in traditional financial terms and relative to the interests of shareholders and investors but also from the much broader and more varied perspectives of other stakeholders impacted both financially and non-financially by companies' operations. This broader perspective is at the heart of the new EU Corporate Sustainability Reporting Directive (CSRD) and its foundational concept of double materiality.

Preceding the inclusion in July 2022 of a project on intangibles within the IASB's research pipeline, resulting from its Third Agenda Consultation, EFRAG decided to add a research project on better information on intangibles to its own research agenda in August 2018, which resulted in the issuance of the Discussion Paper 'Better information on intangibles - which is the best way to go?' in August 2021.

ICAS independently published a positioning paper and call for research on intangibles in September 2019. Although this was wider in scope – considering intangibles not only in the context of financial reporting but also broader narrative reporting – the reporting of KPIs and more comprehensive corporate reporting (e.g., integrated reporting and management commentary), the timing of the ICAS call complemented EFRAG's direction of travel. Under the ICAS call for research, two projects were selected for funding and support in 2020.

This large-scale research project, led by Stefano Zambon, Giuseppe Marzo and Stefano Bonnini from the University of Ferrara and Laura Girella from the University of Modena and Reggio Emilia, was thus funded by ICAS, and with support provided by EFRAG as well as the European Federation of Financial Analysts Societies (EFFAS) joining at this point. The project sets out to:

- Analyse the production processes and the disclosure approach for intangibles by a representative sample of European preparers;
- Investigate and understand the “consumption” processes of information on intangibles by the main capital market participants in European countries;
- Understand the reasons behind those classes of professionals (preparers or users) not wanting intangibles recognised.

As is invariably the case, and even more so with intangibles, there is no 'silver bullet' or a simple one-size-fits-all solution, and continuing focus and attention are required to determine how and where to provide more and better information on intangibles, as well as establishing the link between sustainability and intangibles reporting. Nonetheless, this project provides much needed empirical evidence on the preferences of users and preparers.

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Usual disclaimers apply. The responsibility for the contents of the report lies exclusively with the research team.

## Executive summary

### Study objectives and background

Notwithstanding their universally recognised importance in company management and value creation, information on intangibles is one of the most problematic areas in today's corporate reporting, since intangibles largely do not appear on financial statements or in related disclosures. Indeed, it is well known that there is little visibility on these resources, especially if intangibles are internally generated and developed and not externally acquired. Even though new reporting tools have recently been implemented by companies – such as sustainability and integrated reports – that could bring about the production of more information on intangibles outside financial reporting, these resources seem to remain still under-reported.

International Accounting Standard (IAS) 38 'Intangible Assets' is frequently pointed out as one reason for this reporting gap owing to its restrictive approach. Indeed, this International Accounting Standards Board (IASB) standard requires all internally generated intangibles not to be recognised on the face of the balance sheet, with the only exception – when certain conditions are met – of development costs. Only externally acquired intangibles can be recorded at cost or fair value. The majority of investments in internally developed intangibles – apart from certain development expenditures – are to be expensed immediately, resulting in an imbalance between assets (underestimated) and expenses (overestimated). This, in turn, may in that financial year depress – *ceteris paribus* – company profit and its accounting capital structure compared to the capitalisation of these expenses. This situation is particularly significant for research and knowledge-based companies.

In the last few years, the above issues have begun to re-attract the attention of various international accounting institutions and bodies. ICAS, EFRAG, EFFAS, FRC, EFAA, WBCSD, WICI and the French ANC<sup>1</sup> have run projects on better accounting and reporting on intangibles.

Even more importantly, the present research comes at a turning point in the institutional attention on the reporting of intangibles. In the proposed text of the revised EU Directive on sustainability reporting, published on 21 April 2021 and aimed at repealing Directive no. 95/2014, the European Commission introduces a provision requiring companies to report on intangibles that are currently outside the scope of financial statements and reports, explaining this with the necessity for a better understanding of the corporate value creation process.

In a similar vein, the 2021 Third Agenda Consultation carried out by the IASB has revealed significant interest by stakeholders in the topic of accounting for intangibles, resulting in the IASB adding a project on intangibles to its 2022 to 2026 research pipeline.

<sup>1</sup> Institute of Chartered Accountants of Scotland (ICAS), European Financial Reporting Advisory Group (EFRAG), European Federation of Financial Analysts Societies (EFFAS), Financial Reporting Council (FRC), European Federation of Accountants and Auditors for SMEs (EFAA), World Business Council for Sustainable Development (WBCSD), World Intellectual Capital Initiative (WICI), and the French Autorité des Normes Comptables (ANC).



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These recent developments also bring to the forefront the connectivity function played by intangibles between financial and non-financial information as the “integrating glue” between the elements and activities of an organisation.

Despite this recent and strong renewal of professional and institutional interest, it appears that thus far only limited evidence has been gathered with regards to how the two fundamental categories of preparers (i.e., Chief Financial Officers-CFOs, Chief Accounting Officers-CAOs) and users (i.e., professional investors and financial analysts) view the production and utilisation of intangibles-related information, especially on unaccounted intangibles.

What clearly emerges from an academic literature review commissioned by EFRAG on unaccounted – i.e., internally generated – intangibles (Zambon et al., 2020) is that there are critical gaps in our knowledge and comprehension of what measures and disclosures on unreported intangibles are considered crucial by the primary users of this information. Furthermore, the actual use of this elusive information – if and when available – and the perception of its decision-making relevance and its stewardship function, are other topics that remain to be better understood.

As for preparers, what is the perceived importance of information regarding the different classes of unaccounted intangibles (separable and inseparable, marketable and not marketable)? What would CFOs think about increasing the level of information on their company intangibles and for which of them exactly? Would they be in favour or against it?

### Research Questions

The research questions that this research aims to address are:

- What are the measures and disclosures on unreported intangibles that are considered useful for decision-making and assessments by users of this information?
- What are the measures and disclosures on unreported intangibles that are considered useful for decision-making and assessments by preparers on information on unaccounted intangibles?
- To what extent do the views expressed by preparers and users depend on the personal and professional profile of the respondents?

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### Summary of research approach

From a methodological standpoint, the project has been divided into two phases: one based on an international survey, and one on discussions with two focus groups composed of, separately, “users” and “preparers”. The members of the focus groups were contacted with the assistance of ICAS, EFRAG and EFFAS. The data obtained from the survey was analysed through descriptive statistics, while that resulting from the focus groups by means of in-depth reading of the meeting transcripts. The rationale for adopting this methodology relies on the complementary nature of these two tools.

A cornerstone of the research was therefore the elaboration of a survey, articulated around four sections and based on three different case studies. The last section of the survey was different according to which case study had been allocated to respondents (see Appendix 1). Case studies were randomly assigned. The survey also included the possibility of providing additional information through commentary boxes at the end of numerous questions.

The case studies were differentiated along the following lines:

- *Case Study 1:* A standard IFRS-based financial report, composed of balance sheet, income statement and some selected notes, of which one relates to the amount of R&D expenditures<sup>2</sup>;
- *Case Study 2:* A financial report essentially based on IFRS but with the internally generated intangibles of the company measured at fair value and included in the balance sheet, whilst the notes are enriched to provide details on this non-IFRS data;
- *Case Study 3:* A standard IFRS-based financial report, composed of balance sheet, income statement and some selected notes, which are supplemented by a number of non-financial information/measures/KPIs regarding strategy, business model, stakeholder engagement, internally generated intangibles of human, organisational and relationship nature, and the related risks and opportunities.

The rationale was to test the preferences of users and preparers on differentiated reporting information regarding intangibles. Data obtained from the online survey(s) was analysed through descriptive statistics to study the effect of some factors (personal and professional characteristics of the respondents, and/or case studies carried out) on response variables.

<sup>2</sup> Please note that point c) of the related case study includes between brackets two pieces of information that are not required by IAS 38 but that in many jurisdictions and industries are published on a voluntary basis.

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In the second stage of the research, two international focus groups of 16 to 17 experts, one made up of “users” and one of “preparers”, were set up to explore in greater depth the most contentious issues that emerged from the surveys. For the first meetings of the focus groups, selected general questions appearing in the survey were prepared and submitted to the members of the two groups. The selection of the questions was driven by the analysis of the results of the survey, which allowed the team to identify the most controversial and divisive topics to discuss with the users and preparers. For the second meetings of the focus groups, a consolidated version of the three case studies was produced and administered to the two groups. Participants were also asked some of the more complex and debatable specific questions, which composed the 4th part of the survey (cf. supra). The selection of these questions was also made on the basis of the most critical results emerging from the survey.

In total, 314 individuals participated in the survey: 20.7% as ‘preparers’ (e.g., CFOs, CAOs), 22.6% as ‘users’ (financial analysts and investors), and 56.7% as ‘other’ (auditors, professionals, academics, members of an institution). For preparers, 52.3% were working in an unlisted company, 32.3% in listed companies, and 15.4% in ‘other’, while 43.1% were operating in a large company, 35.4% in SMEs, and 21.5% in ‘other’. As for users, buy-side analysts represented the majority (39.4%), followed by fund managers (29.6%), ‘other’ (23.9%) and sell-side analysts (9.9%)<sup>3</sup>.

### Main findings

#### General questions

From the analysis conducted on 12 general questions<sup>4</sup> in the survey, two major trends can be noted. Firstly, intangibles are generally perceived to be a fundamental component of corporate reporting that is currently lacking. Secondly, in most cases, the *current professional occupation* tends to influence the responses provided, whilst other factors (age, educational background, etc.) do not have an impact, with the exception of age that appears influential on the cost-benefit assessment of information, and the need for auditing of intangibles-related information.

The major points of divergence between preparers and users are the relevant **categories of intangibles** that are recognised as missing from today’s financial reporting, the **measurement** basis of this information, and the extent to which there is an **overlap between ESG and intangibles**.

<sup>3</sup> Please note that in two cases the respondent ‘users’ have indicated more than one option.

<sup>4</sup> The general questions were common for all respondents, and not related to the allocated case study.

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**Preparers** tend to privilege information on ‘human capital’ and ‘intangibles-related risks and opportunities’ and these are also the intangible items that received the highest scores in terms of preference for a financial measurement together with ‘corporate reputation and image’, ‘customer list’, and ‘intellectual property (IP) and know-how’ (see Appendix 3). In regard to the preferred measurement basis, ‘cost’ is the favoured one for ‘R&D’, ‘software and information systems’, and ‘training’; the fair value has been indicated as the major option for ‘brand(s)’, ‘corporate reputation and image’, ‘IP and know-how’, ‘customer list’ and ‘intangibles-related risks’; and the value in use for ‘human capital’. As for organisational capital, there is not a clear preference expressed for its preferred measurement basis (all three options received equal number of preferences).

**Users** indicate that ‘IP and know-how’ are the most relevant categories of information missing, and that financial measurement is the preferred option for these items, followed by ‘brand(s)’, ‘intangibles-related risks’, ‘human capital’ and ‘R&D’. More specifically, cost is the favourite measurement basis for ‘R&D’, ‘software and information systems’ and ‘training’; fair value for ‘brand(s)’ and ‘IP and know-how’, ‘organisational capital’ and ‘customer list’; and value in use for ‘human capital’, ‘corporate reputation and image’ and ‘intangibles-related risks’.

It is interesting to observe that **most of the views regarding the preferred measurement basis by preparers and users overlap**, with the exception of ‘organisational capital’ (which for users should be at fair value), ‘corporate reputation and image’ (at fair value for preparers and at value in use for users), and ‘intangibles-related risks’ (at fair value for preparers and at value in use for users).

In terms of overlap between ESG and intangibles, users tend to share the viewpoint that it exists, while preparers are less convinced.

Notwithstanding these differences, a convergence of opinions between users and preparers exists with reference to the **positioning of intangibles-related information, the current framework(s)/standard(s)** for its measurement and disclosure and the **form of disclosure**.

Furthermore, in terms of positioning, a convergence of both preparers and users is found on the location of this information in the ‘Supplementary notes to financial statements’, ‘Non-Financial reporting statement according to the Non-Financial Reporting Directive’, and ‘Integrated Report’. As for the current framework(s)/standard(s) for the measurement and disclosure of this information, both users and preparers indicate a preference for a revised version of IAS 38 with a less conservative approach to recognition of intangibles as assets, the EU Non-Financial Reporting Directive (NFRD)/Corporate Sustainability Reporting Directive (CSRD), and the International <IR> Framework (2021). Finally, the form of disclosure on which a convergence amongst users and preparers was found relates to a combination of narrative, KPIs and financial figures.

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To summarise, in relation to the analysis conducted on the general questions the key findings are:

- In most cases, the current professional occupation significantly influences the responses provided, whilst other factors (age, educational background, etc.) do not have an impact, with the exception of age that appears influential on the cost-benefit assessment of information, and the need for auditing of intangibles-related information. There is an agreement that there is generally not enough information provided, although which exact categories should be reported upon vary between users and preparers.
- The cost-value benefit of providing this information is more of a concern to preparers than users although both agree that commercial sensitivities are not a major issue.
- All agreed that information should best be reported through a combination of KPIs, narrative disclosures and financial numbers, although the preferred basis for measurements varies between preparers and users. Both sets of respondents however agree that measurement basis should be driven by the types of intangibles considered.
- Users and preparers agree that positioning is best in supplementary notes, integrated reports or non-financial statements, and that some level of standardisation would be welcome. They agree generally with regards to the need for auditing, but no firm result emerged in relation to positioning vs. ESGs.

### Specific intangibles-related questions

In the light of the results obtained from the general questions (e.g., professional occupation as a major driver affecting responses), the analysis of the results from the specific questions which are linked to the three case studies was carried out from the two different perspectives of users and preparers, to better understand whether professional occupation also affected those responses. In addition, the effect of the case study on the type of response provided by participants was also statistically tested. Finally, possible interaction effects between professional occupation and case studies were investigated.

The results from the analysis of the specific questions can be split into three main findings. With reference to the principle of **decision usefulness and stewardship** in relation to specific information, preparers and users have a divergent behaviour. Users have a more optimistic vision than preparers. Divergence is also found with reference to the treatment of intangibles in the three case studies: preparers privilege case study 1 (traditional IFRS financial statements) while users prefer case study 3 (traditional IFRS financial statements supplemented with KPIs and narratives). As for the **usefulness of information on detailed categories of intangibles**, “stakeholder engagement” information in case study 3 (the only case study showcasing this particular intangible) is the only category of intangibles that

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is preferred by preparers over users. For all the other categories of intangibles, users are more interested than preparers in information on these resources. Furthermore, it is found that the *usefulness of information on intangibles is statistically correlated to the professional occupation* (preparers vs. users) and not to case studies; only ‘software and information systems’ does not depend on the professional occupation, but the case study addressed.

However, some inconsistencies in the preparers and users’ responses across case studies exist. *Case study 1* (IFRS only) is perceived as *the most useful by preparers* for intangibles-related information over the other two, while this case study is the one that provides *the least information on intangibles*. Expectations were that the request for more information would have declined going from case study 1 to case study 3 owing to the larger information set progressively delivered in the annual report. This is true with reference only to four categories of information (business model, customer satisfaction/loyalty, customer list, and corporate reputation).

Also, in terms of metrics, a general divergence of opinions emerges between users and preparers, with exceptions for some categories of KPIs (brands, R&D, software and information systems, strategy and planning, business model, training, and human capital). Finally, preparers and users also expressed an *appetite for more specific measures and KPIs* in addition to those proposed in the survey, especially those relating to business model, relationships with suppliers, training, organisational culture and climate.

### Implications of findings and recommendations

From the results presented above, some recommendations and implications for standard setters and policy makers can be proposed for consideration.

**Professional role played by individuals and company size.** Standard setters should be aware that intangibles-related information is sensitive to the professional role played by individuals and, for preparers, also to the size of the organisation. There appears to be a need for guidance and incentives for companies/preparers, who may need more support than users, taking into account the greater reluctance and the more acute inconsistencies shown in their responses. The number of respondents from SMEs and unlisted firms was relatively high. Hence, if standard setters intend to require entities to disclose intangibles-related information, then the standards should consider reflecting the diverging views and information needs of preparers and users as well as the size of company preparers are operating in. Indeed, SMEs and unlisted firms could have less incentives and probably more competitive costs than larger and listed companies to disclose intangibles information. Accordingly, in the first instance, standardised intangibles-related disclosures may be required only from large-sized and listed firms. For SMEs, a voluntary adoption, with focused incentives to do so, could prove more effective.



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### **Reporting tools and positioning of intangibles-related disclosures matter.**

There appears to be a tendency from respondents to see these disclosures as consistent with supplementary information to financial statements. The preference is for that information to be located in one single document, in general financial reports but also integrated reports. Furthermore, intangibles represent a vast family composed of resources that are internally widely differentiated and with different characteristics. Some have a legal recognition (brands, IP, know how), some others are clearly known and existing but are not recognisable as accounting assets (e.g., human capital), and some others are unstable conditions (e.g., reputation, customer relationships). Accordingly, this may suggest the requirement for information on intangibles to be differentiated in terms of its formats and tools, i.e., this information need may be best satisfied by a combination of, on one side, an evolution of accounting rules (e.g., R&D), and, on the other, ad hoc non financially-expressed disclosures especially where accounting rules cannot accommodate this information in financial reporting because of the current conceptual frameworks and standards definitions. In this respect, there is a need to reconsider the definition of IAS 38 which does not correspond to that in the IASB Conceptual Framework (IASB April Staff paper 2022, 24A, para. 37(i), p.12). A parallel need also exists to review the recognition criteria for internally generated intangibles (IASB April Staff paper 2022, 24A, para. 37(ii), p.12). For example, in its “Intangibles Reporting Framework” WICI (2016) poses at the basis of the recognition of intangibles in corporate reporting their “availability” to the entity, and not the “control” on them as the IASB Conceptual Framework does for recognising an accounting asset. For instance, research expenditures produce knowledge available to the organisation, but this knowledge cannot be generally considered as an accounting asset because this knowledge does not correspond to the relevant recognition criteria, unless it transforms into a patent or another recognisable asset.

**Categories of intangibles.** The wide acceptance and recognition by preparers and users of the need for information on intangibles may pave the way for policymakers towards gradually mandating intangibles-related metrics and disclosures in relation to the different categories of intangibles.

Many voices of dissatisfaction were heard during the focus groups on the treatment of intangibles in IAS 38 and IFRS 3. A significant level of support was also uncovered in favour of a specific audit standard focussing on the assurance of intangibles-related measures and disclosures. Furthermore, it is crucial to clarify the role of intangibles information in relation to ESG information. Despite a lack of general consensus, the two sets of disclosures are recognised by many users and some preparers as overlapping, which may be, on the one side, an important element of the emerging corporate reporting landscape (cf. the aforementioned proposed

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European Commission’s ‘Corporate Sustainability Reporting Directive’(CSRD)), but, on the other side, an approach that may reduce and confuse the autonomous role and relevance of intangibles in the company value creation processes. From this, there may be a need for more research and a better understanding of the respective roles and the connectivity between intangibles and ESG.

Overall, as a general conclusive remark it can be observed that what seems to emerge from the evidence gathered from this research, is that information and reporting on intangibles is an area of increasing concern to preparers and users, and perhaps not only to them. Accordingly, policy makers and standard setters are very likely to be confronted with this information need, considering also the differentiated sensitivities on this topic between preparers and users that have clearly emerged from this exercise. In particular, policy makers and standard setters will also have a decisive role not only in guiding this process, but also in assisting companies and market operators to feel better equipped to prepare and analyse the information on these special and largely elusive – though crucial – resources. The direction of travel is settled, but not yet the pathway.





# 1. Introduction and background: a rising “intangible(s) problem”

It is a common understanding that intangibles are fundamental resources for explaining companies' value creation and that they are critical to foster entities' resilience and growth over the medium to long term.

Intangibles have been generally defined as the *'non-physical resources which either alone or in conjunction with other tangible or intangible resources can generate a positive or negative effect on the value of an organisation in the short, medium and long term'* (WICI, 2016).

Notwithstanding their universally recognised importance in company management and value creation, information on intangibles is one of the most problematic areas in today's corporate reporting, since intangibles largely do not appear on financial statements or in the related disclosures<sup>5</sup>. There is therefore little visibility on these resources, especially if intangibles are internally generated and developed and not externally acquired. Even though new reporting tools have recently been implemented by companies – such as sustainability and integrated reports – that could bring about the production of more information on intangibles outside financial statements, these resources seem to remain under reported. In short, information on intangibles inside and outside financial statements remains limited.

According to a large and consistent body of literature (e.g., Lev, 2000; Zambon et al., 2020), IAS 38 'Intangible Assets' is frequently pointed out as one reason for this reporting gap owing to its restrictive approach (see paras. 63 and 64, IAS 38). Indeed, this IASB standard requires all internally generated intangibles to not be recognised on the face of the balance sheet, with the only exception – when certain conditions are met – of development costs. Only externally acquired intangibles can be initially measured at cost, which corresponds to purchase price in case of a specific acquisition or to fair value if an intangible is acquired in a business combination (IFRS 3). All the investments in internally developed intangibles are to be expensed immediately, creating an imbalance between assets (underestimated) and expenses (overestimated), which in turn depresses that year-end's profit and the company's accounting capital structure compared to their capitalisation. This situation is particularly significant for research and knowledge-based SMEs (cf. European Commission, RICARDIS Report, 2006).

Similar issues can also be noted regarding companies' integrated reports, where intangibles-related capitals (intellectual, social and relationship, and human) are generally under-represented owing to the lack of ad hoc information and metrics.

<sup>5</sup> This is because:

- the vast majority of internally generated intangibles do not appear as such on the face of the statement of financial position;
- the expenditures linked to specific intangibles do not appear as such, in a clear and distinct way, on the statement of financial performance; and
- the related disclosures are scant, if not absent, and in any case largely insufficient.

# 1. Introduction and background: a rising “intangible(s) problem”

As a consequence of this situation, the last twenty years or so have seen several academic and institutional pleas for an enhancement of information on intangibles. Actually, since 2018 interest in the enhancement of information on intangibles seems to have accelerated, with the above issues having begun to re-attract the attention of various international accounting institutions and bodies. ICAS, EFRAG, EFFAS, FRC, EFAA, WBCSD, WICI and the French ANC have started projects on better accounting and reporting on intangibles.

For example, in August 2019, ICAS issued a publication titled “Intangibles”, which combined a positioning paper and a call for research aimed at stimulating the submission of proposals directed to unveil and explore how organisations do and could report information on those resources. Grounded largely on literature findings, the ICAS position paper maintains that, despite a large amount of research on intangibles, these resources are still ‘problematic’ from a reporting standpoint. Indeed, although a large amount of accounting and reporting literature deals with intangibles, many different aspects still call for further analysis and deeper understanding.



## 1. Introduction and background: a rising “intangible(s) problem”

Similarly, in 2018, EFRAG inaugurated its “Better Information on Intangibles” project which resulted in the commissioning of an ad hoc academic literature review on the subject area and setting up an “Advisory Panel on Intangibles” (API) (<https://www.efrag.org/Activities/1809040410591417/EFrag-research-project-on-better-information-on-intangibles#>). Again, the EFRAG Project Task Force on “Non-Financial Risks and Opportunities and the linkage to Business Model”, which has just finished its work, has adopted the approach that intangibles should be reported together with sustainability when disclosing information about non-financial risks and how they are linked to the **business model**. Lastly, at the end of August 2021, EFRAG has issued a Discussion Paper (DP) on “Better information on intangibles – Which is the Best Way to Go?”, where it recognised an asymmetric treatment of intangibles in IAS 38 and suggested a package of possible solutions to deal with these resources, acknowledging that intangibles are a large family that internally has different features, and questioning whether it should be considered as a “one size fits all”. As a potential approach, EFRAG’s DP considers modifications of the recognition requirements in IAS 38 and future disclosures of the entity’s intangibles and risks and opportunity factor. (EFRAG, 2021 – <https://www.efrag.org/News/Project-522/EFrag-Discussion-Paper-Better-information-on-intangibles-which-is-t>).

In turn, EFFAS has actively contributed to the international debate through its Commission on ESG (CESG) and its participation in the WICI Global Network, WICI Europe and the “WICI Intangibles Reporting Framework” (2016).

In addition, the IASB and the FASB are exploring issues linked to accounting for intangibles. In particular, the IASB is currently addressing the topic of disclosure on intangibles within its ongoing Management Commentary project, which is at the Exposure Draft phase (<https://www.ifrs.org/projects/work-plan/management-commentary>).

Even more importantly, the present research comes at a turning point for the institutional attention on the reporting of intangibles. In the recent stakeholder survey, launched by the European Commission on the revision of the EU Directive no. 95/2014 on non-financial information, over 60% of the responding users (investors/financial analysts) asked for more information on intangibles.

Possibly as a result, in the proposed text of the revised EU Directive on sustainability reporting published on 21 April 2021 which aimed at repealing Directive no. 95/2014, the European Commission introduces a provision requiring companies to report on intangibles that are currently outside the scope of financial statements and reports, explaining this with the need for a better understanding of the value creation process. Consistently with the premise for this research illustrated above, point (28) of the preamble of the proposed new EU Directive clearly states:

## 1. Introduction and background: a rising “intangible(s) problem”

“It is widely recognised that information on intangible assets and other intangible factors, including internally-generated intangibles, is underreported, impeding the proper assessment of an undertaking’s development, performance and position and monitoring of investments. To enable investors to better understand the increasing gap between the accounting book value of many undertakings and their market valuation, which is observed in many sectors of the economy, adequate reporting on intangibles should be required. It is therefore necessary to require undertakings to disclose information on intangibles other than intangible assets recognised in the balance sheet, including intellectual capital, human capital, including skills development, and social and relationship capital, including reputation capital. Information on intangibles should also include information related to research and development.”

Moreover, at the proposed art. 1, section 2, intangibles are defined as “non-physical resources that contribute to the undertaking’s value creation”, whilst at art. 19a the proposed text prescribes that “Undertakings shall also disclose information on intangibles, including information on intellectual, human, and social and relationship capital.”

The above vision according to which intangibles are also to be associated with information on sustainability sheds light on another important feature of these resources: their prominent role in bridging financial numbers and ESG disclosures, because of their capacity to perform as the “connecting glue” of an organisation and its activities. By amending the WICI Intangibles Reporting Framework figure (WICI 2016, Fig. 1.1., p. 7) the connectivity function of intangibles between financial and non-financial information can be clarified and visualised as in Figure 1. As previously mentioned, intangibles are defined as ‘non-physical resources that generate value to the organisation in the short, medium and long term’ (WICI Intangibles Reporting Framework, 2016, p. 11).

# 1. Introduction and background: a rising “intangible(s) problem”

**Figure 1 - Connectivity function of intangibles between financial and non-financial information**



Source: Adapted from the WICI Intangibles Reporting Framework (2016), p. 7

Despite this recent strong renewal of professional and institutional interest, it appears thus far that only limited evidence has been gathered on how the two fundamental categories of preparers (i.e., CFOs, CAOs) and users (i.e., professional investors and financial analysts) view the production and utilisation of intangibles-related information, especially on unaccounted intangibles.

What clearly emerges from an academic literature review commissioned by EFRAG on unaccounted – i.e., internally generated – intangibles (Zambon et al., 2020) is that there are critical gaps in our knowledge and comprehension of what are the measures and disclosures on unreported intangibles considered as crucial by the primary users of this information. Furthermore, the use of this elusive information – if and when available – and the perception of its decision-making relevance and stewardship function, are other topics that remain to be better understood. A similar question also applies to the information on intangibles that is published in financial statements, such as R&D and training expenditures, but that it is treated as an expense rather than an investment.

In this respect, further questions arise. What is the perceived importance by preparers of information on the different classes of unaccounted intangibles (separable and inseparable, marketable and not marketable)? What would CFOs think about increasing the level of information on their company’s intangibles and for which ones exactly? In their view, what are the technical, managerial and political difficulties in producing this type of information or for using a different classification (e.g., R&D and training expenditures)? What might be the opportunities?

# 1. Introduction and background: a rising “intangible(s) problem”

Even though new reporting tools have been implemented recently by companies, such as sustainability and integrated reporting, which should drive the production of information on intangibles outside financial statements, do they think that these resources remain under reported as yet?

In parallel, we only have limited evidence from previous studies as to how investors and financial analysts view and employ information on intangibles, especially on unaccounted intangibles. In this respect, could the availability to users of more information on intangibles that is today “invisible”, make a difference to their decision-making and assessments? Would this extra information produce a different (e)valuation of company value and management stewardship?

This research aims to address the above crucial information gaps affecting current company reporting. The research is run by a research team of the Department of Economics and Management of the University of Ferrara and is jointly supported by ICAS, EFRAG and EFFAS.

The research aims to provide evidence and to hear the opinion of preparers and users on the usefulness of information on a wide spectrum of intangibles, and particularly those which are not included (unaccounted and unreported) in today’s financial reporting. In this respect, the research will address the topic of the production and consumption of the under reported information on a large variety of intangibles, focussing specifically on two main general issues:

- the accounting treatment of certain intangibles-related expenditures, such as R&D and training, in financial reporting; and
- the measurement and disclosure of unaccounted/internally generated intangibles in financial reporting.

In this respect, the research questions aim to address:

- What are the measures and disclosures on unreported intangibles considered useful for decision-making and assessments by users of this information?
- What are the measures and disclosures on unreported/unaccounted intangibles considered useful for decision-making and assessments by preparers of this information?
- To what extent do the positions expressed by preparers and users depend on the personal and professional profile of the respondents?

At this critical juncture of re-consideration of intangibles-related information in corporate reporting, this empirical research therefore aims to provide relevant evidence and inputs not only to academic research but also, and perhaps more importantly, to policy making in this controversial area.



# 1. Introduction and background: a rising “intangible(s) problem”

The research deals with large and listed companies as well as SMEs (listed and non-listed). It does not concentrate on traditional accounting only but also considers non-financial/narrative information on intangibles intended as corporate value drivers (creation/destruction of value for the business).

The remainder of the paper is structured as follows. The next section briefly outlines some of the academic literature that investigates for whom this type of information is useful, what type of intangibles-related information is useful and where this information is reported. In section 3, the research methodology is described. In section 4, the research findings are provided and discussed, whilst section 5 provides recommendations and policy implications. Limitations and future research suggestions sections bring the paper to a close.

A Glossary to clarify the key-terms utilised has been included at the end of the text and before References.

Appendices 1 to 3 can be accessed separately on [icas.com](http://icas.com). In Appendix 1, the three surveys including the associated case studies are reproduced. In Appendix 2, only the three case studies are featured. In Appendix 3, the statistical Tables and Figures corresponding to each question have been included for reference, following the order of the questions presented in the surveys.- the related disclosures are scant, if not absent, and in any case largely insufficient.

## 2. Literature review

The literature on accounting for intangibles and their impacts on users is wide and long-standing (see Garanina et al., 2021; Zambon et al., 2020; Zéghal and Maaloul, 2011), referring to subject areas such as business combinations and purchase price allocation (PPA) as well as transfer pricing. In this perspective, it has been found that in business combinations, following IFRS 3 and SFAS 141, the excess of the purchase price over the fair value of a target's assets and liabilities must be allocated separately to an additional intangible identified as assets or goodwill. The decision to allocate the excess of price to tangible and amortised assets reduces earnings, while the decision to allocate that excess to indefinite-lived intangible assets or goodwill does not have any impact on earnings unless impairment losses occur. Allocation to goodwill is preferred by firms with more discretion in assessing goodwill impairments and greater uncertainty in available information on intangibles (Zhang and Zhang 2017; Koonce, Toynbee, and White 2021). Allocation to goodwill results in more frequent impairments causing negative stock reaction (Bens, Heltzer, and Segal 2011; Li et al. 2011; Paugam et al. 2015). Managerial incentives have a role in the decision, as managers with earnings-based compensation could benefit from reducing the allocation to amortising assets (Shalev, Zhang, and Zhang 2013). In addition, the valuation and the location of intangibles in transfer pricing is another relevant issue. Multinational companies, in fact, frequently locate intangibles in low-tax countries in order to reduce their effective tax rate (De Simone et al., 2017; Blouin et al., 2018). Borzowski (2001) also found that 25% of companies interviewed use methods for the valuation of intangibles differently than those accepted by the Organisation for Economic Co-operation and Development (OECD) or the United States (US).

In order to be consistent with the research questions above, the present review prefers to focus on the reporting of individual intangibles (other than goodwill and without considering valuation issues linked to PPA and/or transfer pricing) seeking to assess the views of, and the impact on, users and preparers of this information. It is possible to identify three main streams of research that have so far been undertaken in this area of intangibles literature. The first refers to the usefulness of this type of information and in particular the group of stakeholders that it may interest. Within this stream, three main groups have been identified: a) preparers, b) users, and c) others, such as academics and auditors. A second, but related, stream of research has instead focused on the 'what' type of question, namely what information is relevant, either in terms of the proposed three categories that compose intangibles human capital (HC), organisational capital (OC) and relational capital (RC) (MERITUM, 2002), and/or more specifically the single items, such as the business model and IP, etc. to different groups of stakeholders. The third is linked to the positioning of this information in the traditional financial statements, notes, or in corporate reports (understood here as integrated report).

## 2. Literature review

### 2.1 The usefulness of intangibles-related information: the stakeholders' view

#### *Preparers' view on the usefulness of intangibles-related information*

Since the first proposals of intangibles-related information were put forward in the late 1990s, academics have been interested in investigating their perceived usefulness from the perspective of preparers.

In the UK, Hall (1992) examined the relevance of a company's reputation on its business success from the viewpoint of chief executives. To do so, it focussed on three main categories of intangible resources, namely those that are 'assets and people independent', 'dependent' and those that are 'skills and people dependent'. Through a national survey of chief executives, it resulted that company reputation, product reputation, and employee know-how are the most relevant as well as the most difficult ones to replace. Thus, they are the resources that can contribute to the sustainable competitive advantage of a company.





## 2. Literature review

Some years later, Roslender and Fincham (2003), Holland (2004; 2006) and Unerman and Guthrie (2008) also took an 'inside perspective' in analysing the usefulness of intellectual capital and found that managers are generally aware of the relevance of this type of information. A similar relevance of human capital was also observed by Miller et al. (1999) in Canada. In investigating the perception of managers operating in four companies belonging to different industries, they found that a heavy emphasis is placed on human capital indicators regardless of the industry, while the reporting of customer-related information can be dependent on the customer-intensity focus.

Moving to the South African context, especially in the area of mining, April et al. (2003) analysed the measurement and reporting practices of the twenty largest listed companies, both through an analysis of their annual reports and also via interviews with senior managers. Despite IC-related information being rated highly, mining companies tend to report less than organisations operating in other industries, with a focus on external, relational capital. A similar tendency has been recently found in Egypt by Ahmed and Hussainey (2010). Notwithstanding the relevance managers and auditors place on this type of information, the lack of a specific national regulation, combined with no managerial experience and auditors' professional education, can inhibit measurement and reporting.

### *The users' views on the usefulness of intangibles-related information*

Compared to preparers, to date very few papers have been developed on the usefulness of intangibles-related information from the eyes of users. With particular reference to R&D, Goodacre and Mcgrath (1997) investigate whether UK investment analysts adopt a mechanist approach to earnings numbers or behave myopically when confronted with different ways to account for R&D expenditures. Results indicate that they are neither mechanist nor myopic and investments in R&D are well perceived. Barth et al. (2001) have examined the relationship between analysts' coverage, in terms of the number of analysts covering a firm, and intangible assets. In other words, they have investigated whether the presence of intangible assets in a firm can influence the willingness of analysts to follow it. This is because being unrecognised in financial statements and in the absence of analyst coverage, firms with more intangible assets would likely have less informative prices. Results obtained indicate that firms and industries with higher research and development costs and firms with higher advertising expenditure have greater analyst coverage. In addition, analyst coverage is greater for firms requiring less effort to follow and with greater analyst-perceived residual mispricing. Hsu and Chang (2011) have focussed their analysis on intellectual capital disclosure and analysts' forecasts. In a sample of 99 Taiwanese high-tech industries, their analysis demonstrated that voluntary

## 2. Literature review

disclosure of intellectual capital can facilitate the analysts' forecasting process, especially if the value of the intellectual capital is not easily verifiable. In Tunisia, the study by Ferchichi and Paturel (2016) revealed that there is awareness amongst finance professionals of the concept of IC.

### *The preparers' and users' views on the usefulness of intangibles-related information*

The views of preparers and users on intangible-related information have been assessed independently, and thus far few papers have investigated both perspectives in conjunction. In Malaysia, Ousama et al. (2011) found that this kind of information is considered useful, although with some significant differences in the terms of categories of IC deemed to be of most value. Similarly, in Tunisia Loulou-Baklouti and Triki (2018) observed that the only significant difference relates to professional experience. After administering a questionnaire to five preparers and users groups, they observed that gender, function, and educational level does not affect the perceived usefulness, however professional experience does. With reference to R&D, Mazzi et al. (2019) by collecting the views of preparers, auditors and users, found that the capitalisation of development costs can be a useful signal of the managerial view of the future generation of income from certain assets. According to these authors, investors seem to focus more on the overall spend on R&D and are less interested in its accounting treatment, even though general support appears to exist for advocating for a principles-based capitalisation standard.

### **2.2. The usefulness of intangibles-related information for preparers and users: which information?**

Having observed that IC has been generally perceived as useful both by preparers and users, it is interesting to understand the various components (if any) that can be considered as being most useful for these two categories of stakeholders. In this respect, it is noted that no consensus exists in the literature. Some authors have found that HC items are considered most useful (e.g., Bornemann et al., 1999 in Austria; Miller et al., 1999 in Canada; April et al., 2003 in South Africa; Boujelbene and Affes, 2013 in Tunisia), while other research has emphasised that relational capital is perceived as the most useful by preparers, users (Flöstrand, 2006) or both (Ousama et al., 2001).



## 2. Literature review

### 2.3. The usefulness of intangibles-related information for preparers and users: where?

Since the inception of the relevance of intangibles and IC-related information, another question that has accompanied research development in this area is linked to its positioning, that is either in the traditional financial statements or in other reporting formats, such as management commentary, sustainability and, more recently, integrated report. Indeed, traditional financial statements might not be able to fully accommodate the disclosure of intangibles-related information. Guthrie and Unerman (2008) have observed that annual reports might not be the ideal disclosure media through which to communicate information on intangibles. This could cause suspicion in analysts, who might deduce that a company has been withholding relevant information, if new content suddenly appears. With particular reference to R&D, Nixon (1997) and Entwistle (1999) by gathering the views of preparers, users and auditors found that the financial statements are not considered the primary channel of information, and instead disclosure is used in some other location within annual reports (e.g., corporate overview, review of activities section). Hence, it is not surprising that over the years, new models have been proposed (Lev and Gu, 2016) and since the inception of integrated reporting which clearly mentions intangibles components as part of its multi-capital approach, some authors have started analysing whether this could be a viable and useful vehicle (Abhayawansa et al., 2019; Camodeca et al., 2019; Terblanche and De Villiers, 2019). It has been noticed that a positive and biunivocal relationship between the disclosure of intangibles-related information and the adoption of integrated reporting exists. Integrated reporting can be a useful tool to signal the presence of intangibles to the market (Camodeca et al., 2019) and to improve their disclosure (Terblanche and De Villiers, 2019).



### 3. Research methodology

The project has been divided in two phases: one based on an international survey, and one on the interaction with two focus groups composed of, respectively, “users” and “preparers” (for a similar approach, cf. Nixon, 1997; Entwistle, 1999; Mazzi et al., 2019). The data obtained from the survey was analysed through descriptive statistics, and also from focus groups by means of in-depth reading of the transcriptions of the recordings of the meetings. The rationale for adopting a combined methodological approach relies on the complementary nature of these two different methodologies. More specifically, the choice to complement the analysis with focus groups is also similar to the approach undertaken by Cascino et al. (2016), that is, to gather views through interviews on a mock case study.

#### 3.1. Survey and case studies

A cornerstone of the research was the elaboration of a survey, open to all interested respondents, which was self-administered online, and consisted of four sections:

1. Personal and professional data (questions 1-9);
2. General questions linked to the reporting treatment of intangibles (questions 10-21);
3. A case study based on a company’s financial statements and selected notes and Key Performance Indicators (KPIs); and
4. Specific questions on the reporting of intangibles specifically related to the mock case study proposed, expressing the degree of preference/adhesion through a score on a Likert scale from 0 to 10 (questions 22-54 or 57 for surveys 2 and 3);

Based on a total of 54 or 57 questions (depending on the case study administered) and including the possibility of providing additional information through free fields at the end of many questions, it has to be noted that owing to the complex nature of some of the content, many of the questions in the survey did not provide the participants mutually exclusive or single option answers. Similarly, in a few cases the respondents were not asked to rank their preferences in order to limit the complexity of the survey, which took approximately 30 minutes to complete.

The survey was launched internationally on the 1st of March 2021, and remained open until the 4th of April. It should be noted that the survey concluded before the publication of the proposal for a new European Directive on Corporate Sustainability Reporting (CSRD) on 21 April 2021.

Another important element for the research was the decision to prepare three different case studies, which produced three slightly different surveys in section 4 relating to specific questions dealing with these case studies (see Appendix 2 for a focus on case studies). As a consequence, section 4 of the surveys 2 and 3 contained 3 additional questions that do not appear in survey 1.

### 3. Research methodology

The case studies were differentiated along the following lines:

- Case Study 1: A standard IFRS-based financial report, composed of the balance sheet, income statement and some selected notes, one of which relates to the amount of R&D expenditures ;
- Case Study 2: A financial report essentially based on IFRS but with the internally generated intangibles of the company measured at fair value and included in the balance sheet, whilst the notes are enriched to provide details on non-IFRS data;
- Case Study 3: A standard IFRS-based financial report, composed of the balance sheet, income statement and some selected notes, which are supplemented by a number of non-financial information/measures/KPIs regarding strategy, business model, stakeholder engagement, internally generated intangibles of human, organisational and relationship nature, and the related risks and opportunities.

The rationale of this choice was to test the reactions by users and preparers facing differentiated reporting information regarding intangibles.

The three resulting surveys were randomly allocated to the respondents via a specific internet engine. It is important to note that respondents had no awareness of the other two case studies.

#### 3.2. Focus groups of preparers and users

In the second stage of the research two international focus groups of 16 to 17 experts, one composed of “users” and one of “preparers”, were set up to explore in greater depth the most contentious issues that emerged from the surveys. Each focus group met virtually twice on 31 May and 24 June 2021 for three hours each time. All meetings were recorded, and transcriptions formed the basis of the complementary analysis.

For the first meetings of the focus groups, a selection of the general questions appearing in the survey was prepared and submitted to the members of the two groups. The selection of questions was driven by the analysis of the results of the survey, which allowed the team to identify the most controversial and divisive topics to discuss.

For the second meetings, a consolidated version of the three case studies was produced and administered to the two groups, who were asked some of the most complex and debatable specific questions that composed that 4th part of the survey (cf. *supra*). Likewise, the selection of questions was made based on the most critical results emerging from the survey.



## 3. Research methodology

### 3.3. Statistical methods

Data obtained from the online survey was analysed through descriptive statistics.

In order to study the effect of some factors (personal and professional characteristics of the respondents, and/or case studies carried out) on response variables, two testing methods were applied:

- CHI-SQUARE TEST: for categorical responses;
- ANOVA (Analysis of Variance): for numeric responses.

The effects of professional occupation and case study on numeric responses concerning the specific questions of case studies were analysed through a two-way ANOVA. Specifically, we focused on:

- main effect of professional occupation;
- main effect of case study;
- interaction effect.

The three surveys including the associated case studies are reproduced in Appendix 1. Appendix 2 features the three case studies. In Appendix 3, the statistical Tables and Figures corresponding to each question have been included for reference, following the order of the questions presented in the surveys. Please note that the Appendices are available separately on [icas.com](http://icas.com).





## 4. Research findings and their analysis

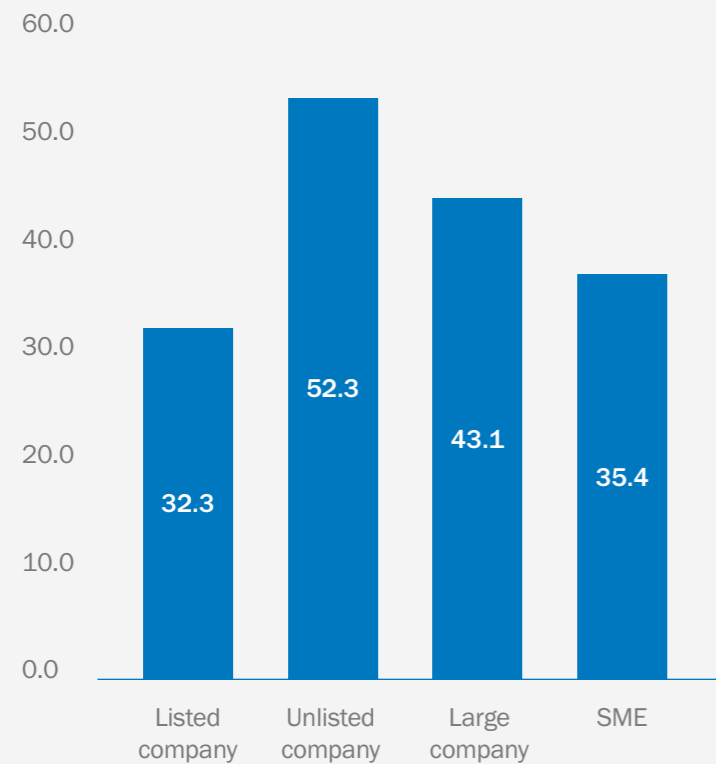
### 4.1. Respondents' profiles

In total, 314 individuals participated in the survey with 113 respondents fully completing it. Of an initial 165 respondents who started the case studies section, 68% (or 113) completed their analysis. The number of responses per case study was almost identical, showing that randomisation worked effectively.

Overall, 20.7% completed the questionnaire as 'preparers' (e.g., CFO, CAO), 22.6% as 'users' (financial analysts and investors), and 56.7% as 'other' (auditor, professional, academic, member of an institution). Given the relevance and width of the research topic investigated, it did not come as a surprise that greater than 50% of the responses to the survey were posted by participants other than users and preparers, such as policy makers, institutions, and academics.

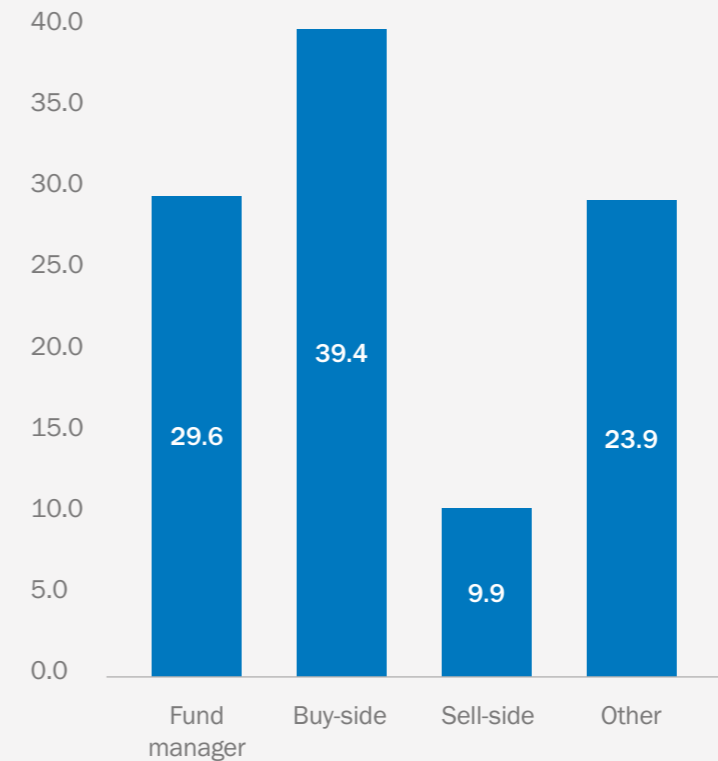
Figure 4.1 below presents the breakdown by type of organisation for the 65 preparers who responded to the survey. Figures 4.2 and 4.3 below present the breakdown by type of occupation for, respectively, the 71 users and 179 'other' respondents.

**Figure 4.1 – Breakdown of preparers by type of organisation**

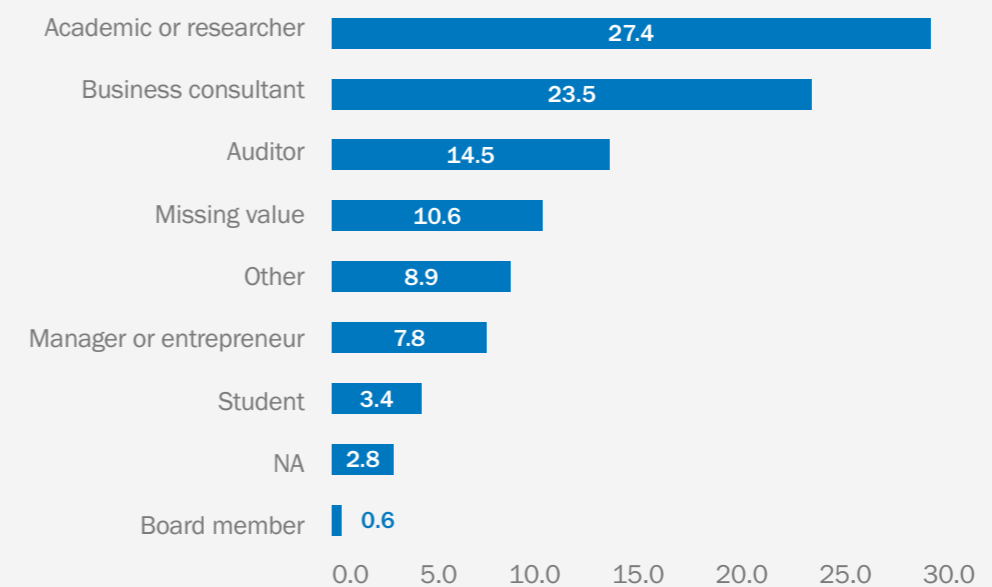


## 4. Research findings and their analysis

**Figure 4.2 – Breakdown of users by type of occupation**



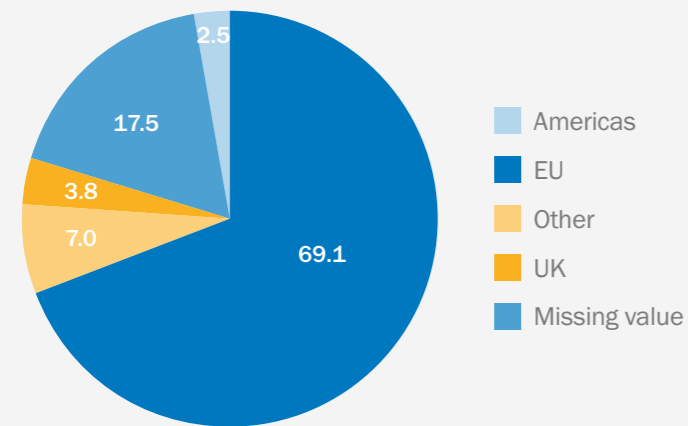
**Figure 4.3 – breakdown of 'others' by type of occupation**



In terms of geographical location, people working in the EU represented the majority of respondents (69.1%), followed by 'missing value' (17.5%), the UK (3.8%), 'other' (7%), and the Americas (2.5%) (cfr. Figure 4.4).

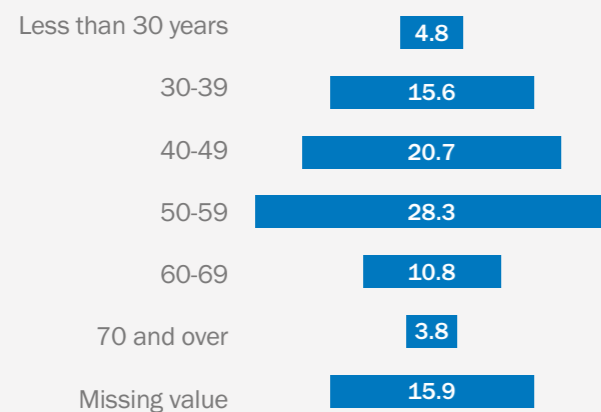
## 4. Research findings and their analysis

**Figure 4.4 – Breakdown of country of work**



The sample is composed of 314 respondents. Figure 4.5 below highlights the age profile of the total 314 respondents.

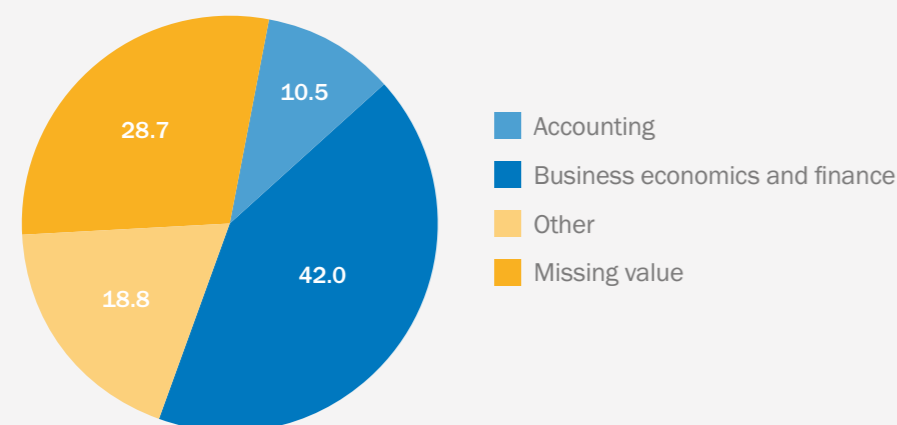
**Figure 4.5 – Breakdown of age**



The sample is composed of 314 respondents.

Finally, in relation to educational background, the majority of respondents indicated that they have a ‘business economics and finance’ background (42.0%), 10.5% an ‘accounting’ one, ‘other’ 18.8% and ‘missing value’ (28.7%) (see Figure 4.6).

**Figure 4.6 – Breakdown of educational background**



## 4. Research findings and their analysis

### 4.2. General questions and effects of respondents' profiles

This section analyses through descriptive statistics the results, grouped by themes, derived from the general questions in the online survey, and whether respondents' profiles may have an impact on them.

#### Current information on intangibles

Before entering the detailed analysis, it is informative to assess the respondents' current level of satisfaction with today's treatment of intangibles-related information overall. Survey data highlighted that the distribution of answers depends on the current professional occupation of respondents. In particular, ‘users’ are those manifesting more dissatisfaction in relation to information on intangibles perceived as useful but that is not captured by current financial reporting drawn in accordance with IAS 38 (92.9%), followed by ‘others’ (83.3%) and ‘preparers’ (61.0%). It is interesting to note that professional occupation is the only characteristic that affects this answer amongst those investigated rather than gender, age, country of work and educational background. This is consistent with the responses to a question posed during the European Commission (EC) public consultation conducted in 2020, aimed to review the Non-Financial Reporting Directive.

In turn, the overall satisfaction of preparers is also reflected in some of the comments received during the focus groups and is mainly linked to the objectivity of IAS 38, the compliance with the IASB Conceptual Framework that clearly indicates what should fall within the financial report and what should not, and the possibility to gather an understanding of intangibles information more from the Income Statement than the Balance Sheet:

*“We believe that IAS 38 provides a robust definition of intangibles, based on well-defined financial criteria, which avoid an overly extensive capitalisation of intangibles.” (Preparers Group)*

*“I think it's important to differentiate between what should be included in the financial report versus what should be reported as such, because for me, what should be within the financial statement is considered to be assets and liabilities with regards to the conceptual framework, as well as different kinds of risk and opportunities that have a direct impact on those assets and liabilities, and so on. But then of course intangibles of different kinds should be described somewhere.” (Preparers Group)*

*“It will be very difficult to include items where we don't have the same kind of objectivity that we have today. Start including them into the financial position will make our job much more difficult. I think instead, I would lean towards looking at your P&L, looking at your revenue, the strength of the company, you would see the values of the intangibles, looking what kind of earnings could our company generate compared to comparable companies, you will look towards the income statement and not the balance sheet.” (Preparers Group)*



## 4. Research findings and their analysis

*“I go further actually saying that IFRS 3 is fundamentally broken. And the subsequent accounting actually makes markets less efficient. And the reason why I say that is that it has become an absolute standard that companies publish an adjusted Earnings per Share (EPS) with all acquired intangibles added back, and that is fundamentally misleading, because there are businesses out there who go and then buy wasting assets, whether it's a patent or a piece of software, that they're selling to customers that they know that they're not going to replace. And so, you know, IFRS 3 is completely and fundamentally wrong in not identifying that there are two types of acquired intangible, and some that are organically replaced through the P&L and maintained well by the company, and some that are fundamentally wasting in nature, then, under any amortisation charge, should never be added back when calculating an adjusted EPS. And if it isn't an economic charge, it shouldn't be going through the P&L at all.” (Users Group)*

Another possible explanation of this difference in views can be derived from the answers to question 17 on the **possibility for this extra information to successfully overcome a cost-benefit analysis**. Indeed, most of the users (66.7%) and others (53.1%) answered positively, while most of the preparers (48.8%) answered “not necessarily”. These results were confirmed by the statistical test performed, even though an additional characteristic to the professional occupation was found to influence the answer, namely ‘age group’. It is noted that all the age groups across all the respondent categories tend to respond positively with the exception of the age group 40-49 for which the percentage of “yes” is just 42.5% and the most popular response is “not necessarily” (50%).

In providing views on this answer, users mainly advise that if intangibles are already considered important, then cost-benefit analysis is not an issue. Rather ‘commercial sensitivity’ can be:

*“If management teams think that intangibles are important for future cash flows and valuation, then cost benefit should not be a consideration because if they are already reviewing these measures as being important, then what is the cost benefit consideration? Commercial sensitivity might be more of a concern than cost benefit, per se. And thirdly, the best way to convince CFOs of course is to create an incentive, align their interests with shareholders and convince them that giving more disclosure provides lower cost of capital and higher valuations.” (Users Group)*

Other users believe that not even commercial sensitivity can represent a particular problem:

*“I agree that commercial sensitivity matters. However, there's already a precedent in terms of what can be disclosed or cannot be disclosed in IFRS 3, like (...) so if you want to pre-empt those sorts of disclosures before, not just at acquisition, then we already have a system in place, which we can rely on.” (Users Group)*

## 4. Research findings and their analysis

The opposite view of preparers in relation to the cost-benefit analysis was driven by the difficulty to objectively measure intangibles resources through fair value, especially if the aim is to include them in the financial statements and/or getting them audited:

*“I would say that it's important that we're not forced to make a subjective valuation of these kinds of issues, many of these intangible resources or assets are difficult to objectively measure. And I think spending resources on coming up with a number to put on the balance sheet is something that probably isn't worth the cost of it. But discussing it in some kind of management reporting, discussing how much we spend on the important elements, of course, only material aspects that's something that I think gives value. But valuing and putting these resources on the balance sheet is something that I would question whether it's worth the effort and the cost for many of the industries.” (Preparers Group)*

*“I think it really depends on the methodology. If you're taking a cost approach, you've basically got to change your debit entry so that it doesn't go into the P&L, and it goes onto the balance sheet. This is doable in terms of your financial systems. And it's also much more doable in terms of getting audited and signed off. As soon as you start doing fair value stuff, you're basically doing an exercise that's outside of the routine operations, you've got to collect that data, you've got to mobilize the necessary people. And it is also a significant challenge, getting it audited, it takes a lot more time, it takes a lot more money to do that.” (Preparers Group)*

With reference to the possible issue related to the commercially sensitiveness of information, in particular, preparers agreed that it is not seen as an obstacle:

*“I do think that there is a lot of information in the precompetitive space that actually can be teased out that you can share. IP is already recorded in the books and systems, right. But I think it's in the company's own interest to have a better valuation of what their potential for the future is. So, think, again, what we need to put into the equation is the time horizon, the long-term perspective of this kind of value.” (Preparers Group)*

*“Even if we publish an increasing amount of information, I'm not really afraid of diffusing confidential information. I've never been told that we should not give this information because of confidential matters.” (Preparers Group)*

*“I see where the users are coming from in terms of confidential information. So, I understand the rationale, I think it heavily depends on the level of detail that you would need to disclose. I think if any regulator would require you to report on a detailed level, like individual R&D projects, or those kinds of things, I think this would then really enter the sphere of becoming a competitive or confidentiality issue.” (Preparers Group)*

## 4. Research findings and their analysis

In terms of the investigation of the most important intangibles-related information missing from today's financial statements it resulted that according to preparers, the most relevant information (more than 50% of responses) relates to 'R&D' and 'human capital', followed by 'intangibles-related risks and opportunities' and 'corporate reputation and image'. Users tend to privilege information on 'IP and know-how', but they also agree with preparers on the relevance of 'intangibles-related risks and opportunities' and 'human capital'. Moreover, the chi-square tests carried out on the type of respondents and their other characteristics show that there could be an effect of the current professional occupation on the propensity to select "Customer satisfaction and loyalty" (from the distribution test it is noted that users tend to be more in favour of this information, than preparers), an effect of the country of work on the propensity to answer "Relationships with suppliers" ('respondents belonging to other countries' tend to privilege this information, followed by the Americas and the EU), and an effect of the educational background on the propensity to respond "Organisational climate" (especially from respondents with an educational background in Accounting, followed by Business Economics and Finance). In all the other intersections of variables, we did not find any effects.

As pointed out during the focus groups some of the choices were influenced by the industry where the preparers operate:

*"I put emphasis on research and development and intellectual property, but I think it's mostly because I come from an industrial company where these points are quite essential." (Preparers Group)*

The industry is also one of the aspects that results in influencing the answers of both preparers and users as to whether the most useful missing information would be sector agnostic or sector specific. In this respect, some users noted that:

*"I accept that some applies very broadly, it might be described as generic. But a lot will vary by industry, I think it would be extremely desirable for industries to have specific standards that apply to them." (Users Group)*

Similarly, some preparers pointed out that:

*"I'm very much convinced that many topics are very sector specific. So, there might be some few overarching ones but most will be somewhat sector specific to my mind, because industries are too different to one from each other that you might actually apply the same criteria uniformly across all companies." (Preparers Group)*

Only some broader aspects, such as risks and opportunities was considered more sector agnostic:

*"I think looking at intangible related risks and opportunities, I think that's broad enough to say it should probably apply to all sectors." (Preparers Group)*

## 4. Research findings and their analysis

*The nature of information and financial accounting-related aspects and impacts*

Regarding the form in which information on unaccounted/internally generated intangibles should be disclosed, a consensus is reached by all the types of respondents on the benefits deriving from a combination of KPIs, narrative disclosure and financial figures. No statistical effect was found with the other characteristics of respondents.

Users are particularly vocal on this point:

*"Narrative can be of support to understand figures." (User)*

*"Speaks for itself that you want narrative disclosures in the first place.*

*But of course, the entity can state its case by giving financial figures too." (User)*

In more specific terms, a similar consensus between preparers and users was found when asked **which of the unaccounted/internally generated intangibles information present in the survey should be financially measured** (i.e., expressed according to the financial currency unit of the company) **and included in the balance sheet as an asset and on which measurement** basis (480 preferences for financially measured, as compared to 300 for 'at fair value', 247 for 'at cost' and 243 for 'at value in use' across all respondent categories).

**Preparers** tend to favour financial measurement for information on 'human capital' and 'intangibles-related risks and opportunities', 'corporate reputation and image', 'customer list', and 'intellectual property (IP) and know-how'. Specifically, 'cost' is the preparers preferred measurement basis for 'R&D', 'software and information systems', and 'training'; 'fair value' for 'brand(s)', 'corporate reputation and image', 'IP and know-how', 'customer list' and 'intangibles-related risks'; and 'value in use' for 'human capital'. Finally, there was no clear preference expressed as to the measurement basis for organisational capital (all the three options have received equal number of preferences).

**Users** indicate that 'IP and know-how', 'brand(s)' followed by 'intangibles-related risks', 'human capital' and 'R&D' is the information that should be financially measured. Specifically, 'cost' is the favourite measurement basis for 'R&D', 'software and information systems' and 'training', 'fair value' for 'brand(s)' and 'IP and know-how', 'organisational capital' and 'customer list' and 'value in use' for 'human capital', 'corporate reputation and image' and 'intangibles-related risks'.

It is interesting to observe that most of the views as to the preferred measurement basis by preparers and users overlap, with the exception of 'organisational capital' (which for users should be at fair value, whilst no preferred view has been recorded for preparers), 'corporate reputation and image' (at fair value for preparers and at value in use for users), and 'intangibles-related risks' (at fair value for preparers and at value in use for users).

From the focus groups, the cost-based valuation of intangibles across all categories seems to be the favoured one:



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*“The reason why I put in costs in all of this is that I think a lot of the intangibles do not create value in isolation. It's dependent on other things. I don't think that we should try to replicate the market side of the company.” (Preparers Group)*

Even though there are difficulties in calculating the cost of some intangibles:

*“I'm rather critical about both fair value and cost for internally generated intangibles. Fair value because of the subjectivity involved. Cost sounds more tempting. But first of all, accountants don't know what the cost is. Also, there are quite large differences to generalise between intangibles internally generated and tangible assets.” (Users Group)*

*“I struggle with the cost when you talk about this type of internally generally generated assets, such as brands, customer lists, market possession, these soft things that everything you do as a company contribute to build or reduce that value. So, it's really hard to find a good number for the cost of this type of assets.”*

*“The training costs are not in any way reflecting the value of staff as such. So, I think it would be a flawed, you know, data point, if we just rely on training costs. What you can measure, it's not indicative of what you're actually doing.” (Preparers Group)*

However, fair value also presents some criticisms, especially from a user's perspective:

*“Generally, I'm not persuaded by the case for fair value for any of these assets. And the reason for that is that, unlike in financial instruments, there is nothing similar out there in the market that's regularly traded with which you can compare it, you know, every brand name, every patent, the right to every film is more or less, by definition, unique. So, all you get is basically a guess. I would also observe that if you ask people to value assets, they tend to use a value in use calculation. Anyway, so the distinction between fair value and value in use, rather drops away. And that's partly because of the way in which fair value is defined.” (Users Group)*

*“If there were a section in the financial report that explains why the customer lists of a company were worth 1 billion, I would ignore it, just simply ignore it. This is just extremely judgmental. It's not how investors value a company. This is caused because IFRS 3 is mandating companies to identify ‘Mickey Mouse intangibles’, like customer lists. And it's a useless exercise. It's very costly for companies and it provides no useful information for investors. The alternative is that companies just recognise goodwill and no other intangibles, just go to the acquisition price, and the book value of the company. And that will save a lot of cost and useless reporting.” (Users Group)*

## 4. Research findings and their analysis

*Financial accounting technical aspects and impacts related to information on intangibles*

*Question 13 asked: If for you it is relevant to be able to assess/predict future cash outflows (timing and amount, for decision making and cash budgeting/financial planning) related to the replacement of intangible assets that are recognised in financial statements and not automatically replaced, which of the following information would in your view be most useful for that purpose?*

*(A customer list is an example of an intangible asset that is generally considered to be replaced automatically through business' operations. On the other hand, a patent or a brand is generally not replaced automatically.)*

Interestingly, in the opinion of both preparers and users the most relevant information (almost 80% of responses for both categories) is “Information on the types of intangible assets (e.g., customer list, patents, brands) and related amounts included in the balance sheet item ‘Intangible Assets’. For preparers, the second ranked is “Information on the expected useful life of the categories of intangible assets”, whilst for users the second most relevant is “Information on specific risks that are related to (non-automatically replaced) intangible assets”.

Regarding the results of the chi-square tests that were carried out in relation to the two types of respondents and their other characteristics, the results show that there could be an effect only with the variable ‘Country of work’ as well as the two responses “Information on the amount of acquired intangible assets that are included in the balance sheet item ‘Intangible Assets’” and “Information on the expected useful life of the categories of intangible assets” (respondents from the Americas tend to favour this information, followed by those in other countries and the EU).

Commenting on this question, a user pointed out:

*“As a user you want correct information with regard to the recognised intangible assets. That should help you to assess the performance (cash flows, profitability...) of the company.” (Users Group)*

*Q.14 asked: Would you consider it important that information can be provided to help your assessments on whether significant intangible assets - recognised in financial statements - are replaced “automatically” or not, as a result of the company's operations?*

In this case also, the distribution frequency of responses to question Q14 is affected by the current professional occupation of respondents. The highest percentage of “yes” corresponds to users (81%) and the lowest to preparers (68.3%). The answer “yes” to Q14 is selected by three quarters of the “Others” respondents.

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The answer to question Q14 is also affected by the educational background. The percentages of affirmative answers are 100% (Accounting), 79.8% (Business Economics and Finance) and 86.2% (other).

The other characteristics of the respondents, gender, age, country of work do not seem to affect the answer to question Q14.

Transparency in this respect is appreciated by both users and preparers:

*“Helpful to be transparent regarding the real (financial) situation of the entity.”*  
(Preparers Group)

*“I think it may be helpful to understand how the company manages the intangible assets, especially for the automatically replaced ones.”* (Preparers Group)

*“If that is the case, I would like to receive the information.”* (Users Group)

*Positioning of unaccounted/internally generated intangibles information, framework(s) and standard(s) that can support their measurement and disclosure and standardisation of information*

In moving to the **positioning of intangibles-related information**, both preparers and users privilege ‘supplementary notes to financial statements’ as well as ‘non-financial reporting statements’ and ‘integrated reports’.

Commenting on the results, in particular, preparers illustrate the difficulties of including this information in the balance sheet and suggest other formats such as the integrated report:

*“I’m not very comfortable about including this type of data in the balance sheet because I’ve no clue of how to value this information. It does not mean that intangibles are not creating value of course, because for instance, we report according to the IIRC model and we try to demonstrate in a business model, as a whole, how we create value through different capitals, and some are directly linked to this intangible. So, we tried to demonstrate that this creates value for the company but without having them in the balance sheet. I think it is not about monetisation.”* (Preparers Group)

*“Integrated reporting can be a suitable Framework in which we can put today this intangibles ‘information’, then the company can choose if their integrated report or the non-financial report can be put in the management commentary.”*  
(Preparers Group)

As an alternative, preparers and users propose the management commentary, or the non-financial reporting statement:

“I would also advocate for not having too many such items on the balance sheet. It’s more of an objective character. But I think it’s key that we have these intangibles described and commented on in the management commentary for externals to be able to understand the business and the activities that we’re doing. And also, hopefully the competitive advantage that our business has towards other companies.

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So, I think it is key to have these intangibles described in the management commentary.” (Preparers Group)

*“We do report almost all of these intangible assets but in our management report, what we do not agree with is including these intangibles in the balance sheet.”*  
(Preparers Group)

*“Intangibles could have an added value in terms of non-financial reporting in particular regarding the assessment of the sustainability of the company.”* (Users Group)

What also appears clearly from the comments gathered during the focus groups is the reluctance to include this information in different reporting formats:

*“I would say, I don’t want to have the intangibles lurking around in different places.”*  
(Preparers Group)

*“What we do support is to have all information integrated. So, we are in favour of including this information in the management report and in the notes of non-financial assets or financial statements. We think that all relevant information should be included in the same document.”* (Preparers Group)

*“For me, ESG factors should be included in the financial report when you measure risks of different times, and therefore, also included in the report, a separate report that kind of describes their capital position, liquidity position and risk position, and so on, according to regulatory frameworks. Regarding intangibles, it’s the same, some of them should be included in a statement, of course, and then not necessarily be reported somewhere else.”* (Preparers Group)

These responses are consistent with the evidence gathered around the **most relevant framework(s) and/or standard(s) that can support the measurement and disclosure of information on intangibles** as per question no. 20 of the survey. Indeed, for users they are a future revised version of IAS 38, the EU NFRD, the current IAS 38, and the Intangibles Reporting Framework developed by WICI. Preparers favoured a revised version of IAS 38, the International <IR> Framework, the current IAS 38, and the expected revised version of the ‘Management Commentary Practice Statement’.

Preparers suggest different paths depending on the nature of intangibles information:

*“If intangibles just become a kind of qualitative statement as part of sustainability reporting, one could also imagine different standards, but if it really enters financial reporting, then it is supposed to be regulated by IASB standards and not by anything else.”* (Preparers Group)

*“I think there’s a combination. I think you’ve got some intangibles for which you can get a bit more information on, potentially need something like a revised IAS 38. But then there’s going to be other aspects where you just need some narrative, some commentary, so potentially, something like the Non-Financial Reporting Directive or*



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*a framework or the management commentary practice statement. I think there are different things that we're looking at.” (Preparers Group)*

Users share their frustrations on the variety of frameworks and standards and called for a single solution:

*“For investors, it's detrimental, that there is not a universal global language on these topics to be effective, because you can have the perfect standards, but how many frameworks do you think an investor can grasp to make sure that the output is being correctly interpreted? I mean, how many definitions of CO2 can you grasp as an individual investor, you can expect one. And so, the case should be focused on global standard to investors and, and compliment those with regional standards or per individual jurisdiction or those with a wider audience.” (Users Group)*

*“We have so many frameworks. And that's the real problem, because actually, most of the intellectual effort has already been done.” (Users Group)*

A similar view was expressed with reference to the need for the **standardisation and/or mandatory guidance of intangibles-related information** as per question 21.

In this case, the most frequent answer is positive for all the groups as defined by their current professional occupations. However, the propensity to the affirmative response is not the same in all the groups. The percentages of “yes” are 90.5% for users, 68.3% for preparers, and 75% for ‘Others’.

Consistent with previous comments, users are the most inclined to call for a standardisation of this information, mainly because this would help their analysis:

*“That could help it to be more useful for financial analysis and increase its comparability with other companies.” (Users Group)*

*“This would facilitate consistency and comparability when analysing investees across sectors from an investor perspective.” (Users Group)*

Preparers are also inclined to the call for standardisation to the extent the disclosure of this information could become mandatory:

*“If intangibles related information should become a reporting requirement, this requirement should definitely follow mandatory standards.” (Preparers Group)*

*“Not necessarily - only if the information is deemed relevant to the financial statements should there be mandatory guidance.” (Preparers Group)*

*Auditing of intangibles-related information and overlap with ESG*

When asked about the need for auditing intangibles-related information, the majority of the responses are positive (more than 60%).

It can be said that a general consensus was reached between users and preparers, mainly that this information is relevant, but – being perceived as highly subjective – needs to go through a ‘reliance and confidence’ exercise that auditing – in particular via a reasonable type of assurance – can provide:

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*“I think if we were to disclose this kind of information on intangibles that definitely should be audited. And that will be mandatory, because otherwise the value of that reporting is even less pronounced than if it was audited...You might want to have a kind of phased-in approach over time, but ultimately, you should end up in a reasonable assurance” (Preparers Group)*

*“I think if this information is important and necessary, I think it should be audited. And if it isn't important and necessary, I think we shouldn't do it. People want to see this kind of information audited, in some form or another. And I think, with a lot of these topics, they're so judgmental, that you need some kind of process to regulate that. And I think just self-regulation doesn't work.” (Preparers Group)*

*“If (information) is important, it has to be treated the same way as financial information, which is why it has to be assured. And it has to be eventually at the same level of assurance, namely, reasonable assurance. It's absolutely critical that whatever we do gets, you know, built into a standard so that we can have that higher level of reasonable assurance.” (Preparers Group)*



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*“Having the external assurance based on an accepted set of measurement and disclosure framework would facilitate the consistency and comparability across investees/sectors” (Users Group)*

Some concerns were raised by some, especially users, on what is meant by auditing and the presence of appropriate auditing standards to be able to assess both qualitative and quantitative information:

*“I think the question is what does auditing involve? It's about how companies define these measures. I think they should be audited, because at least someone externally has verified that the definition has been applied consistently.” (Users Group)*

*“The definition is what constitutes an audit. I do think there's an obligation on the auditors to look at the entirety of the reporting package and determine whether everything is internally consistent, and delivers a true and fair view. Because clearly, you can't have something that shows that net promoter score has been growing every single month, and everything's fantastic in the business, and then have evidence that actually revenue growth is decelerating. And so having a holistic review from the auditor I think it's different to ‘is that item capable of being audited’” (Users Group)*

*“What I am worried about is that there is no methodology, there is no convergence whatsoever. So I don't see how an auditor can possibly add value in this stage of time, to any possible interpretation of what the company spits out loud for itself. So I believe in a progression, I believe in an improvement. And we need to do that. I don't think that now this is a priority. I wait for methodologies to be more sound, more significant than more spread and standardised.” (Users Group)*

*“I agree with the KPIs, those have to be audited because those can be measured. And thereby the auditor is going to have some grounds on it. But there will be many intangibles which are going to present a new qualitative way, thereby very hard to confirm.” (Users Group)*

A limited number of preparers felt that it should depend on where information is positioned, or that it should be up to the preparer to decide what kind of assurance should be performed:

*“In my view, it depends basically, where this information will be placed. If we place something in our financial report, my strong position is that it has to be audited. And if it lands in management reports, I think there is much more place for interpretations. But in case such information should be audited, that means that there should be very strict standards and requirements on how it has to be prepared.” (Preparers Group)*

*“Yes, if it is in the notes of the financial statements.” (Preparers Group)*

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*“I think it should be up to the preparers to decide which kind of audit comfort they will provide on this whether it would be limited or a reasonable assurance.” (Preparers Group)*

*Overlap with ESG information*

In understanding if an **overlap between intangibles- and ESG-related information** exists, once again the current professional occupation influences responses, while other characteristics do not.

Two main positions emerged from the focus groups: those for which there is a clear overlapping, and those that believe there is only some relationship or a modest overlapping:

*“The environmental aspects might rather be the flip side of intangibles, in terms of asset values, that might be rather liabilities from an environmental perspective, but it would be, I think, the right thing to look at both angles of the balance sheet to have a complete picture.” (Preparers Group)*

*“I think it's important to distinguish between the impact to the business and the impact of the business and when we talk about intangibles, then my assumption in this discussion so far has been that it is about the impact to the business. So, in other words, value creation or value erosion from a business perspective. I think that's where I would put it in.” (Preparers Group)*

*“From my point of view, intangibles relate to environmental and social issues. And also, there is a third pillar which is governance.” (Preparers Group)*

*“There's a lot of aspects of the life of a company for the people that live outside and inside that have been considered ESG. But it's part of the normal intangible of a firm.” (Users Group)*

Those advancing an indirect relationship point out that the response might depend on the definition of ‘ESG’, the industry or the company, or they see ESG aspects as a result of intangibles-related actions, as a means to capture them:

*“I think there's a little bit of an overlap on maybe some of the HR type of topics. But the bulk of the stuff that we would consider as intangibles is outside the scope of the ESG. It also depends a bit on how broad and what you define as content of ESG. And this percentage probably also varies by sector. And maybe even by company.” (Preparers Group)*

*“ESG can be quite a narrow, narrow concept to define all the intangible potential assets of a company. In order to observe the value of intangibles, we can observe the second order effects or the first derivative of what these intangible assets produce and the field where we can observe these effects is the field of ESG.” (Users Group)*



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*“Intangibles could also go beyond ESG information, e.g., related to R&D, more software capitalisation, customer lists (depending on how ESG is defined).”*  
(Preparers Group)

*“Intangibles are a key dimension for the assessment of the company’s sustainability. As the measurement of intangibles in financial reporting is highly debated due to difficulties in quantifying the value of different intangibles in terms of costs and values. We consider that it is extremely relevant to include the assessment of intangible assets in the non-financial reporting thus providing information on the value creation of the company. Intangibles have stronger value if captured under the ESG considerations of the company. Intangibles can be differentiated under quantifiable and non-quantifiable indicators. Those intangibles that can be considered relevant for the analysis of the company’s sustainability refer to the system of interconnections between the company and its environment and eco-system which is beyond the quantifiable assets. For example: trust in the brand, relations with customers, employees’ relations, stakeholders’ relations, human capital, etc. This would determine the value development of the company.”*  
(Users Group)

*“I find it to be a very low correlation. And again, based on where I’m coming from, where ESG reporting is very much about the effect of the very tangible processes we have on the nature, climate, and that type of effects of the business. And you can say that there is some kind of correlation, but it’s a low correlation. And what intangibles will do is, of course, improving the effects that we have on these ESG indicators on the climate and nature side because that’s, that’s one of the things that we’re working with we’re getting better processes, better technology improving and the way we do our business to reduce our footprint, both carbon footprint and the use of water the impact on the natural world around us.”*  
(Preparers Group)

Others point out the complementary nature of the two:

*“Mainstream ESG disclosures and intangible disclosures are complementary. The standard-setter should consider intangibles as a key dimension of sustainable business development and therefore of sustainability reporting.”*  
(Preparers Group)

*“Why are we trying to differentiate between ESG and intangible reporting? All of information ultimately should, you know, could go into management commentary, where they’re trying to communicate to the owners of their business, how they’re safeguarding assets, developing business, looking after their staff, all of those things that actually are the important thing to describe how you then caring for the environment, whatever else you or you put in. It is, is this point about the value of the business is the mosaic of all of the inputs, whether it’s the management team, the workforce, the brand, the marketing strategy, whatever it is, and you want a place where all of that qualitative, or mixed combined qualitative and quantitative*

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*data is, is accumulated into us into a single source, which is within the financial statements, but it’s the management commentary component of it. So, I wouldn’t differentiate.”*  
(Users Group)

In terms of areas of overlapping, these were perceived to be ‘social’, ‘human’ and ‘governance’:

*“E reputation, S intellectual capital and skills & training, G organisation and balance of powers”*  
(Users Group)

*“Many examples but it can include staff churn, customer churn, supplier payment terms - all can be aligned with evidence of good ESG practice”*  
(Users Group)

*“Overlap in social information i.e., human capital.”*  
(Users Group)

### General questions summary

To summarise the analysis conducted on the general questions, the following key findings can be highlighted:

- In most cases, the current professional occupation tends to influence the responses provided, whilst other factors (age, educational background, etc.) do not have an impact, with the exception of age that appears influential on the cost-benefit assessment of information, and the need for auditing of intangibles-related information.
- In general, preparers tend to be more conservative than users towards the release of intangibles-related information.
- There is an agreement that there is generally not enough information provided, although which exact categories should be reported upon vary between users and preparers.
- Cost-value benefit of providing this information is more of a concern to preparers than users although both agree that commercial sensitivities are not a major issue.
- All agreed that information should best be reported through a combination of KPIs, narrative disclosures and financial numbers, although the preferred basis for measurements favoured varies between preparers and users but for both sets of respondents is driven by the types of intangibles considered.
- Users and preparers agree that positioning is best in supplementary notes, integrated reports or non-financial statements, and that some level of standardisation would be welcome, as well as a general agreement for the need for auditing; no firm result in relation to positioning vs. ESGs.

## 4. Research findings and their analysis

### 4.3. Specific questions and effects of current professional occupation and case studies

Considering the results obtained in the analysis of the general questions which found that professional occupation is a major driver affecting responses, it was decided to maintain the focus on the perspective of users and preparers when examining the results related to the specific questions linked to the three case studies. In addition, the effect of the specific case study on the type of response provided by participants was also statistically tested. Finally, the possible interaction impacts between professional occupation and case studies were investigated.

#### *Usefulness of the three case studies*

Using the same approach undertaken for the general questions, an assessment of the usefulness of information on intangibles included in the *annual report presented in the three case studies* administered was considered informative.

Interestingly in this case, empirical evidence is in favour of the hypothesis that the usefulness of the information on intangibles in the annual report from the respondents' point of view depends on the case study considered but it does not depend on the respondents' professional occupation. This is consistent with the view that both preparers and users recognise the general importance – in principle – of wider information on intangibles, especially using different formats from traditional financial statements. While this is in line with the preferences described earlier by users (general tendency to call for more information on these resources), it is quite surprising with reference to preparers. As pointed out in the previous section, *when called to provide this information*, preparers seem to be somewhat reluctant, but their direction appears to change when they are asked to assess the usefulness of this information.

It can be useful to understand that during the focus groups, participants were exposed to all three case studies in the form of three different “parts” of an overall case study submitted to them, whereby the specific questions relating to the various case studies were combined and grouped together. Therefore, the mention of a “part” here means the referring to one of the case studies. In particular, it might be useful to recall that case study 1 was a simple set of IFRS-based financial statements accompanied with notes and a few intangibles recognised under IAS 38; case study 2 was composed of financial statements with intangibles (apart from R&D) mostly measured at fair value; and case study 3 corresponded to case study 1 enriched by a significant number of qualitative and non-monetary information (similar to a strategic report or integrated report).

Some interesting insights emerged from the two focus groups run with users and preparers.

## 4. Research findings and their analysis

On part one, which corresponds to case study 1, respondents pointed out:

*“...the balance sheet doesn't make me buy or sell a stock. It's just useful information. But in general, I'm pretty sceptical” (Users Group)*

Part 2 raised similar concerns:

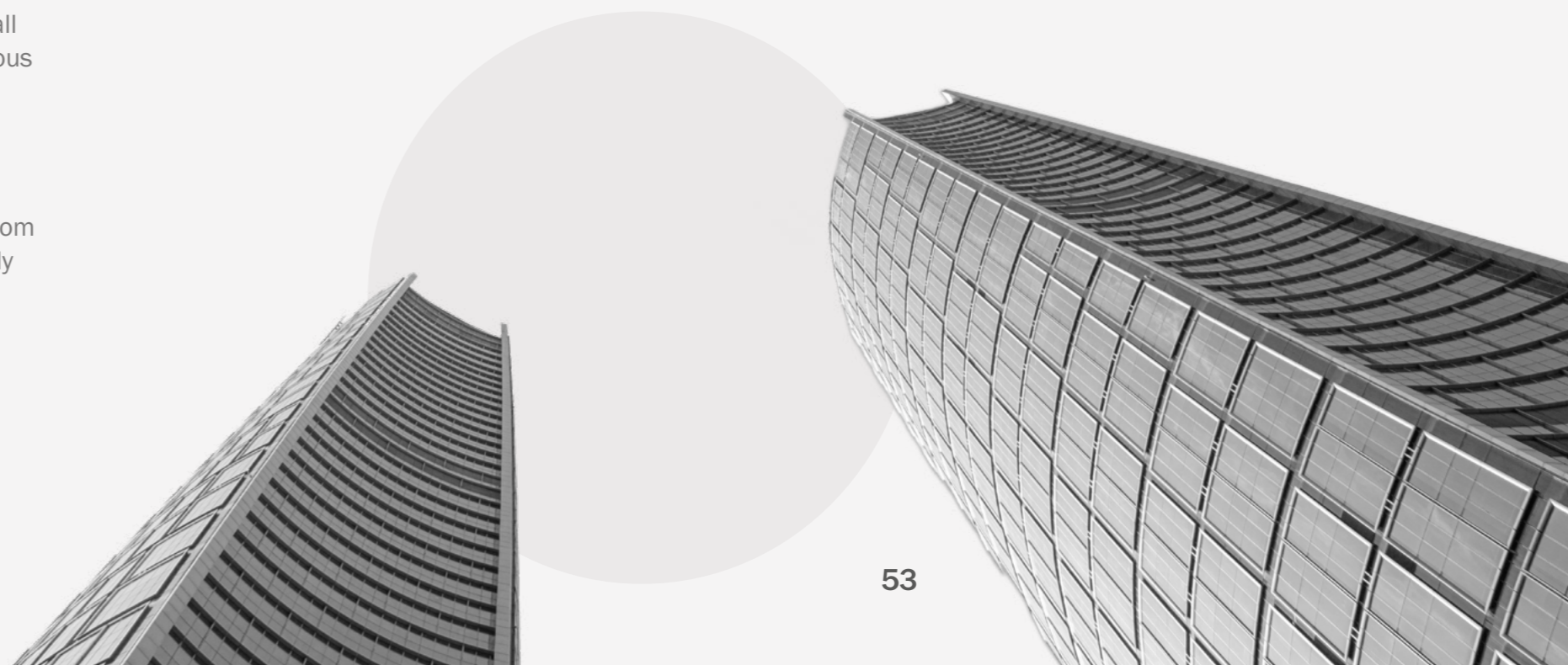
*“I worried about the information in part two... I don't agree in individual values and industry calculations, because there's too much room for hiding information. But I believe in that you can use the cost instead of the fair value to show what's really going on research, investments, and so forth.” (Users Group)*

Although some members of the users group think that part two can provide some useful insights. One says:

*“..., part two, can provide useful information, I don't think it is useful to include them into the balance sheet. But however, I think having an estimate of management of the potential value of current intangible assets is useful in the sense that you can have a view of the potential cash flows that will be derived from current intangible assets versus cash flows that will be derived from new intangible assets. So, for me, it provides just information of the potential risk behind the cash flows.” (Users Group)*

And another adds:

*“...I think some of the information in part two is useful ... the way some externally acquired intangibles, or the cost of them is also quite useful because you can also relate that to the costs that are in the income statement, and then you see what proportion the management tends to spend on acquiring, acquiring externally intellectual capital, externally generated intellectual capital, and you can also then see, you know how well the company is managing its own generation of intellectual capital.” (Users Group)*



## 4. Research findings and their analysis

In comparing the usefulness of part 1 and part 2, a member of the users group pointed out:

*"I don't see any difference in the information content between part one and part two, because to me, what matters is the incremental return on capital. And if you give me the calculation on intangible assets at an aggregate level, I cannot really surpass the block that is in the IFRS standards. So, I cannot distinguish exactly what was spent in building the intangibles from operating expenses. ... and if you don't give me this data at a disaggregated level, I cannot go further."* (Users Group)

In general, part three is preferred by both preparers and users:

*"In part three, I think you've got a good picture of where the company is going."* (Preparers Group)

*"I think those are the key drivers for what the company is doing, and also should lead to influencing some of the other elements that were on there, like, employees, relationships and those kinds of things. So, for me, business model strategy and risks, really are the fundamentals for the business and for deriving decisions from there."* (Preparers Group)

Two members of the users group declared:

*"... that allow us to have a better risk assessment or a better growth perspective assessment, or a better understanding where the company is coming from maybe also, what kind of upside potential there still is, if they get it right. And that's very useful information."*

Part three is important as it raises some questions, pointed out by a member of the users group:

*"... when I read it, I end up with a really good list of useful questions to ask the management team when they came in to see us after the results, because you know that there's lots of information in there that's indicating either maybe that they've cut costs, and they're taking some short-term decisions around. So again, as a result, we're seeing employee satisfaction scores, declining competence, turnover down, they're seeing lower number of customers and customers aren't quite as pleased as they were. So, there's a lot of really useful data for probing the management team."*

Some suggestions were also provided with reference to part three both in terms of time horizon, but also connectivity of information and comparability:

*"... it could be useful to also have those numbers for four more years ..."* (Users Group)

*"... without any kind of explanation, it doesn't give too much information, it raises a lot of questions, which might be useful for an investor, if s/he has access to the management and the name, get the answers to those questions from them. But for the great majority of investors all you can do is take away a negative impression."*

## 4. Research findings and their analysis

And I find it remarkable that anybody would publish something that just does that without any kind of, you know, excuses or whatever. (Users Group)

*"... if I try and put myself on the analyst portfolio management side, and I try and imagine that this picture taking in part three, it standardised for all the companies that want investing in the portfolio, in that case, I would have a nice recognition of each of the data reported in comparison with others."* (Users Group)

As for contents, many respondents point out the difference in labels and definition used by the different companies as well as by many departments within the same company.

*"We absolutely need a definition of the KPIs. Because it has been said for a turnover of employees, but it could be the same thing for absenteeism rate or working excellent. You have a couple of different definitions with different parameters."* (Users Group)

And a member of the preparers group highlights:

*"I have not seen any common view of preparing a business model. And what do you mean by business model? So, for me, business model is a very blurry concept."* (Preparer)

In general, participants in focus groups recognise the "inflation of meanings", i.e., rise in the number of meanings, and the ambiguity in definition of concepts. In fact, one highlights:

*"...some dangers with providing information normally in the way that a company could come up with some kind of boilerplate language. So, there is a need to make sure that this doesn't happen."* (Users Group)

And another:

*"...in my experience, I realised that we are in an uncharted territory where there's a lot of inflation in the meanings that companies can put on terms. So, this is why I think that when we talk about intangibles, we should go and see whatever the company cannot pollute with inflation of meanings [i.e. clearly define what is meant by 'intangibles' to avoid jeopardising the usefulness of company reporting]."* (Users Group)

As for the levels of aggregation, a member of the users group declares:

*"I'd also like to make a plea for disaggregation. I might also suggest that sometimes it's important to disaggregate by function. I mean, after all, if you're a business that has a high number of relatively low level employees that you don't expect to stay around for very long, then a high level of turnover amongst them will not be as critical as a high level of turnover in more senior management positions."* (Users Group)



## 4. Research findings and their analysis

An interesting consideration emerging from the focus groups is that the reports prepared for the three case studies should not necessarily be thought of as being mutually exclusive. In fact, some participants highlight the usefulness of comparing or mixing some of them. For instance, a member of the preparers group referring to case studies 1 and 3:

*“I would be more interested in seeing that in the context of a management commentary or something like that, and then to mix them with the financial statements, where you have assets, liabilities, expenses, income. It's more [important] where it's placed rather than on whether it is disclosed or not.”* (Preparers Group)

And another:

*“If you use part one, together with part three, you're able to do estimates that we believe will be the future for that entity”* (Preparers Group)

As for reports 2 and 3, a member of the preparers group says:

*“By having the information in part two, and part three, you'll get a wider picture of where your company is moving.”* (Preparers Group)

Another comments:

*“If you only look at the figures, in part one, you'll see a quite improved 2020. But having the information in part two and part three, you will see some challenges for the company going forward in the investment and in human capital, and so forth. So even if I don't agree with the fair value of model two, I think we got a much better picture of the company and the movie for the coming years.”* (Preparers Group)

*Usefulness/relevance for the decision-making of financial capital providers*

The opinion about the usefulness/relevance of the annual report for the decision making of financial capital providers is found to depend only on the professional occupation, and not on the case study. The average response to this question by preparers (5.8) is lower than that by users (6.9). The greatest mean (7.2) refers to the category of ‘Others’.

The results from the focus groups are critical in order to grasp the role of the different reports. Many users and preparers highlight the importance of case study 3 over 1 and 2, but some of them go further in highlighting what is omitted in case study 3.

A member of the preparers group, in fact, says:

*“I think what I'm missing is more the context. So, this is just a large list of metrics. And these metrics don't necessarily say a lot without being put into context.”* (Preparers Group)

## 4. Research findings and their analysis

The three parts of the survey are considered useful for decision-making but for different reasons.

For instance, a member of the users group referring to the case study 3 report says:

*“Only the data is not enough. The questions I can ask will add value for my decision making.”* (Users Group)

Another, referring to the case study 2 report states:

*“I like Discounted Cash Flows (DCF). Because there are a lot of assumptions, which you can discuss with management. And then you get a much better idea about what they think the market will do. What is the growth rate? What is the terminal growth rate? These kind of things. And that can be very helpful. That's not in this in part two, but it is a good start for discussion.”* (Users Group)

*“Basically, I believe it's pretty important for a company to provide as much information as possible about their business in all the areas which have been mentioned. I'm not in favour of monetising this information in trying to fill the gap between a book value and a market value.”* (Users Group)

Another claims that comparison with other companies is essential for decision-making:

*“But, you know, it's only when you've got your peer data [that the information is relevant]. And what you want to buy is a business that grows faster than its peers, generating more Economic Value Added (EVA) at a discount to its peers on headline earnings multiples, and you can package that up any way you want. But in isolation, this information isn't helpful unless you've got the wider context.”* (Users Group)

Similarly, a member of the preparers group maintains:

*“... there is no one size fits all in this area, either. So I think it's more about picking those relatively few [KPIs] that are [important] for the specific company and focus on them and get good information about what you give and look for companies to focus on other elements and what they think makes sense.”* (Preparers Group)

However, comparisons are not always easy. A member of the users group says:

*“An example is net promoter score. These are very well read by investors, but they're totally incomparable between individual companies, because even within companies, different approaches are used. It's very common that there is not a single approach to assessing Net Promoter Score.”* (Users Group)

Usefulness to evaluate the stewardship of resources by company management

On this question, the values representing the usefulness according to the respondents range from 5.4 (preparers) to 6.2 (users) to 7.2 (others). The opinion about the usefulness of the annual report to evaluate the stewardship of resources by company management varies with professional occupation but not with case study.

## 4. Research findings and their analysis

Focus group participants make a number of important points about the relevance for stewardship. A member of the preparers group states:

*“Part two is so bad. It destroys the possibilities of stewardship because your company never ever lays out how they have arrived at the values and so on in a proper way. It’s too little information, and it’s really mixing different principles, different years and so on. Part three is really good. But if you had part one together with part three, I would be more in the camp of being high, high usefulness for stewardship validation. So, part one, together with three, will be good stewardship basics.” (Preparers Group)*

And another adds:

*“I wouldn’t like to be judged on that [Part two]. I think of model three. I think this is decent information. Disclosures are key for understanding your company’s performance and how you’re managing resources.” (Preparers Group)*

A user remarks:

*“I think the Part Three is definitely useful for stewardship purposes and holding management to account and having dialogue and, and it allows me to become a more engaged investor.” (Users Group)*

And another, referring to part three, says:

*“.. a lot of these metrics around how you’re engaging your staff and your customers and things are telling you a lot about the stewardship in the business.” (Users Group)*

A member of the users group points instead at the quality of information more than on the ways it is disclosed:

*“I have a firm belief that high quality, credible, transparent financial reporting, is in the long term interests of a company. We have frequently observed that, even if it’s bad, it’s better to release the information to the market, rather than let it come out as a big surprise.” (Users Group)*

This position is not necessarily shared by other users. One of them, in fact, comments:

*“I’ve also heard the perspective that often being too open and too transparent, which investors say they would... very often leads investors to then say, well, that’s too much information. Well, that might have a negative impact as well as they now might have too much information or might highlight too many things. So it’s about a balanced view, where you sort the pros and the cons in the context of potential changes to strategy and business model to respond to the external environment I suppose and how those intangibles contribute to that strategy and business model or what could be done to change the position.” (Users Group)*

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And another adds:

*“I believe information is nowadays more important than valuation or monetising some intangibles, information on intangibles or important information on other matters, which are suggesting the pathway is very important.” (Users Group)*

From the focus groups discussions, it is interesting to note that when it comes to the assessment of usefulness for decision-making the tendency is to favour Case Study 2, whilst this is not the case when usefulness in terms of stewardship is evaluated. For stewardship assessment, Case Study 2 appears in fact less useful than Case Study 1 and Case Study 3. This could be due to the fact that Case Study 1 is built on well-known and recognised financial accounting rules. By contrast, Case Study 2 provides a more updated and market-led fair value-based valuations which may have been perceived by members as more useful for their decision-making processes.

*Availability of more information on intangibles and change on the company’s market value (as identified earlier in the sector profile)*

Preparers appear to be less convinced than users about the possible change in company value, independently from the case study analysed. Q54 (which corresponds to Q57 for survey three) takes a further step and asks participants about the effect – in terms of direction – that the availability of more information on intangibles would have on a company’s value. The majority of respondents across the three case studies responded that in their opinion the direction of change would be ‘upwards’, followed by ‘neutral’.

In commenting on this question, participants to the survey generally pointed out that it also depends on the content and quality of information:

*“Depends on the content and quality of information.” (Preparer)*

*“Depends on the negative or positive content of the extra information. In general, up, due to increased transparency.” (User)*

*“Don’t know, depends on whether it’s a good or bad story and how that matches with prior expectations.” (User)*

Case studies 2 and 3 contained three extra questions each on separate topics.

Regarding **case study 2**, which – we recall – adopts a fair value measurement basis for valuing unaccounted intangibles, Q55 poses the issue of the relevance of this information in relation to company future cash flows.

The extent to which the recognition of the internally developed intangible assets on the balance sheet – as in the annual report presented – help to provide information that is useful in assessing the amount, timing, and uncertainty of the company’s future cash flows.

## 4. Research findings and their analysis

Preparers responding to this question tend to see this interaction (mean of responses 5.86), whilst users to a lesser extent (mean of responses 4.14).

*In the annual report presented, the internally generated intangible assets valued at fair value are subject to amortisation (if they have finite useful lives) or impairment test (if they have indefinite useful lives). Usefulness for decision making and assessments if the fair value of intangibles were to be determined annually at the end of each financial year without applying amortisation.*

The responses to this question, that echo the possible different accounting treatment of fair valued property assets in IAS 16 vs. IAS 40, seem to suggest that the majority of respondents are in favour of fair valuing intangible assets at the end of each financial year (55.6%) rather than amortising their value systematically (33.3%).

In particular, preparers tend to respond 'yes', whilst users 'no'. Even though the majority of respondents answered 'yes' to this question, a few of them elaborated further illustrating some concerns:

*"How should we treat that in the P&L? Should the revaluation be included in the P&L and have an effect on the results? And how about amortisations/write downs on these assets? Are we concerned that that would have a huge impact on your P&L numbers?" (Preparer)*

Those opposing the amortisation of fair value said:

*"...regarding amortisation... if it is fair value, it should not be amortised notably, because on a going concern basis, fair value should remain stable or increased." (User)*

In case study 2, Q57 continues the investigation of the possible measurement at fair value of intangibles, today unrecognised in the balance sheet, by addressing the issue of the **favourite accounting treatment of the annual changes in these fair values**. The majority of respondents selected the option 'Statement of Other Comprehensive Income (OCI)', closely followed by that of 'P&L Account and Balance Sheet' and that of 'Equity in the Balance Sheet'. These results suggest a somewhat split opinion of the respondents on the subject.

While users are privileging 'Statement of Other Comprehensive Income (OCI)', preparers are divided between 'P&L Account and Balance Sheet' and that of 'Equity in the Balance Sheet'.

Those supporting the 'OCI' option comment:

*"Any change in intangible valuation should also be visible in the P&L (although the reason for your reference to OCI is understood)." (Preparer)*

*"I would not like these to be done at fair value at all - if they are then through OCI is the least bad alternative." (User)*

## 4. Research findings and their analysis

*"This is a value change that has little to do with the performance of the entity and its management (only indirectly). Hence, park the fair value change in OCI." (User)*

A member of the users group also pointed out and suggested:

*"Putting such intangibles on the balance sheet is destructive for insightful financial reporting. But if it is a route that EFRAG would want to explore, it should start with requiring companies to record the market cap of their equity as 'book equity' and require companies to make a best effort of plugging in extra imaginary assets (and/or liabilities) to make the balance sheet 'accurately' reflect the true value of a company." (Users Group)*

The third extra question included only in case study three, addresses the issue of **how to conceive a reduction in the corporate reputation**, i.e., whether this should be seen as a company liability or a decrease in the value/level of this intangible. The majority of respondents answered 'yes'. No further comments were provided by them in this respect, but from an analysis per type of respondents it can be noted that preparers are those who mainly opposed, whilst users replied 'yes'.

*Perceived usefulness of the detailed components of intangibles in the three different case studies*

After having investigated the general level of usefulness of information on intangibles included in the annual report presented in the three case studies provided, the next questions examine the perceived usefulness of the detailed components of intangibles in the three different case studies from the perspective of users and preparers. The list of 14 detailed intangibles, which become 15 for case study 3 only (Brands, R&D, IP and Know How, Software and Information Systems, Strategy and Planning, Business Model, Customer Satisfaction and Loyalty, Customer List, Corporate Reputation and Image, Relationships with Suppliers, Training, Human Capital, Organisational Culture and Climate, Intangibles-Related Risks and Opportunities plus, only for case study 3, Stakeholder Engagement) proposed for consideration in the survey derives from an extensive analysis of the academic and professional literature, as well as from some institutional studies (e.g., European Commission, RICARDIS Report, 2006). That list therefore appears to represent the most common intangible resources available to organisations across the board.

*Preparers and Users views on detailed information on intangibles*

In this section, the responses to the specific questions relating to individual intangibles have been grouped according to the classification of human capital, social and relational capital, and organisational/intellectual capital, following the EU CSRD proposal (2021), the International <IR> Framework (2021) and the WICI Intangibles Reporting Framework (2016).



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### **Human capital**

#### *Human capital (employee competencies, skills, experience)*

The results of the statistical analysis show that the perceived usefulness for decision-making and assessments of having more information available on human capital in the annual report appears to be dependent on the current professional occupation of the respondents, and not on the considered case study. For both users and preparers, three KPIs are perceived as the most useful: 'Employee competence level', 'Employee turnover per function and geography', and 'Employee satisfaction and engagement'.

#### *Training*

The perceived usefulness for decision making and assessments of having more information available on training in the annual report is linked to the current professional occupation of the respondents and not to the considered case study.

For users, the most useful indicators are the following three KPIs: 'Training costs on annual revenues', 'Level of employee participation in training courses', and 'No. of training courses completed by employees'. For preparers they are 'Training costs on annual revenues' and 'Level of employee participation in training courses'.

Users also suggested some possible additional KPIs on the impact of training-related activities:

*"Impact of training on the development of employees' career" and "Impact on employee productivity and retention - evidence of a positive IRR on the spend".*

### **Social and relational capital**

#### *Customer satisfaction and loyalty*

The perceived usefulness for decision making and assessments of having more information available on customer satisfaction and loyalty in the annual report depends only on the professional occupation and does not depend on the case study.

As for the specific indicators, those perceived as most useful by users are 'Customer attrition rate', 'Average customer retention period', and 'Revenues from new customers', whilst for preparers 'Average customer retention period' and 'Revenues from new customers'.

A user maintains:

*"Interesting if this adds value but cannot be applicable in all cases in my view. Is to some extent part of the business model discussion."*

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whilst a preparer shares the following view:

*"What adds value to a company are the lessons learned working with the customers, this was not in the list above."*

#### *Customer list*

The perceived usefulness for decision-making and assessments of having more information available on customer lists in the annual report varies with professional occupation but not with case study.

As for the specific indicators, those perceived as most useful by users are 'Customer list size', 'Purchase/Sale of customer data', and 'Use of customer data', whilst for preparers 'Purchase/Sale of customer data'.

Users commenting on this, pointed out that this kind of information depends on several factors:

*"Specify dependence on individual customers, regions, industries."*

#### *Corporate reputation and image*

The perceived usefulness for decision-making and assessments of having more information available based on company reputation and image in the annual report presented, is affected by the current professional occupation of the respondents but not by the considered case study.

As for the specific indicators, those perceived as most useful by users are 'Reputation level by customer groups/business lines', and 'Drivers of corporate reputation and image', with preparers also preferring the latter.

#### *Relationships with suppliers*

The perceived usefulness for decision-making and assessments of having more information available on relationships with suppliers in the annual report presented appears to be conditioned only by the current professional occupation of the respondents.

As for the specific indicators, those perceived as most useful by users are 'Degree of value chain integration', 'Types of suppliers' product quality certifications', and 'Types of suppliers' environmental certifications', whilst preparers prefer 'Degree of value chain integration' and 'Types of suppliers' environmental certifications'.

#### *Brands*

The perceived usefulness for decision-making and assessments of having more information available on company brand(s) in the annual report presented is affected by the current professional occupation of the respondents, but not by the case study.

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Users commenting on the different case studies presented different positions on the usefulness of this information:

*“Brand comparison with external counterparties (given ratios, ex. P/E, EBITDA) does not present the possibility to compare the brand specificities and its value.”*

*“We should not expect companies to put a value on their internally generated brands. This is useless information for investors.”*

*“Qualitative information on the brands is very useful to assess the prospects for future cash flows. Though I would not trust entities that value these brands themselves.”*

*“Brand Value represents 62% of intangible assets and 25% of total assets, so it is essential to check the effective potential of the brand.”*

In terms of specific indicators, those perceived as the most useful for users are ‘brand strength’, ‘brand contribution to EBITDA’, ‘marketing expenses per brand’, whilst preparers privilege ‘marketing expenses per brand’, ‘brand contribution to EBITDA’, and ‘brand valuation/value’.

### **Organisational/intellectual capital**

#### **R&D**

The perceived usefulness for decision making and assessments of having more information available on R&D activities in the annual report presented is not affected by the current professional occupation of the respondents and the considered case study.

As for the specific indicators, those perceived as most useful by users are ‘Revenues from products generated by internal R&D’, ‘R&D expenses per segment of business’, ‘Detailed amounts of R&D expenditure’, whilst preparers indicate ‘R&D expenses per segment of business’, ‘Detailed amounts of R&D expenditure’, and ‘No. of R&D projects nearing implementation’.

Users generally shared a lack of confidence in the possible valuation performed by the company:

*“As an investor, I am not interested in a valuation by the company of their R&D.”*

*“Qualitative information on R&D is very useful to assess the prospects for future cash flows. Though I would not trust entities that value their R&D.”*

A preparer pointed out that a focus should be put on ‘value added’ rather than costs:

*“Costs should not be the driving factor, but this should be the added value”.*

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#### *IP and know-how*

The perceived usefulness for decision making and assessments of having more information available on IP and know-how in the annual report depends on the current professional occupation of the respondents and not on the considered case study.

As for the specific indicators, those perceived as most useful by users and preparers are ‘Revenues from the last 5 years’ patents’, and ‘No. of active patents’.

Some users find that:

*“Patents are an asset if a future economic benefit is expected. It is very helpful for investors to learn what expectations a company has on the expected future economic benefits of its patents.”*

#### *Software and information systems*

The perceived usefulness for decision-making and assessments of having more information available on software and information systems in the annual report is related to the considered case study, and not to the current professional occupation of the respondents.

#### *Strategy and planning*

The perceived usefulness for decision-making and assessments of having more information available on strategy and planning in the annual report is affected by the professional occupation but does not depend on the considered case study.

In regard to the specific indicators in this area, those perceived as most useful by users is ‘Market share’, whilst for preparers ‘Description of strategic pillars’.

Commenting on the survey, a user pointed out that:

*“Companies do not comment enough on strategy. The only information you get is boilerplate wordings taken from well-known manuals. To assess where the company is going, you need better information about where the company plans to go...”*

#### *Business model*

The perceived usefulness for decision-making and assessments of having more information available on the business model in the annual report appears to be linked only to the professional current occupation.

As for the specific indicators, those perceived as most useful by users are ‘Illustration of value proposition’, ‘Description of business activities/lines’, and ‘Description of input/output/outcome’, whilst for preparers ‘Description of business activities/lines’ and ‘Illustration of value proposition’.

## 4. Research findings and their analysis

A user stated:

*“If you want to understand the cash flow generation, you need to understand the business model (value proposition, inputs, outputs, clients, suppliers, markets in which the company is active, risks, opportunities...)”*

*Organisational culture/climate (e.g., ‘entities’ DNA, employee satisfaction and engagement)*

The perceived usefulness or decision-making and assessments of having more information available on organisational culture and climate in the annual report is influenced by professional occupation but does not depend on the case study considered.

As for the specific indicators, those perceived as most useful by users are two out of the four KPIs proposed in the survey, being ‘Employee turnover/absences’, ‘and ‘Salary and promotion packages’. Preparers also indicate ‘Employee turnover/absences’ and ‘Gender equality’.

Commenting on this question, a user pointed out:

*“As for Human Capital these are most useful to compare within a sector to understand which businesses are doing a good job with their workforce - trends will also be important.”*

*Intangibles-related risks and opportunities*

The perceived usefulness for decision-making and assessments of having more information available on intangibles-related risks and opportunities in the annual report is linked only to the professional occupation. Indeed, the main effect of the case study is not significant.

As for the specific indicators, those perceived as most useful by users are ‘Product quality’ and ‘Customer relationships and loyalty’. Preparers also privilege ‘Product quality’, while the second KPI considered as most useful is ‘Employee development’.

*Stakeholder engagement*

It is interesting to note that preparers have expressed, for once, more appreciation than users for this type of information on stakeholder engagement (preparers: 6.5/10; users: 5.9/10), even though we recall that questions on this specific intangible only appear in case study 3, making this finding less supported and robust than others. As to the detailed metrics, respondents favour a ‘General’ type of information. Others who replied to Q.52 indicate preferences for ‘No. of company committees with citizens/customers’ and ‘No. of public events organised by the company’. On examination and breakdown of responses, both preparers and users who tend to privilege ‘General’ information, also include ‘No. of company committees with citizens/customers’, and ‘No. of recipients of company’s newsletter’.

## 4. Research findings and their analysis

### Conclusion

To summarise the analysis conducted on the specific questions, the results can be aggregated into four major themes.

First, consistent with the earlier analysis of the general questions, a gap exists in the perceived usefulness of detailed intangibles-related information between users and preparers.

Second, users tend to require a greater amount of specific information on these resources, whilst preparers tend to be more conservative. Indeed, the average score of responses for users preferring such specific information is higher with reference to all the categories of intangibles (see Appendix 3). It is worth noting that this could have been influenced by the fact that the number of responding preparers from SMEs and non-listed companies is, for almost all responses, greater than from large and listed companies. Indeed, for SMEs this additional information can be quite costly, while for non-listed companies there could be less incentive to produce such type of information.

Third, users generally perceive information on detailed intangibles as more useful than users do. The only exception relates to information on 'stakeholder engagement' which is favoured by preparers over users (note that this detailed intangible only features in case study 3).

Finally, in relation to the case studies, it can be noted that the usefulness of intangibles-related information does not generally depend on the reporting format/tool.

A discussion of the implications of these findings follows.



## 5. Discussion, recommendations, and policy implications

### 5.1. Discussion of results

The aim of this research was to examine the decision-making usefulness of a vast spectrum of intangibles-related information, and especially of that referring to unreported intangibles for preparers and users, in financial reporting. As aforementioned (see Section 2), to date there is in fact a certain paucity of academic research on this subject area referring to preparers and users, especially on non-financial disclosures on intangibles. Hence, our research aims to provide a comprehensive empirical-based picture of the views of preparers and users on this complex and variegated reporting area. As far as we know, this is the first time that such a wide-ranging research project has been carried out on intangibles. A novelty of the research is in showing the diverse visions of the two fundamental stakeholders' groups and trying to measure them using a survey and associated case study, identically replicated for both groups. As a result of this research, we now have a better, holistic and evidence-grounded understanding of the appetites and perceptions of users and preparers about a number of issues linked to intangibles reporting.

In order to fill this void, three research questions were set at the basis of this investigation:

- What are the measures and disclosures on unreported intangibles that are considered useful for decision-making and assessments by users of this information (investors and financial analysts)?
- What are the measures and disclosures on unreported intangibles that are considered useful decision-making and assessments by preparers (CFOs) on information on unaccounted intangibles?
- To what extent the positions expressed by preparers and users depend on the personal and professional profile of the respondents?

The following sections will address those questions and discuss some more general issues emerging from the results of the survey and the focus groups, i.e., the more prudent attitude of preparers compared to users, and some inconsistencies across the responses to the survey.

#### 5.1.1 Measures and disclosures on unreported intangibles: The views of users and preparers

Intangibles are generally perceived to be a fundamental component of corporate reporting that is currently lacking.

In terms of most relevant categories of intangibles missing from the current financial reporting, preparers tend to privilege those related to 'R&D' and 'human capital', followed by 'intangibles-related risks and opportunities' and 'corporate reputation and image'. Users tend to privilege information on 'IP and know-how', but they also agree with preparers on the relevance of 'intangibles-related risks and opportunities' and 'human capital'.

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Notwithstanding the different viewpoints on the categories, it is interesting to note that a certain convergence exists on the positioning of this information as well as its form. In responding to Q15 it was widely shared amongst preparers and users that it is not beneficial to have information spread amongst diverse documents. Similarly, to the findings of Nixon (1997) and Entwistle (1999) with reference to R&D, the preferred communication channel for delivering this information on intangibles is not financial statements. Indeed, the favoured format varies from the more traditional 'notes to the financial statements' to an integrated report. With respect to the most relevant current framework(s)/standard(s) for the measurement and disclosure of information on unaccounted/ internally generated intangibles, the majority of respondents, both users and preparers, indicate the Revised IAS 38 revised version of IAS 38 with a less conservative approach to recognition of intangibles as assets, the EU Non-Financial Reporting Directive (NFRD)/Corporate Sustainability Reporting Directive (CSRD), and the International <IR> Framework (2021).

In terms of the nature of intangibles-related information, a convergence exists amongst users and preparers regarding a combination of narrative, KPIs and financial figures. A similarly clear consensus has been found on the need for auditing intangibles-related information.

Another aspect that emerged from the general questions of the survey and the focus groups relates to the possible relationship, if not overlapping, between ESG and intangibles. A consensus was not observed, not even within the single group of respondents (users vs. preparers). Some perceive a clear overlap, while others believe that intangibles are a sort of pre-condition for ESG. They argue that if a company manages intangibles-related aspects efficiently and effectively, this will positively impact the ESG performance of companies.

It is then manifest that some sort of correlation exists, even though this requires further exploration.

With reference to specific questions raised through the case studies, the fundamental principles of decision-making usefulness and stewardship have been investigated in questions Q51 and Q52. It is observed that the responses to both questions depend on the professional occupation of respondents, and not on the case studies. Generally speaking, this research shows that users have a more optimistic view of the usefulness of information on intangibles than preparers. A different picture emerges if we look at decision-usefulness of intangibles-related information presented in the three case studies. For preparers, the information provided in case study 1 is more useful than in the other two case studies, while for users, it is the annual report in case study three which is deemed more decision-useful.

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A similar result emerges in respect of the principle of stewardship. Users generally believe that information on intangibles is more valuable for stewardship purposes than preparers do. By contrast, preparers perceive information on intangibles contained in case study 1 (IFRS) more beneficial to evaluate the deployment of the stewardship function.

As to decision usefulness of information on detailed categories of intangibles, disclosures on human, organisational and relational capitals appear to depend on the current professional occupation and not on the particular case study examined, with the only exception of 'software and information systems'. As noted above, the only specific intangible which preparers viewed as more decision-useful than users is 'stakeholder management', even though this intangible appears only in case study 3, making this finding less supported and robust than others.

Despite a general divergence of opinion between users and preparers with reference to categories of intangibles, a certain level of statistical convergence emerges with reference to a) three categories of intangibles, b) specific KPIs, and c) the need for other metrics, in addition to those proposed by the surveys.

The three categories on intangibles where a statistical convergence of opinions exists in terms of perceived usefulness are R&D, Software and Information Systems, and Business Model.

The specific KPIs proposed by the survey and viewed as helpful by both users and preparers are:

- on brand ("Brand contribution to EBITDA", "Brand valuation/value", "Marketing expenses per brand"),
- R&D ("Detailed amounts of R&D expenditure", "R&D expenses per segment of business", "No. of R&D projects nearing implementation"),
- Software and information systems ("Degree of IT systems integration/substitutability", "Maintenance costs", "Compliance with cybersecurity standards/certifications", "Data storage choices"),
- Strategy and Planning ("Description of strategic pillars", "Mission and vision"),
- Business model ("Description of business activities/lines", "Illustration of value proposition", "Description of input/output/outcome"),
- Training ("Training costs on annual revenues"), and
- Human Capital ("Employee development").

Interestingly, the majority of these metrics are vastly related to the financial performance of companies, having to deal with decisions that affect costs and cash flows generation.

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Finally, a need for metrics other than those proposed by the survey emerged with particular reference to Business Model, Relationships with Suppliers, Training, and Organisational Culture and Climate:

- on Business Model, some of the suggested KPIs relate to 'Quality of relationships with stakeholders', and 'Display of the extended value chain with corresponding costs and added value per activity';
- on Relationships with Suppliers 'Degree of dependency on individual suppliers, by regions, volume and by critical components', 'Timely payment of suppliers (by size)' and the 'Net Promoter Score from suppliers';
- on Training 'Impact of training on the development of employees' career', and 'Impact on employee productivity and retention'; and, finally,
- on Organisational Culture and Climate 'Expenses for types of employee on corporate welfare' and the 'Efficiency of the organisational structure'.

### 5.1.2 The current professional occupation as an explanatory variable for the attitude towards intangibles reporting

Amongst all the variables investigated, current professional occupation is the variable that resulted in the most statistically significant impact on the responses of participants. In general, preparers appear to be more conservative than users regarding the disclosure on intangibles. With reference to the general questions posed in the survey, it has been found that there is in fact a lower percentage of preparers than users thinking that some useful information on intangibles is missing from today's financial reporting; that information on automatically replaceable intangibles is helpful; that there is a general need for more information on unaccounted/internally generated intangibles; and that intangibles information currently outside financial statements should be subject to standardisation and/or mandatory guidance.

As for the questions dealing with information on detailed intangibles, preparers appear not to have appetite for much. This observation departs from other studies examined in the literature review (see Section 2), and could depend on the sample composition of preparers. Indeed, the preparers from SMEs and non-listed companies are, for almost all responses, more numerous than those from large and listed companies.

There are two possible reasons that explain why preparers of SMEs and non-listed companies could assign a lower value to the availability of information on detailed intangibles as they seem to rely on a cost-benefit analysis of disclosure.

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From a benefit perspective, many theories support the voluntary disclosure of non-financial information (Leventis and Weetman, 2000; Kristandl and Bontis, 2007). According to the agency theory (Jensen and Meckling, 1976), managers have reasons to disclose information to shareholders (and other capital providers) to allow the latter to indirectly monitor their behaviour and performance, thus increasing the transparency of their communication. The question related to the usefulness of information on intangibles for stewardship is in line with this theoretical approach. The benefits of disclosure in this case rely similarly on a reduction in information asymmetries between differently informed actors. From a cost viewpoint, on the one hand, if the disclosure of information lessens some agency costs, on the other hand, it increases other costs, e.g., the cost for the setting up of an ad hoc information system to gather and produce intangibles-related data and disclosures (lump sum costs) and its maintenance (recurring costs); as well as the costs deriving from information revealed to competitors (Prencipe, 2004). It is then highly likely that the costs for setting up this information system and its maintenance for delivering more intangibles information along with the potential competitive cost associated to disclosure, may well have a more significant impact on SMEs and non-listed firms than on large-sized and listed companies. This could explain the above observed reluctance of preparers coming from these categories of firms.

In addition, the benefit for SMEs and non-listed companies could be different to that of large and listed ones in relation to the categories of fund providers to which they refer. The large body of evidence on the value relevance of intangibles is mainly devoted to analysing the role that information on intangibles plays on equity markets (see Güleç, 2021; Zambon et al., 2020). However, SMEs and non-listed companies are expected to cover their financial needs referring largely to banks and other financial creditors rather than to equity investors. Financial lenders are exposed to downside risk and cannot benefit from the positive variability of cash flows and profit. Therefore, they are interested in protecting their position through collaterals to arranged loans. However, intangibles are usually firm-specific, and, with some exceptions, their value exists providing the company mobilises them. For such reasons, they have a thin secondary market, and in many cases, they cannot be sold as individual assets. Therefore, financial creditors prefer to rely on tangible assets as the favoured collateral (Williamson, 1988). Accordingly, the banking system is probably less enthusiastic for information on intangible resources that are perceived as being more affected by specificity and uncertainty than tangible ones.

In short, SMEs and non-listed companies could benefit from intangibles disclosure less than large and listed companies that instead rely on equity investors to cover their financial needs. Therefore, if an intangibles disclosure decision is made on a rational basis, comparing benefits to costs for SMEs and non-listed companies, the preparers are expected to be more conservative in disclosing information on these resources.

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Further support in this direction is provided in the preparers' responses where they declare in the vast majority that more information on unaccounted/internally generated intangibles would not necessarily successfully overcome a cost-benefit analysis, and to their answers to Q53 where they are less convinced than users that information on intangibles can have an effect on a company's market value. From the discussions held during the focus groups it transpired that this attitude of preparers is not due to aspects related for example to commercial sensitivity. The majority indeed shared the view that much of this type of information is already public. Rather, the main challenge is linked to the awareness that the effort of including intangibles-related information is not worthy as users tend to do their own valuations themselves. When dealing with a contested topic, such as intangibles disclosure, preparers share the view that it is not beneficial to include this kind of information in financial statements, because this may induce users to ask preparers for assumptions utilised in reaching those financial numbers. Similarly, users seem to believe that it is not the role of preparers to perform valuations on intangibles to be included in financial statements.

### *5.1.3: Some inconsistencies in the preparers' and users' responses across case studies*

As pointed out earlier in section 3, to analyse in depth the opinions of participants as to the relevance of the disclosure of intangibles, three case studies (CS) were prepared, where, as previously stated, the same company was presented through three different reports. From CS1 to CS3, participants were confronted with different sets of information on and approaches to intangibles, from the traditional IFRS-based financial statements (CS1), to extended financial statements with intangibles recorded at their fair value/value-in-use (CS2), to a complex set of corporate information composed of financial statements, KPIs and narratives (CS3). Therefore, from CS1 to CS3, both the quantity and the quality of information changed.

Overall, the statistical analysis concluded that the case studies did not have an influence on participants responses. However, the descriptive statistics of the responses to the specific questions referring to the three case studies returned some surprising and somewhat paradoxical results.

- First, as aforementioned, the answers to Q51 ('In your opinion, to what extent would the above presented annual report be useful/relevant for decision-making by financial capital providers?') reveal that the CS1 report is in generally considered the most useful by survey participants. However, the same report is also considered to be the one that provides the least information on intangibles (Q22). Indeed, it could have been expected that the request for more information would have been seen as declining from CS1 to CS3 owing to the increasing levels of information delivered in the annual reports accompanying CS2, and CS3. However, such an expectation was only realised in the case of four detailed intangibles (Business model, Customer satisfaction and loyalty, Customer list, Corporate reputation and image) out of 14. Surprisingly, for



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nine detailed categories of intangibles the level of need for more information appears to be lower for CS2 (where the fair value/value-in-use of intangibles was provided) than for CS3 (Brands, R&D, IP and Know-How, Software and Information Systems, Strategy and Planning, Relationships with Suppliers, Human Capital, Organisational culture/climate, and Intangibles-related risks and opportunities). At the same time, in seven of these nine intangibles (Brands, R&D, IP and Know-How, Software and Information Systems, Strategy and Planning, Relationships with Suppliers, and Intangibles-related risks and opportunities) additional information was also required by respondents in relation to the CS1 annual report. The following reasons could explain these apparently contradictory results. Preparers and users are more versed in traditional financial accounting and have learnt how to use intangibles-based accounting figures for decision-making and to assess companies' behaviour and performance. Therefore, one could think that an information paradox arises, as survey participants recognise that current information on intangibles is insufficient, yet they are satisfied when using what they currently have at the present time. Moreover, a perceived positive aspect of traditional financial statements over the intangibles-related qualitative, quantitative and narrative information, is that they are audited and, therefore, perceived to be more objective and reliable. This view is shared by users and preparers.

– Second, a complex result to be interpreted relates to the valuation of detailed intangibles, where the fair value/value-in-use approach appears necessary. As aforementioned, the CS2 annual report is considered, in fact, to be the one requiring less additional disclosure on intangibles. What is probably considered important is to obtain the value of intangibles, and when that value is provided by the company, what is really needed is for the disclosed information to be audited by a third party (63.4% of the preparers and 64.3% of the users think that an independent third party should assure that information on intangibles). On this point, it was interesting to note that while nobody questions the relevance of auditing, it is a widely shared opinion that a proper auditing standard is still required, especially for narrative type of information. However, as the participants in the focus groups reveal, many users and preparers are uncomfortable with fair values, especially in the case of IFRS 3.

– The main concerns with fair value come from it being considered as more oriented towards for sale assets rather than those to be used within the company. The company's business model is relevant to decide if fair value is useful or not.

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### 5.2. Recommendations and policy implications

From the above results and discussions, some conclusive recommendations and policy implications can be drawn, for further reflection on the evolution of this relevant field of corporate information. The first order of implications and recommendations can be summarised as follows:

- Standard setters should be aware that intangibles-related information appears to represent a subject area that is sensitive to the professional role played by individuals and, additionally for preparers, to the size of the organisation. Hence, if the direction of travel is to require entities to disclose intangibles-related information, standards should take into account the diverging views and information needs of both preparers and users.
- The more conservative approach evidenced by preparers could be partially dependent on the sample composition. The number of respondents from SMEs and unlisted firms was relatively high. The results suggest to policymakers adopting a specific focus on the role of intangibles for SMEs and unlisted firms, to consider that they could have less incentives and more competitive disadvantages than larger and listed companies to disclose intangibles information. Accordingly, in the first instance, standardised intangibles-related disclosures may be required only from large-sized and listed firms. For SMEs, encouraging a voluntary adoption with some focused incentives may be effective.
- Reporting tools and positioning of intangibles-related disclosures matter. There appears to be a tendency from respondents to see these disclosures as consistent with supplementary information to financial statements. The preference is for that information to be located in one single document, in general financial reports but also integrated reports. This might suggest that the requirement for information on intangibles by standard setters may be differentiated in terms of its formats and tools, i.e., this information need may be satisfied by a combination of, on the one side, an evolution of accounting rules (e.g., R&D), and, on the other, ad hoc non financially expressed disclosures especially where accounting rules cannot accommodate this information in financial reporting because of the current conceptual frameworks and standards definitions.
- Many voices of dissatisfaction have been heard during the focus groups on the treatment of intangibles in IAS 38 and IFRS 3. An equal number of voices have been raised in favour of an audit standard focussing on the assurance of intangibles-related measures and disclosures.

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A second group of more general policy making-oriented considerations and recommendations are:

- There appears to be a need for guidance and incentives for companies/preparers, who may need more support than users, taking into account the greater reluctance and the more acute inconsistencies shown in their responses.
- The wide acceptance and recognition by preparers and users of the need for information on intangibles may pave the way to policy makers towards making this set of metrics and disclosures gradually mandatory in relation to the detailed categories of intangibles.
- In more general and conceptual terms, taking up what was originally pointed out in the Introduction of this Report, it emerges that there is a need to reconsider the definition of an asset in IAS 38<sup>7</sup>, which does not correspond to that in the 2018 revised IASB Conceptual Framework (IASB April 2022 Staff paper, 24A, para. 37(c)(i), p. 12.). On this point, the IASB Conceptual Framework requires that a resource, to be identified as an accounting asset, has to represent a right that has the potential to produce economic benefits and has to be controlled by the entity as a result of past events. The requirement of a right and a control could make it challenging to identify certain internally generated intangibles as assets. In this sense, its “Intangibles Reporting Framework” WICI (2016, pp. 13-14) poses at the basis of the definition of intangibles in corporate reporting their “availability” to the entity, and not the “control” on them as the revised IASB Conceptual Framework does for recognising an accounting asset. Regarding the recognition criteria in IAS 38<sup>8</sup>, expenses incurred in the research phase of a project may produce knowledge available to the organisation. However, generally this knowledge cannot be recognised as an accounting asset because it does not meet the recognition criterion (that it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity) even though this knowledge may meet the definition of an asset according to the definition of the IASB Framework. In other words, today we can have an internally generated intangible that meets the definition of an asset, but cannot be recognised as such owing to the restrictive recognition criteria included in IAS 38.
- From a wider perspective, it is crucial to clarify the role of intangibles information in relation to ESG information. This research showed a lack of general consensus in respect of the two sets of disclosures recognised by many users and some preparers as overlapping, which may be, on the one side, an important element of the emerging corporate reporting landscape (cf. the proposed European Commission’s CSRD), but, on the other side, an approach that may reduce and confuse the autonomous role and relevance of intangibles in the company value creation processes. From this, there may be a need for more research and a better understanding of the respective roles and the connectivity between intangibles and ESG.

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### *Limitations*

The results of this research may suffer from some limitations that are intrinsic to the methodological choices made at the basis of this investigation. In relation to the running of the survey, the self-selection of the respondents can be seen as one such limitation. Self-selection can hint at a self-selection bias which in turn may have an impact on the generalisability of the results obtained. Furthermore, the three case studies do not rely on real situations, and respondents have interpreted the data according to their experience in certain sectors that do not necessarily correspond to the one used in the case studies. It should also be noted that owing to the complex nature of some question content, many of the questions in the survey did not provide the participants mutually exclusive or single option answers, which implied a lesser capacity to cross-cut responses despite assuring a richer set of indications. Similarly, in a few cases the respondents were not asked to rank their preferences in order to limit the complexity of the survey. In relation to the focus groups, they are not necessarily representative of the world of preparers and users, but participants have been selected on the basis of their recognised competence and expertise in the area of intangibles reporting drawn from a list of potential candidates provided by EFRAG.

### *Future research*

Future research avenues can better examine not only the relationships between the usefulness of intangibles-related information and its location in the annual corporate reporting system, but also how the information is presented. Another potential insight to be analysed in more depth is the relationship between the usefulness of intangibles-related information and the industry where companies operate. An additional opportunity for future research is to further disaggregate the groups and their views. Furthermore, the results deriving from a different classification of ‘auditors’ (here considered in the group of ‘others’), and in general the categories belonging to ‘others’ could also benefit from valuable observations. These insights can be useful for the development in the near future of reporting standards on this subject, as the text of the proposal for the Corporate Sustainability Reporting Directive (CSRD) and the outcomes of the IASB’s Third Agenda Consultation seem to suggest the revision of IAS 38 and the addressing of intangibles-related disclosures as one of the key priorities.

<sup>7</sup> According to IAS 38, an asset is defined as a resource controlled by an entity as a result of past events; and from which future economic benefits are expected to flow to the entity.

<sup>8</sup> According to IAS 38, an intangible asset should be recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.



## 5. Discussion, recommendations, and policy implications

Overall, as a general conclusive remark, it can be observed from the evidence gathered from this research, that information and reporting on intangibles is an area of increasing concern to preparers and users, and perhaps not only to them. Accordingly, policy makers and standard setters are most likely to be confronted with this information need, considering also the differentiated sensitivities on this topic between preparers and users that have clearly emerged from this exercise. In particular, policy makers and standard setters will also have a decisive role not only in guiding this process, but also in assisting companies and market operators to feel more comfortable with the information on these special and largely elusive – though crucial – resources. The direction of travel is settled, not yet the pathway.





# Glossary

**Business model:** An organisation's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organisation's strategic purposes and create value over the short, medium and long term (International <IR> Framework, 2021, p. 53).

**Human capital (HC):** The value that the employees of a business provide through the application of their skills, competencies, knowledge, etc. (WICI Intangibles' Reporting Framework, 2016, p. 13).

**Intangibles:** Non-physical resources that generate value to the organisation in the short, medium and long term. There are intangible assets and intangible liabilities (WICI Intangibles' Reporting Framework, 2016, p. 2).

**Intellectual capital (IC):** The internal (competencies, skills, leadership, procedures, know how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of dynamically interrelated intangibles available to an organisation, which allows the latter to transform a set of tangible, financial and human resources into a system capable of pursuing sustainable value creation (WICI Intangibles' Reporting Framework, 2016, p. 41).

**Intellectual property:** Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce. IP is protected in law by, for example, patents, copyright and trademarks, which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish. (WIPO website <https://www.wipo.int/about-ip/en/>, retrieved on 24th February 2022)

**Key Performance Indicator (KPI):** KPIs are numerical figures (metrics) related to critical/material factors of value creation and which should provide objective evidence of performance trends by tracking them over time (WICI Intangibles' Reporting Framework, 2016, p. 41).

**Organisational capital (OC):** The value that enables Human capital to function for supportive non physical infrastructure, processes and databases of the organisation) (WICI Intangibles' Reporting Framework, 2016, p. 12).

**Relational capital:** The value inherent in an organisation's relationships with its customers, vendors, and other important constituencies (WICI Intangibles' Reporting Framework, 2016, p. 13).

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