Australian Government

Australian Accounting Standards Board

INTANGIBLE ASSETS: REDUCING THE FINANCIAL STATEMENTS INFORMATION GAP THROUGH IMPROVED DISCLOSURES

STAFF PAPER

March 2022

Authors

Principal Author: Robert Keys – AASB Principal Fellow
Contributing Authors: Rabin Jogarajan – AASB Senior Practice Fellow
Eric Lee – AASB Research Principal

Acknowledgements

The authors express special thanks to the following:

- other AASB staff for their contribution to this Paper
- AASB members for their contributions on earlier drafts
- the numerous users, preparers and auditors of financial statements and valuers of intangible assets who contributed their views on the issues addressed in this Paper through various forums including focus groups, individual discussions and surveys; and those who helped facilitate those forums
- members of the academic community who undertook some of the targeted research activities that provided input to this Paper.

Any errors or omissions remain the responsibility of the authors. Any views expressed in this Paper do not necessarily reflect the views of the AASB.

AASB Staff Papers

Publication of this Paper is consistent with the AASB's strategic objective 3 to actively influence the International Accounting Standards Board (IASB), International Public Sector Accounting Standards Board (IPSASB) and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships (AASB and AUASB Corporate Plan 2021-2022).

Enquiries

Australian Accounting Standards Board
PO Box 204
Collins Street West,
Victoria, 8007
Australia
Tel: +61 3 9617 7637
Email: Publications@aasb.gov.au
Website: http://www.aasb.gov.au

Copyright

© Commonwealth of Australia 2022

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, no part may be reproduced by any process without prior written permission. Requests and enquiries concerning reproduction and rights should be addressed to the National Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

Contents

Executive Summary 1
Next steps 3
1. Introduction 4
1.1 Background 4
1.2 Scope and focus 7
2. Insights from the Conceptual Framework 10
2.1 Conceptual justification for disclosures 10
2.2 Types of disclosures 11
2.3 Location of disclosures 12
3. Insights from Academic Research and other Sources 12
3.1 Insights from academic research 12
3.2 Insights from accounting standard-setters' activities 13
3.3 Insights from users and preparers/auditors 14
3.4 Insights from valuers 16
3.5 Conclusion 16
4. Disclosures 17
4.1 Introduction 17
4.2 Possible disclosures 17
4.3 Encouraged or required disclosures 37
4.4 Principles or rules-based disclosures 39
4.5 Summary of issues for consideration 39
Appendix 1: The Scope and Focus of this Paper 42
A1.1 Technical accounting issues 42
A1.2 Reporting channels 43
Appendix 2: Insights from Academic Research and Accounting Standard-Setters' Activities 45
A2.1 Academic research 45
A2.2 Accounting standard-setters' activities 54
Appendix 3: Insights from the AASB Staff-Administered User Survey 59
A3.1 How the survey was administered 59
A3.2 Limitations of the survey methodology 59
A3.3 The survey 61
A3.4 Analysis and interpretation of survey responses 62
Appendix 4: Insights from the AASB Staff-Administered Preparer/Auditor Survey 72
A4.1 Background and how the survey was administered 72
A4.2 The survey 72
A4.3 Analysis and Interpretation of survey responses 73

Appendix 5: Insights from other AASB Staff Outreach 81
A5.1 Insights from a Deakin University hosted focus group 81
A5.2 Insights from an EFRAG Intangible Assets Advisory Panel meeting 82
Appendix 6: Symmetry with AASB 137/IAS 37 83
Appendix 7: Disclosures for Australian Tier 2 Entities 85
Appendix 8: Comprehensive Illustration Comparing Possible Disclosures 86
Appendix 9: Issues Relevant to Unrevalued Recognised Intangible Assets 89
A9.1 Introduction 89
A9.2 Views expressed through the AASB staff-administered surveys 89
A9.3 Possible disclosures about unrevalued recognised intangible assets 92
REFERENCE LIST 94

Executive Summary

This Paper aims to facilitate discussion of possible solutions to a perceived financial statements information gap relating to intangible assets, focusing on disclosures about unrecognised internally generated intangible assets. There are significant concerns that the information currently disclosed is inadequate. This Paper analyses these concerns and identifies a disclosure principle and guiding objective, together with possible specific types of disclosures, that could help reduce the information gap until (and even if) current recognition and other requirements for intangible assets are subject to a more holistic review.

Australian and International Accounting Standards deem that many internally generated intangible assets cannot be recognised as assets in the statement of financial position. Despite that, the Standards do not require disclosure of information to supplement non-recognition. Although some entities make limited disclosures, the information is not comparable across entities.

After considering:

- the Conceptual Framework discussion about disclosures;
- relevant accounting standard-setter activities and academic research findings; and
- a range of views expressed by users, preparers, auditors and valuers,

a number of suggestions are provided on what information about internally generated intangible assets that are unrecognised under the current requirements could be usefully disclosed. Even though there is a view that disclosures should also include information about intangible resources available for use by an entity that do not meet the definition of an asset, such as employee relations and culture, that line of enquiry is not pursued.

The Paper analyses:

- a spectrum of possible disclosures, whether of a financial (cost or fair value) or non-financial (quantitative, non-quantitative or narrative) nature, or a combination of all or some thereof, that could be made in financial statements;
- the types of entities that should be subject to the disclosures; and
- whether the disclosures should be mandated or encouraged.

Based on that analysis, as a first step, the Paper concludes that consideration could be given to making improvements to the current approach to disclosures by publicly-accountable for-profit private-sector entities.

In particular, the Accounting Standards could be amended to specify a requirement or encouragement that is expressed along the following lines:

The principle:

- *An entity discloses information in its financial statements about each significant unrecognised internally generated intangible asset controlled by the entity that plays a key role in pursuing the entity's objectives.*

The disclosure objective:

- *To provide information in the financial statements that enables users to assess the current and expected future financial impact on the entity and management's stewardship of each significant unrecognised internally generated intangible asset controlled by the entity.*

Guidance:

- *In identifying the intangible assets that play a key role in the pursuit of the entity's objectives, consideration could be given to the guidance on:*
  - *the definition of 'intangible assets' in AASB 138/IAS 38* Intangible Assets
  - *materiality in paragraphs 29 to 31 of AASB 101/IAS 1* Presentation of Financial Statements *(and the guidance also in AASB/IFRS Practice Statement 2* Making Materiality Judgements*)*
  - *possible classes of intangible assets identified in paragraph 119 of AASB 138/IAS 38 and paragraphs IE 16 to IE 44 of the Illustrative Examples to IFRS 3* Business Combinations
- *In identifying the entity's objectives, consideration could be given to the guidance on business models and strategies in other AASB/IASB pronouncements*
- *In identifying particular disclosures, consideration could be given to disclosing, for each significant unrecognised internally generated intangible asset:*
  - *a description of the asset*
  - *the reason it is considered to play a key role in the pursuit of the entity's objectives*
  - *the reason it initially failed the recognition criteria in AASB 138/IAS 38*
  - *the operating segments in which it is used*
  - *any legal restrictions on its title*
  - *whether at any time during the period it was newly internally generated, or held for sale, abandoned or sold, or any plan of sale was changed (together with a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal)*
  - *its expected useful life and whether the assessment of useful life has changed materially since the prior period*
  - *financial (cost or fair value), non-financial quantitative, non-financial non-quantitative and/or non-financial narrative (qualitative) information that reflects an appropriate balance between relevance and faithful representation of the potential of the asset to generate economic benefits for the entity that could be used as input for a user's own assessment of financial impact and stewardship. The quantitative information should be calculated on a comparable and consistent basis over time and supported by explanations of the factors that have caused it to change.*

These disclosures could help improve the quality of information (including comparability) in financial statements and thereby facilitate improved decision making. However, those benefits would need to be weighed against concerns about the level of uncertainty and reliable measurement that affects many unrecognised internally generated intangible assets, which is the reason for non-recognition, and whether disclosures can be an adequate alternative to non-recognition. Also, associated costs of implementing new disclosures such as compliance and audit, the potential cost of disclosing proprietary information and litigation risk, would need to be considered.

The Paper also addresses issues relevant to determining how a standard-setting project could be structured and progressed to achieve timely improvements to disclosure requirements. In particular, the Paper speculates that, broadly, mandating financial disclosures would be more contentious than mandating non-financial quantitative disclosures, which in turn would be more contentious than mandating non-financial non-quantitative and narrative (qualitative) disclosures. Accordingly, in the process of building a consensus, consideration could be given to initially introducing the least contentious disclosures while further work is undertaken on more contentious disclosures.

Next steps

A consensus is emerging that the current intangible asset accounting requirements need review. However, the path to improvement is unclear. Although this Paper does not present definitive proposals, it provides input to help determine a first step on the path, without preempting any future outcomes. In so doing, this Paper contributes to domestic and international debate on the accounting for, particularly disclosures about, unrecognised intangible assets. It will also be available as input to any intangible assets project the International Accounting Standards Board (IASB) or International Public Sector Accounting Standards Board (IPSASB) might initiate.

1. Introduction

1.1 Background

Australian Accounting Standard AASB 138 *Intangible Assets* issued by the Australian Accounting Standards Board (AASB) specifies the definition, recognition, measurement, presentation and disclosure requirements relating to the accounting for intangible assets in financial statements. AASB 138 incorporates the requirements of International Financial Reporting Standard (IFRS) IAS 38 *Intangible Assets* issued by the International Accounting Standards Board (IASB).

Intangible assets might be externally acquired (whether separately or as part of a business combination) or internally generated.[1] By definition, intangible assets are individually identifiable. Accordingly, they exclude assets encompassed within goodwill, whether acquired or internally generated, and other intangible resources that do not meet the definition of assets.

Prior to the issue of AASB 138, Australian GAAP did not define the term 'intangible asset', and the accounting for intangible assets was subject to several pronouncements.[2] Australian entities applied judgement in assessing whether they controlled intangible assets, and whether those assets met the general asset recognition criteria of probable future economic benefits and reliable measurement at cost. In addition, extant Australian GAAP allowed the revaluation of recognised intangible assets to fair value, even in circumstances where fair value could not be determined by reference to an active market.

On adoption of AASB 138, Australian entities were required to derecognise many of their internally generated intangible assets and reverse the revaluations of many of the intangible assets that remained recognised. This was a result of the combined effect of applying:

- the new explicit definition of 'intangible asset' in paragraph 8 ("an identifiable non-monetary asset without physical substance");
- the tighter restrictions on recognition, particularly through paragraphs 54, 57 and 63; and
- the tighter restrictions on revaluations through paragraph 75.[3]

In particular, certain types of internally generated intangible assets became subject to stricter recognition requirements, namely:

- Research – paragraph 54 prohibits internally generated intangible assets arising from research (or from the research phase of an internal project) from recognition as assets. Paragraph 55 asserts that, in the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits; and
- Development – paragraph 57 prescribes specific criteria an entity must demonstrate as being met before recognising internally generated intangible assets arising from development (or from the development phase of an internal project) as assets, unless the assets are of a type referred to in paragraph 63. Paragraph 63 prohibits outright the recognition of internally generated intangible assets that are brands, mastheads, publishing titles, customer lists and items similar in substance.

---

1 Paragraph 119 of AASB 138/IAS 38 notes that examples of separate classes of intangible assets may include: brand names; mastheads and publishing titles; computer software; licences and franchises; copyrights, patents and other industrial property rights, service and operating rights; recipes, formulae, models, designs and prototypes; and intangible assets under development.

2 Those pronouncements included AASB 1011/AAS 13 *Accounting for Research and Development Costs*, AASB 1013/AAS 18 *Accounting for Goodwill*, AASB 1015/AAS 21 *Acquisitions of Assets*, AASB 1021/AAS 4 *Depreciation*, AASB 1041 *Revaluation of Non-current Assets* and Statement of Accounting Concepts SAC 4 *Definition and Recognition of the Elements of Financial Statements*.

3 The new definition is unlikely to have been a significant cause of derecognition because the notion of identifiability was already embedded in pre-2005 Australian GAAP. However, it is reasonable to conclude that the changed recognition requirements were a significant cause of derecognition.

Paragraph 64 asserts that expenditure on developing these kinds of intangible assets cannot be distinguished from the cost of developing the business as a whole.[4]

In the lead-up to and in the first period of adoption of AASB 138, Australian entities disclosed the expected and actual impact of the transition on their financial position, performance and cash flows.[5] Subsequently, accounting standards have not required disclosure of information about unrecognised internally generated intangible assets. Instead, paragraph 128(b) of AASB 138/IAS 38 encourages, but does not require, entities to provide "a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard".

This Paper proceeds on the presumption that:

- information, conveyed through asset recognition before the adoption of AASB 138, was lost on adoption of AASB 138; and
- the limited encouragement of disclosures in financial statements has not adequately compensated for that lost information.[6]

Much of the academic research reported in Appendix 2 of this Paper supports this presumption.

Although the Australian experience on adoption of AASB 138 is a motivation for this Paper, there are a number of other more general factors noted by those interested in the accounting for intangible assets that support a review of AASB 138/IAS 38 at this time. These factors, not necessarily mutually exclusive, include:

- **Exponential growth in the knowledge/digital economy**: This has given rise to the existence of a wide range of internally generated intangible assets, including digital assets, that substantially contribute to preserving or enhancing the value of many entities. The COVID-19 global pandemic has likely accelerated this already present trend for the increased importance of intangible assets.
  AASB 138/IAS 38 has not kept pace with the consequential changing business models of many intangible-asset-intensive entities. As a result, many highly valuable internally generated intangible assets remain unrecognised and undisclosed in financial statements. Although some users of financial statements have compensated for that by obtaining information from sources other than financial statements, such as analyst reports and press releases, the information from those other sources is not necessarily presented within a consistent authoritative accounting framework, might not be subject to a robust assurance framework, and is not always accessible to all users equally;
- **Potential distortion of financial ratios used for financial performance and financial position assessments**: For example, return on equity and return on invested capital, which are common performance measures and used for comparison between entities, might be distorted due to the non-recognition of significant intangible assets. The absence of disclosures means financial statements do not provide the additional information that analysts might need as input to compensate for non-recognition in their ratio analyses;
- **Undermined confidence in financial statements**: The absence of key and comparable information in financial statements about unrecognised internally generated intangible assets affects perceptions of the usefulness of, and confidence in, financial statements more generally as a source of comprehensive financial information about an entity;
- **Inconsistency with the revised Conceptual Framework**: The Conceptual Framework has been revised substantially since IAS 38 was issued and AASB 138 was adopted. The revisions have included those concerning the objective of financial reporting, identification of primary users of financial statements, the definition of an asset and the asset recognition criteria;

4 The sixth dot point in section A2.1.1 below provides a summary of research by Ho et al (2020) into the impact of the adoption of the stricter recognition requirements of AASB 138.

5 This disclosure was required by AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* and the 2005 version of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

6 As noted in section 1.2.2 below, the question of whether voluntary disclosures made outside financial statements adequately compensate for the lost information is not addressed in this Paper.

- **Extensive academic research evidence**: A significant amount of academic research supports a general conclusion that AASB 138/IAS 38 is in need of review. However, despite the identified potential benefits of improvements to AASB 138/IAS 38, academic research also cautions that the benefits should be weighed against the associated costs of compliance and audit, and the potential cost of disclosing proprietary information (i.e. risk of revealing key information to competitors). (The findings of this research are outlined in section 3.1, with more detail in section A2.1);
- **Standard-setters' deliberations**: Past and current deliberations and other activities of the AASB and other accounting standard setters indicate an awareness of, and concerns about, insufficient, including insufficiently comparable, information about unrecognised internally generated intangible assets for users of financial statements. (These deliberations and other activities are outlined in section 3.2, with more detail in section A2.2);
- **Divergence between market capitalisation and the book value of listed entities**:[7] Some of the concern that has been expressed about this growing divergence is misplaced as the current Conceptual Framework clarifies that general purpose financial reports are not designed to show the value of an entity. Paragraph 1.7 of the Conceptual Framework goes on to say "… but they provide information to help users to estimate the value of the reporting entity". However, there are legitimate concerns that at least some of the difference between market capitalisations and book values is caused by the current accounting requirements in AASB 138/IAS 38 (see, for example, Appleton et al 2020 noted in section A2.2.2 below). This suggests that financial statements do not adequately reflect the underlying economic substance of entities. Although many internally generated intangible assets are unique, thus giving rise to valuation challenges, including information about them in financial statements would better inform the market's attempts to price them;
- **The current generic disclosure guidance in other accounting standards does not result in adequate disclosures about unrecognised internally generated intangible assets in financial statements:** AASB 101/IAS 1 *Presentation of Financial Statements* states: "… An entity shall … consider whether to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance". As noted in section 2 below, there is little if any evidence to suggest that such a consideration by entities results in adequate disclosures about unrecognised internally generated intangible assets in financial statements;
- **Asymmetries in current accounting requirements**: Asymmetries, which could compromise comparability within and across entities, include those relating to:
  - the recognition of internally constructed tangible assets but the non-recognition of internally generated intangible assets;
  - the recognition of externally acquired intangible assets (including those acquired in a business combination under AASB 3/IFRS 3 *Business Combinations*) but non-recognition of internally generated intangible assets of the same kind;
  - the recognition under applicable AASB/IASB Accounting Standards of some assets that are similar in nature to internally generated intangible assets that AASB 138/IAS 38 deems prohibited from recognition (e.g. insurance acquisition cash flows paid before the related group of insurance contracts is recognised as an asset under AASB 17/IFRS 17 *Insurance Contracts*);[8] and

7 This is indicated in Lev and Gu (2016), Figure 3.3, page 35, which notes book value in 2013 explains less than half of market value, down from 80 percent in the 1950s.

8 Another possible example of this type of asymmetry is in the context of AASB 6/IFRS 6 *Exploration for and Evaluation of Mineral Resources*, to the extent exploration and evaluation expenditure under that Standard is regarded as the equivalent of expenditure on research and/or development under AASB 138/IAS 38. Paragraphs 2(c) and 2(d) of AASB 138/IAS 38 explicitly exclude from the scope of AASB 138/IAS 38 the recognition and measurement of exploration and evaluation assets and expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources. For example, unlike AASB 138/IAS 38 in relation to the capitalisation of research expenditure, IFRS 6 (and AASB 6, under certain conditions) allows an accounting policy choice to be made about whether an entity's exploration and evaluation expenditure (which some view as being similar to, or the same as, research expenditure) can be capitalised and recognised as an asset. Recent consideration of this issue by the IASB is outlined in section A2.2.2 below.

  - disclosures about unrecognised present obligations but not about unrecognised assets in AASB 137/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (discussed in Appendix 6 below);
- **Implementation experience**: It has been over 15 years since Australian entities adopted AASB 138. Therefore, preparers and auditors of financial statements have extensive implementation experience, and users of financial statements similarly have extensive experience with the information that results. Much of that experience suggests a review of AASB 138/IAS 38 would be timely. (The current views of users and preparers/auditors on the requirements of AASB 138/IAS 38 are considered in sections 3.3.1 and 3.3.2 [and sections A3.4 and A4.3 respectively]); and
- **Impending revised guidance on management commentary**: The IASB is currently considering including explicit guidance on the disclosure of information about intangible resources in material that accompanies financial statements through a revised IFRS Practice Statement 1 *Management Commentary* (see sections 1.2.4 and 4.2.5 below).

This Paper contributes to the current debate on potential improvements to AASB 138/IAS 38, particularly possible improvements to disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38. Its primary purpose is to facilitate discussion of the disclosures that could be made in financial statements. The Paper does not present definitive proposals.

1.2 Scope and focus

1.2.1 Introduction

This section provides an overview of the factors that have determined the scope and main focus of this Paper. Further details are provided on some of the factors in Appendix 1.

1.2.2 Internally generated intangible assets

This Paper focuses on unrecognised internally generated intangible assets that meet the definition of 'intangible asset' and fall within the scope of AASB 138/IAS 38. Accordingly, in addition to intangible resources that do not meet the definition of an asset, many intangible resources that meet the definition of an asset are also not the focus of this Paper, including those:

- scoped out of AASB 138/IAS 38 by paragraph 2 (e.g. financial assets, as defined in AASB 132/IAS 32 *Financial Instruments: Presentation*) and paragraph 3 (e.g. deferred tax assets, which are dealt with in AASB 112/IAS 12 *Income Taxes*) and scoped out of AASB 138 by paragraph Aus3.1 (i.e. intangible assets recognised as service concession assets in accordance with AASB 1059 *Service Concession Assets*, except as set out in that Standard), whether internally generated or otherwise;
- acquired in a business combination, which are initially accounted for in accordance with AASB 3/IFRS 3, even if they are of the same kind as unrecognised internally generated intangible assets. The requirements applying to these intangible assets are acknowledged to provide a context in this Paper, but are taken as given and therefore not critically assessed; and
- separately acquired, whether recognised or not.

Issues relating to the measurement of recognised intangible assets after initial recognition are not addressed in detail. Such assets include those for which the entity adopts a revaluation policy but are deemed prohibited from upward revaluation because their fair value cannot be determined by reference to an active market. This Paper does not address these assets in detail because the measurement and disclosure of information about unrevalued assets are broad issues that are not confined to intangible assets.[9]

9 Because some insights into the revaluation of recognised intangible assets were obtained whilst undertaking the research underpinning this Paper, Appendix 9 provides a discussion of some issues that will contribute to debate on the disclosure of information about the subsequent measurement of recognised intangible assets – particularly those that AASB 138/IAS 38 prohibits from revaluation.

1.2.3 Disclosures

There are broadly three different approaches that could be taken in response to concerns expressed about the consequences for the quality of the information included in financial statements as a result of AASB 138/IAS 38:

- do nothing (i.e. maintain the status quo); or
- improve the recognition/measurement requirements; and/or
- improve the type of information identified for disclosure.

The focus of this Paper is on disclosures (i.e. the third dot point), irrespective of whether and how the recognition/measurement debate is resolved. In particular, consistent with section 1.2.2 above, the focus is on disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38. Such a focus is consistent with the AASB 2019 Project Plan,[10] of which this Paper is an output.

Improved disclosures about unrecognised internally generated intangible assets that would supplement the current AASB 138/IAS 38 recognition model are a way of addressing some of the concerns about the Standard until a more fundamental review is undertaken (see also the discussion in section 4.2.4.6 below). In that regard, subject to any feedback in response to the AASB Invitation to Comment ITC 46 *AASB Agenda Consultation 2022–2026*, the AASB will consider whether to undertake a research project that focuses on recognition and measurement issues related to intangible assets in due course with an objective of providing feedback to the IASB. Such a project would be expected to have regard to previous work undertaken on those issues (e.g. Keys and Ardern 2008; Lev 2018; Barker et al 2020). Furthermore, the potential research project would be expected to have regard to the current work that is being undertaken by and through other national standard setters into recognition/measurement issues and perhaps even other issues, including those relating to disclosures about intangible resources available to an entity that do not meet the definition of an asset or are not separately identifiable from goodwill (see sections 3.2 and A2.2 below).

1.2.4 Channels of communication

The focus of this Paper is on identifying information that could be specified for disclosure in financial statements (i.e. in the notes) through the authority of accounting standards. However, management commentary that accompanies and complements the information in financial statements as part of an annual report is acknowledged as an alternative channel outside the authority of accounting standards.[11]

Despite this Paper's focus on financial statements, it also makes a contribution to the debate on whether and, if so, what type of information about unrecognised internally generated intangible assets should be considered for inclusion in management commentary rather than the financial statements.

Yet other potential channels of communication, also not the focus of this Paper, are acknowledged in section A1.2.

1.2.5 Affected entities

All entities are potentially affected by accounting requirements for intangible assets. Accordingly, consistent with the AASB's 'transaction neutral' approach to standard setting,[12] this Paper contemplates the implications for Australian publicly accountable[13] and non-publicly accountable entities (i.e. those

10 The AASB decided to proceed with the project, as recorded in the minutes of agenda item 15 of the AASB 21 November 2019 meeting.

11 Other terms used for 'management commentary' include 'operating and financial review' (OFR), 'strategic reporting', 'narrative reporting' and 'management discussion and analysis' (MD&A).

12 The AASB's transaction-neutral approach to standard setting results in like transactions and events being accounted for in a like manner by all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so (see paragraphs 39 to 42 of *AASB Policies and Procedures* 2011).

13 An example of a publicly accountable entity, defined in Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards*, is one that has issued equity or debt that is traded in a public market.

subject to, respectively, Tier 1 and Tier 2 Australian reporting requirements for general purpose financial statements under AASB 1053 *Application of Tiers of Australian Accounting Standards*), whether for-profit or not-for-profit and whether in the private or public sectors.

However, this Paper focuses on issues relevant to the not-for-profit and public sectors only to the extent those matters coincide with the considerations relevant to the for-profit private sector. This is because:

- the AASB has not yet reviewed the current for-profit Conceptual Framework in a transaction-neutral context;
- there is an absence of research into specific not-for-profit and public-sector-specific issues relating to intangible assets. For example, it might be that, in contrast to the private sector, information about unrecognised internally generated intangible assets would not have a discernible impact on decisions made in relation to public sector entities.[14] This is because:
  - intangible assets are typically used to allow a government to provide services and for governance reasons, rather than to earn economic inflows;
  - decision making is not typically based on the future economic benefits that could be obtained from utilising the intangible assets; and
  - issues tend to arise in relation to whether intangible resources meet the definition of an asset or not, rather than the question of recognition.

  Therefore, compared with the for-profit private sector, the cost of making the disclosures contemplated in this Paper for public sector entities might be more likely to outweigh the benefits;
- despite efforts to the contrary, there was only a limited response to AASB staff's outreach seeking input to this Paper from users of financial statements in the not-for-profit and public sectors (see section A3.4); and
- the IPSASB has made limited progress in its review of IPSAS 31 *Intangible Assets* (see section A2.2 below).[15]

Accordingly, the extent of concerns about AASB 138/IAS 38 might differ between for-profit and not-for-profit entities in the private sector and the public sector. Therefore, the not-for-profit and public-sector-specific issues need to be considered further.

In relation to non-publicly accountable entities, in light of the different approaches (to those types of entities) adopted by the AASB and the IASB:

- the IASB's *IFRS for SMEs* requirements are beyond the scope of this Paper; and
- consideration of requirements applicable to Australian Tier 2 entities are relegated to Appendix 7 rather than detract from the flow of the main focus of this Paper.

1.2.6 A part of a bigger picture

Although this Paper focuses only on one aspect (i.e. disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38), other issues with some association with intangible assets, such as the culture of an entity, employee relations, sustainability and environmental impacts, are relevant to users of financial statements. Other research and innovative thinking about these considerations is progressing. This includes Integrated Reporting, Sustainability Reporting and Balanced Score Card Reporting, which are acknowledged in Appendix 1 of this Paper. Furthermore, Appendix 2

---

14 Instead, the focus might be more appropriately on service performance – see for example IPSASB Recommended Practice Guideline *Reporting Service Performance Information* (RPG 3), which sets out good practice for reporting service performance information. It provides guidance on presentation decisions with respect to service performance information that will meet users' needs and information that should be presented when reporting service performance information.

15 It is notable that IPSAS 31 excludes from its scope "the powers and rights conferred by legislation, a constitution, or by equivalent means", as noted in the 'Comparison with IAS 38' section of IPSAS 31. Such excluded intangible assets would include a government's right to tax. Other types of intangible assets likely to be more prominent in a public sector context compared with a private sector context that require further consideration could include intangible heritage assets and the electro-magnetic spectrum. Another issue that might be more prominent in, but not necessarily exclusive to, a public sector context is the relationship between the recognition of intangible assets and corresponding liabilities. Consideration of this issue is also beyond the scope of this Paper.

(section A2.2) acknowledges the work of various national standard setters that is considering possible disclosures about a wider range of intangible resources than are the focus of this Paper.

Despite this Paper's relatively narrow focus, it intends to contribute to the 'bigger picture'. In doing so, this Paper acknowledges that there is a potential relationship between unrecognised internally generated intangible assets controlled by an entity and other value creating resources available to but not necessarily controlled by the entity, and that focusing only on disclosures about the former would not provide a holistic and complete picture for users. Indeed, some users might prefer disclosures about entity-wide intangibles over specific individual unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38. However, given the complexity and range of issues that could be addressed, initially focusing on the narrower scope arguably provides the greatest opportunity for achieving a timely, realistic incremental improvement to current financial reporting requirements while longer-term, more broadly-scoped and complex projects continue to be pursued. Consistent with that view, the discussion in section 4.2.4.6 below briefly considers issues relevant to determining how a standard-setting narrowly-scoped project could be structured and progressed in stages.

2. Insights from the Conceptual Framework

2.1 Conceptual justification for disclosures

When AASB 138 was first issued, the applicable Conceptual Framework in Australia (which incorporated the IASB's Conceptual Framework at the time) was the *Framework for the Preparation and Presentation of Financial Statements* (2004). It was in that context that the current accounting requirements in AASB 138/IAS 38 were developed. Since that time, the Conceptual Framework has been revised by the IASB and AASB and is now the *Conceptual Framework for Financial Reporting* (2019). This is the Framework used as the basis for providing a contemporary conceptual context in this Paper.

This Paper does not address whether the recognition/measurement requirements of AASB 138/IAS 38 were consistent with the 2004 Conceptual Framework and whether they are consistent with the 2019 Conceptual Framework. Instead, the focus is on the extent to which the latter provides conceptual justification for disclosures.

There is conceptual justification for users being provided with disclosures about unrecognised internally generated intangible assets because the 2019 Conceptual Framework makes explicit reference (e.g. in paragraph 3.4) to the need for information about unrecognised assets. Furthermore, the 2019 Conceptual Framework identifies comparability as an enhancing qualitative characteristic of useful information. The prospect of enhancing comparability particularly justifies standard setters giving consideration to including a greater level of guidance in AASB 138/IAS 38 on disclosures about unrecognised internally generated intangible assets.

Moreover, while Chapter 5 of the 2019 Conceptual Framework focuses on the concepts of recognition, it also notes the importance of disclosures. For example:

- paragraph 5.11 states: "Even if an item meeting the definition of an asset … is not recognised, an entity may need to provide information about that item in the notes. It is important to consider how to make such information sufficiently visible to compensate for the item's absence from the structured summary provided by the statement of financial position and, if applicable, the statement(s) of financial performance."; and
- paragraph 5.23 states: "Whether or not an asset … is recognised, a faithful representation of the asset … may need to include explanatory information about the uncertainties associated with the asset … existence or measurement, or with its outcome—the amount or timing of any inflow … of economic benefits that will ultimately result from it…"

2.2 Types of disclosures

In relation to the type of information that should be disclosed, paragraph 5.25(c) of the 2019 Conceptual Framework states: "A complete depiction includes all information necessary for a user of financial statements to understand the economic phenomenon depicted, including all necessary descriptions and explanations." Although the focus of that paragraph is on disclosures about recognised amounts, they could equally be applied to unrecognised internally generated intangible assets[16] having regard to the guidance on materiality in paragraphs 29 to 31 of AASB 101/IAS 1 (and the guidance in AASB/IASB Practice Statement 2 *Making Materiality Judgements*).

Paragraph 2.20 of the 2019 Conceptual Framework states that information must satisfy fundamental qualitative characteristics (i.e. both be relevant and provide a faithful representation of what it purports to represent) if it is to be useful. Of particular relevance in the context of this Paper, paragraphs 2.21 and 2.22 also state:

> "The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.
>
> In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting, which is to provide useful information about economic phenomena. For example, the most relevant information about a phenomenon may be a highly uncertain estimate. In some cases, the level of measurement uncertainty involved in making that estimate may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that phenomenon. In some such cases, the most useful information may be the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. In other such cases, if that information would not provide a sufficiently faithful representation of that phenomenon, the most useful information may include an estimate of another type that is slightly less relevant but is subject to lower measurement uncertainty. In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate."

These paragraphs would apply to all kinds of information, whether financial, non-financial quantitative, non-financial non-quantitative or non-financial narrative (qualitative) information. Unrecognised intangible asset disclosures that are determined after having regard to the issues addressed in this Paper so as to reflect an appropriate balance between relevance and faithful representation would be consistent with the 2019 Conceptual Framework's acknowledgement of the need for a trade-off between the fundamental qualitative characteristics.

Chapter 7 of the 2019 Conceptual Framework deals with presentation and disclosure concepts. It expresses the importance of using disclosure as a communication tool and the importance of having disclosure objectives for effective communication in financial statements, enhancing the understandability and comparability of information in financial statements. Using disclosures in financial statements to

16 Even if an asset is unrecognised, any expenditures on it would be recognised as an expense, and therefore disclosures about unrecognised internally generated intangible assets could be thought of as disclosures about associated accumulated recognised expenses. Alternatively, they could be thought of as disclosures about initially recognised assets that were instantly written off as impaired.

convey information about unrecognised internally generated intangible assets controlled by the entity that are guided by an explicit disclosure objective would be consistent with those concepts.[17]

2.3 Location of disclosures

The 2019 Conceptual Framework also sheds some light on the location of any disclosures about unrecognised internally generated intangible assets. In particular, it "establishes an objective of financial reporting and not just of financial statements" (paragraph BC1.4 of the Basis for Conclusions on the Framework), which suggests disclosures could be located outside of the financial statements such as in the accompanying management commentary.

Consistent with this Paper's focus on financial statements, the Paper proceeds on the presumption any new disclosures it contemplates would be specified (encouraged or required) through accounting standards for inclusion in financial statements. However, it is acknowledged that, alternatively, the disclosures could be specified for inclusion in the accompanying management commentary or elsewhere published with the financial statements. This alternative might be preferred, particularly if the disclosures were to be non-mandatory (as discussed in section 4.2.5).

3. Insights from Academic Research and other Sources

3.1 Insights from academic research

This section provides a high-level summary of insights from the academic literature into disclosures about unrecognised internally generated intangible assets. As a context, insights can also be gained from the findings of academic research that focused on recognition issues. Further details are provided in sections A2.1.1 and A2.1.2.

Many research findings support additional relevant disclosures generally, not just disclosures relating to intangible assets. They conclude that the benefits, including higher-quality information as input for decision making and lower cost of capital, could outweigh implementation costs, including valuation costs, audit costs and proprietary costs.

One explanation for the lower cost of capital resulting from disclosures is the reduced uncertainty about an entity's future performance (Botosan 1997; Dinh et al 2020). Botosan finds that greater disclosures are associated with lower cost of capital particularly for firms that mainly use their annual reports as a communication tool (i.e. firms with low analyst following). Other benefits that have been found to be associated with higher levels of disclosure include higher analyst forecast accuracy (Jones 2007; Merkley 2014), reduced uncertainty about firms' future returns (Barry and Brown 1985; Coles et al 1995), reduced information asymmetry (Diamond and Verrecchia 1991; Leuz and Verrecchia 2000; Easley and O'Hara 2004), and improved comparability across companies (Verrecchia 2001; Lambert et al 2007; Leuz and Wysocki 2008; Beyer et al 2010; Bushman and Landsman 2010; Lambert et al 2012, as cited by Johansen and Plenborg 2013).[18]

Despite these expected benefits of disclosures, academic research faces difficulties in objectively and definitively assessing the implications of incremental disclosure (as noted by Beyer et al 2010; Berger 2011). As a result, some academic research does not support mandating additional disclosures

17 A possible disclosure objective relating to the disclosure of information about unrecognised internally generated intangible assets is put forward in section 4.1 below as a basis for identifying possible specific disclosure suggestions.

18 Other benefits cited in the literature include that disclosures discipline and improve management's decision making and thereby increase future cash flows (Leuz and Wsocki 2008, as cited by Johansen and Plenborg 2013). Also, market-wide and societal benefits may arise from increased competition, the exposure of best practice or more efficient risk sharing (Leuz and Wysocki 2008; Beyer et al 2010, as cited by Johansen and Plenborg 2013).

about intangible assets, arguing that the challenges of undertaking a meaningful cost/benefit analysis of amending the requirements in AASB 138/IAS 38 are insurmountable. They argue that market forces need to be relied on to drive managers to provide relevant disclosures (e.g. Skinner 2008).[19] However, even if market forces work in that direction, market imperfections result in disclosures that might not be sufficiently comparable across entities because they will be based on an entity's circumstances and not within a consistent disclosure framework. This could be the case even if the disclosures evolve in response to an entity's users' needs in addition to the entity's circumstances. Furthermore, Armstrong et al (2011) find that because disclosure is costly, firms with low growth options may rationally choose not to incur the costs associated with reducing information asymmetry. This could disadvantage some users relative to other users.

In response to concerns about leaving decisions relating to whether and what disclosures to make about intangible assets entirely to the discretion of preparers, some academic research has identified possible ways of improving the accounting for intangible assets without relying on market forces. Some conclude that a wider range of internally generated intangible assets (and other intangible investments) should be recognised and measured (e.g. Lev and Zarowin 1999). Not all of those whose findings provide support for additional disclosures, whether instead of or in addition to greater recognition, identify what those disclosures should be. Exceptions include:

- Van Der Spuy (2015), who advocates improved disclosures because it is important for users to incorporate specific information (noted in section 4 below) about internally generated intangible assets, especially unrecognised brands, into their valuation models;
- Merkley (2014), who suggests that narrative research and development (R&D) disclosure that conveys contextual information about a firm's R&D activities should be included in the US Security and Exchange Commission's SEC Form 10-K annual report;
- Lev (2001), who suggests that information about an entity's innovation activities be included in annual reports. That information could include non-financial indicators, arranged in three phases according to the cycle of development (discovery and learning phase, implementation phase and commercialisation phase). Some examples, taken from Kang and Gray (2011), include workforce training and development, business collaborations, licensing agreements, brand values, market share and market innovation, some of which fall within the scope of this Paper; and
- Bloom (2009), whose approach could be regarded as supporting disclosure of the fair value of unrecognised internally generated intangible assets.

In addition to the outcome of the academic research summarised above, the AASB initiated and supported three academic research projects specifically as part of its work in the lead-up to developing this Paper (Monem et al 2017, Ho et al 2020 and Davern et al 2021). In broad terms, this research did not find any examples of Australian entities voluntarily making disclosures about unrecognised internally generated intangible assets in their financial statements.

3.2 Insights from accounting standard-setters' activities

This section provides a high-level summary of insights from the activities of accounting standard setters, further details of which are provided in section A2.2.

More than a decade ago (at the time the AASB presented an intangible assets project proposal to the IASB), there was a general acknowledgement among accounting standard setters that accounting for intangible assets is a controversial area and needs review (see section A2.2.1). However, there was no consensus at the time as to what priority should be given to undertaking that review, or what direction it should take. Since then, there appears to be a view emerging that it would be timely to make a collaborative effort to reduce the current information gap internationally and thereby enhance

19 Skinner goes on to note that "regulators can help in this area by providing guidance about the forms that disclosures might take and by minimising any costs of disclosure, including legal costs" (page 203).

comparability across entities, even if there is no clear consensus of how wide the gap is, whether to reduce it through improved recognition requirements and/or disclosures, and whether to reduce it incrementally and, if so, in how many steps, how quickly and in what order.

As noted in sections 1.2.6 and A2.2, some standard setters are currently contemplating improved recognition/measurement requirements together with improved disclosures about intangible assets (and other intangible resources) that remain unrecognised (for example, EFRAG [see its August 2021 discussion paper] and UK FRC [see the feedback statement to its 2019 Discussion Paper]). The aspects of their work that particularly relate to improved disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38 have helped inform the discussion in section 4 of this Paper.

3.3 Insights from users and preparers/auditors

3.3.1 Insights from an AASB staff-administered user survey

AASB staff administered an online survey inviting Australian and overseas users of financial statements to express their views on issues relevant to this Paper.[20] Input from the 20 respondents to the survey was supplemented by information from other forums (including a Deakin Business School's Department of Accounting hosted focus group, a meeting of the AASB User Advisory Committee [UAC],[21] a brief meeting of the EFRAG Intangible Assets Advisory Panel, and discussions with individual users) to help gain a more comprehensive and nuanced understanding of the views of users (see Appendix 3).

The input received indicated that, broadly, respondents do not consider financial statements prepared in accordance with AASB 138/IAS 38 to be useful relative to other sources of information about unrecognised internally generated intangible assets. Although a significant minority could support the status quo, overall, the majority indicated support for AASB 138/IAS 38 being amended. There were mixed views on whether AASB 138/IAS 38 should be amended to require the recognition of more internally generated intangible assets (with a range of views on the basis for initial and subsequent measurement) or, instead, only the disclosure requirements of AASB 138/IAS 38 relating to currently unrecognised internally generated intangible assets should be amended (with a range of views on how those requirements could be improved).[22]

Similarly, the general consensus that emerged from the Deakin-hosted forum and the EFRAG Advisory Panel meeting (see Appendix 5) was agreement that AASB 138/IAS 38 is in need of review, and the views were mixed as to what improvements could and should be made. There was some support for amending the recognition/measurement requirements but there seemed to be greater support indicated for improving disclosures.[23]

Many respondents to the survey expressed strong views against amending recognition/measurement requirements. This was mainly due to their views on the purpose of recognition in financial statements and their scepticism about the quality of the information that would result, given it would be dependent on a high level of management judgement. They could accept disclosure of such information as a marker rather than a determinant for users' own entity-value assessments. Some argued strongly that financial

---

20 For the purpose of this Paper, users of financial statements are those identified in the 2019 Conceptual Framework. Paragraph 1.2 of the Framework states "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity". It identifies other parties as users, such as regulators and members of the public other than the identified primary users, who might also find general purpose financial reports useful. However, it clarifies that general purpose financial reports are not primarily directed to these other groups of users.

21 The AASB website UAC page states: "The User Advisory Committee (UAC) is an expert panel formed by the Australian Accounting Standards Board (AASB), which is of comprised of analysts, investors, ratings agencies, fund managers, and investor relations professionals from the For-Profit sector. The purpose of the UAC is to provide the AASB with input, recommendations, and feedback pertaining to the creation or emendation of Australian Accounting Standards, as well as outreach to the wider stakeholder community."

22 The level of support for improved disclosures ranged from mere acknowledgement that additional disclosures could be useful to a strong view that disclosures should be improved.

23 These views are also broadly consistent with what the FRC UK found in response to its Discussion Paper *Business Reporting of Intangibles: Realistic Proposals*.

statements should be a record of historical (mainly external) transactions at historical cost and therefore should not be distorted by further degrees of management judgement. Financial statements already contain significant management judgement in areas such as impairment testing of recognised assets. Due to the subjectivity involved, those who supported or could accept improved disclosures did so only if prudence is applied. They also noted the disclosures could have significant cost implications, for example in relation to audits. This observation is consistent with the academic findings discussed in section A2.1.

Irrespective of their broad view about the appropriate accounting for intangible assets, all respondents were asked about what type of information relating to unrecognised internally generated intangible assets should be disclosed if AASB 138/IAS 38 continued to deem the recognition of many such assets prohibited but was amended to require additional disclosures in the notes to financial statements. Their responses indicate there was a reasonable level of acceptance of the potential usefulness of different types of possible disclosures. The specific types of improved disclosures users identified, or at least indicated some level of acceptance of, are included in the spectrum of possible disclosures identified in Table A of section 4.2, and discussed more fully in sections 4.2.1 to 4.2.4.

3.3.2 Insights from an AASB staff-administered preparer/auditor survey

AASB staff also administered an online survey that was similar to the user survey for preparers and auditors of financial statements. Six preparers and six auditors responded, and their responses were supplemented by input from detailed discussions with preparers from two companies who did not formally complete the survey.

Before respondents were asked about a list of possible alternative accounting approaches for intangible assets, the majority of survey responses, particularly among auditors, indicated a view that the current accounting requirements for intangible assets reflect an appropriate balance between costs to preparers and benefits to users. However, when asked about a list of possible alternative approaches, a large majority disagreed with retaining the status quo. They also agreed with the view that financial statements are the appropriate vehicle for conveying information about internally generated intangible assets. Many of the respondents went on to express at least some level of support for amending the recognition requirements (with mixed views on the basis for initial and subsequent measurement) or only amending the disclosure requirements (with mixed views on what those disclosures should be) – with slightly greater support being apparent for a recognition solution over a disclosure-only solution.

Similar mixed views are also evident to some extent from the preparer/auditor perspective reflected in the Deakin focus group discussion, the meeting of the EFRAG Advisory Panel, responses to FRC UK's Discussion Paper 2019 and reactions to other older material, including the suggestions by Keys and Ardern in the 2008 AASB Discussion Paper.

When asked what type of disclosures could be accepted if a disclosure-only approach to improving AASB 138/IAS 38 in relation to unrecognised internally generated intangible assets within its scope were to be adopted, the responses broadly indicated a reasonable level of support from both preparers and auditors (but more so from preparers) for disclosure of financial, non-financial quantitative and/or non-financial qualitative information. Only one respondent, an auditor, disagreed with any new disclosures, arguing "disclosures in financial statements are already excessive".

It is also informative to consider preparer/auditor views on the current disclosure encouragement in paragraph 128(b) of AASB 138/IAS 38. Of particular note is that some preparers explained their reason for not adopting the encouragement is on cost grounds or concerns it would reveal proprietary information, suggesting they would also be concerned if the encouragement were made mandatory and expanded on. However, some respondents suggested the encouraged disclosure on its own is incomplete – suggesting they would accept more comprehensive disclosure requirements. No preparers/auditors who responded to the survey suggested users could readily access the information from elsewhere.

3.4 Insights from valuers

AASB staff held discussions with individuals from an organisation that provides valuation services, including the valuation of intangible assets for financial reporting purposes. Those valuers noted that in principle many unrecognised internally generated intangible assets could be reliably measured at fair value, because the same kinds of assets need to be measured for the purposes of applying AASB 3/IFRS 3. However, they observed that the circumstances of a business combination differ significantly from other circumstances under which a valuation might be undertaken. They expressed caution about recognising currently unrecognised internally generated intangible assets, and even about disclosing the value of such assets in financial statements. Their concerns included the difficulties of valuing discrete intangible assets, exposing management to liability where the disclosed information does not reflect what subsequently transpires, and revealing commercial secrets and strategic positioning (and thereby, perversely, destroying the value of an intangible asset that is revealed). They commented that users of financial statements would be best served through transparency around an entity's operations and investments (into which unrecognised internally generated intangible assets and other intangible resources are an input) rather than a valuation of an unrecognised internally generated intangible asset that reflects the assumptions of management or a valuer at a point in time. They suggested that consideration could be given to disclosing key metrics together with identification and discussion of opportunities and risks in a way that strikes an appropriate balance of informing users without adversely affecting the prospects of the entity.

3.5 Conclusion

Although the analysis in this section and Appendices 3 to 5 notes that there is some level of hesitancy from some about the merits of disclosures about unrecognised internally generated intangible assets in financial statements, on balance, disclosures might provide the most viable opportunity for improving the quality of information included in the financial statements about such assets in a timely and cost-effective way. However, consistent with the fundamental qualitative characteristics specified in the 2019 Conceptual Framework and noted in section 2.2 above, disclosures would only be appropriate where they are both relevant and provide a faithful representation of the phenomena they purport to represent.

Despite the mixed views apparent from the responses to the surveys of users and preparers/auditors, the responses indicate at least some level of acceptance that disclosures in financial statements about unrecognised internally generated intangible assets could be improved.

There is some academic research evidence that suggests disclosures can be an effective way of communicating relevant information, particularly where any amounts that are included in those disclosures are reliable and the disclosed information is readily identifiable and easily processed (Bratten et al 2013).

However, some academic research cautions that users process disclosed information differently from recognised amounts. For example, Michels (2017) comments that “investors underreact to disclosed events, only responding to these events after they are recognised. This suggests that investors may incur higher processing costs when using disclosed values, resulting in investors relying primarily on recognised numbers instead.” In addition, Schipper (2007) comments: “research suggests that users … process disclosed items differently from, and probably less thoroughly than, recognized items. It is unclear what causes this difference, and how much the difference might matter for capital market outcomes. In particular, processing differences that arise because of a lack of financial statement user attention and expertise (they do not closely attend to and/or understand disclosures) are amenable to interventions in the form of better education and training. On the other hand, processing differences that arise because of

cognitive factors that are impervious to education and incentives might require standard-setter consideration in setting disclosure requirements."[24]

Whilst acknowledging these findings, this Paper proceeds on the basis that disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38 have the potential to provide decision-useful information to users, and the impediments as suggested by Michels (2017) and Schipper (2007) can be mitigated (although perhaps not eliminated) through education, training and advancements in technology.

Section 4 identifies different types, and items within those types, of disclosures.

4. Disclosures

4.1 Introduction

Informed by the foregoing discussion, this section contemplates the types of disclosures relating to unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38 that could be made in financial statements, individually or in full or partial combination.

For the purposes of identifying possible disclosures, it is helpful to articulate a disclosure objective. Consistent with paragraph 7.5 of the 2019 Conceptual Framework noted in section 2.1 above, the disclosure objective could be expressed as:

> To provide information in the financial statements that enables users to assess the current and expected future financial impact on the entity and management's stewardship of the significant unrecognised internally generated intangible assets controlled by the entity.

This section's focus on identifying information about significant unrecognised internally generated intangible assets *prima facie* expected to be of benefit to users does not imply that the costs to preparers (and auditors) of making additional disclosures should be ignored. Before any decision is made about whether and, if so, what disclosures to make, consideration would need to be given to the costs relative to the benefits as part of the normal due process of standard setting. Costs would include initial costs such as system changes as well as recurring costs of implementation and any other adverse consequences of making disclosures.

4.2 Possible disclosures

For the purpose of this Paper, the possible disclosures about unrecognised internally generated intangible assets contemplated in this section are broadly grouped using the following four labels:

- non-financial non-quantitative information;
- non-financial narrative (qualitative) information;
- non-financial quantitative information; and
- financial information.

It is acknowledged that the four labels are not perfect descriptions. For example, for the purpose of this Paper:

- the label 'financial information' is reserved for mainly cost- (including expense-) and value-based information (and associated information);
- the label 'non-financial quantitative information' is reserved for mainly information that might be regarded as a possible substitute for cost- (including expense-) and value-based information. As a

24 Arguably, this cautionary note is not as significant as it was at the time of Schipper's research, and its significance is expected to continue to wane in the future as information extraction technologies have and continue to become more sophisticated (and more widely used) and reduce the risk of human error/cognitive constraints. For example, Coleman et al (2021) find 'robo-analyst' recommendations compared with 'human-analyst' recommendations to be more sensitive to complex disclosures, which can be presented in a manner that is more amenable to extraction technologies from which robo-analysts can leverage.

consequence, some information is labelled 'non-financial non-quantitative' despite it having a quantitative component (e.g. as reflected in Table A below, information about the estimated useful life of an unrecognised internally generated intangible asset is categorised under 'non-financial non-quantitative information' despite life being depicted as a number of years); and

- the distinction between 'non-financial non-quantitative information' and 'non-financial narrative (qualitative) information' is based on their degrees of specificity; the former being more specific than the latter. The latter falls into two broad types: that which provides a context for the information conveyed under the other labels, and that which, in its own right, provides information about the asset. 'Non-financial narrative (qualitative) information' can also be regarded as a catch-all category that could be used to convey information that cannot reasonably be characterised as one of the other categories of information.

Column 1 of Table A below presents a spectrum of possible information items together with some related commentary in square bracketed italicised text. Any one of the possible information items could, depending on circumstances, satisfy the fundamental qualitative characteristics specified in the 2019 Conceptual Framework of relevance and faithful representation (noted in section 2.2 above). Where applicable, the direct or indirect source of each item is cited in Column 2 and the details are provided in the Reference List at the end of this Paper. Column 3 identifies some advantages and disadvantages of each type of disclosure, also citing the source, where applicable.[25]

Although the list of items is not exhaustive, it is intended to capture a wide variety of possible items. Not all the possible variations of each type of item are listed. Furthermore, the inclusion of an item in the Table does not suggest the item is not already disclosed by some entities in some form of corporate reporting.

25 Because the list of possible information items in Column 1 was not finalised until after the views of users and preparers/auditors were obtained through the AASB staff-administered surveys, it is not possible to directly show respondents' views on each item. However, the surveys asked for views on items in a previously prepared list of possible disclosures, many of which overlap with the list in Column 1. An analysis of views on the list of items in the surveys is provided in Appendix 3 in relation to users and Appendix 4 in relation to preparers/auditors, and is not repeated in Column 3 of Table A.

TABLE A

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
1. Non-financial non-quantitative information		
A. A description of each significant unrecognised internally generated intangible asset *[The use of the term 'significant' (i.e. key to the entity in its pursuit of its objectives) is consistent with paragraph 128(b) of AASB 138/IAS 38. Although the term 'material' might reflect more-updated language, contemplation of such amendments to AASB 138/IAS 38 is beyond the scope of this Paper]*	Based on paragraph 128(b) of AASB 138/IAS 38 and the FRC UK 2019 Discussion Paper	ADVANTAGES: • Item 1(A) is not a new idea as it would be effectively the equivalent of the encouragement in paragraph 128(b) of AASB 138/IAS 38. • Item 1(B) would provide useful information about unrecognised assets that are critical to the entity's value maintenance and creation, and achievement of its objectives and strategy. • Item 1(C) would provide users with an understanding of management's application of the recognition requirements in AASB 138/IAS 38. It would also provide information relevant to a user's assessment of the financial impact of the asset – for example, knowing that an asset failed the probable future economic benefits recognition criterion would convey information about the level of uncertainty about those benefits. • Item 1(D) would enable users to make a better assessment of the impact an asset has on a specific operating segment. • Item 1(E) would be consistent with the equivalent requirement for disclosures about recognised intangible (paragraph 122(d) of AASB 138/IAS 38) and tangible (paragraph 74(a) of AASB 116/IAS 16 *Property, Plant and Equipment*) assets. Restrictions on the owner's title impose the same risk to the general risk profile of an entity irrespective of whether they relate to recognised or unrecognised assets. • Item 1(F) would be particularly relevant if such an unrecognised asset generates a significant portion of an entity's income. • Item 1(G) would provide users with an indication of the expected lifespan of the unrecognised asset and provide input for a user's assessment of whether that time horizon is consistent with the entity's strategy for specific business models. DISADVANTAGES: • In the absence of a specific transaction, an assessment of whether an unrecognised internally generated intangible asset is controlled by the entity could be challenging, let alone whether it is identifiable. • In the absence of guidance, the meaning of 'significant' for the purpose of applying item 1(A) might be ambiguous because an unrecognised intangible asset might be currently financially insignificant but have significant potential. (To address this concern, the emphasis could be placed on the significance of an asset to the entity's value [i.e. future oriented] rather than current earnings.) • Items 1(A) to (G) would add to the volume of disclosures in financial statements, risking information overload and distracting attention from other potentially more important information.
B. The reason the asset is significant	Based on paragraph 4.5 of FRC UK 2019 Discussion Paper	
C. The reason the asset initially failed the relevant recognition criteria *[The reason could be that the asset failed the probable and/or reliably measurable criteria in paragraph 21 of AASB 138/IAS 38; or failed one or more of the specific recognition requirements for intangible assets arising from development activities in paragraph 57 of AASB 138/IAS 38; or is deemed prohibited from recognition by paragraphs 54 or 63 of AASB 138/IAS 38]*	Based on paragraph 240 of Keys and Ardern (2008)	
D. The operating segments in which the asset is used, where such segments can be clearly identified	Van Der Spuy (2015); and AASB 8/IFRS 8 *Operating Segments*	
E. Whether there are any legal restrictions on the asset's title, and if so details thereof	Van Der Spuy (2015); and paragraph 122(d) of AASB 138/IAS 38 re recognised intangible assets	
F. Whether at any time during the year the asset was newly internally generated; or held for sale, abandoned, sold, or any plan of sale changed, together with (consistent with the principles in AASB 5/IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal. *[Paragraph 3(h) of AASB 138/IAS 38 states that the Standard does not apply to "non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5[/IFRS 5] …" Despite that, item 1(F) considers the merits of applying some of AASB 5/IFRS 5's disclosure principles to unrecognised internally generated intangible assets]*	Based on paragraph 118(e)(i) of AASB 138/IAS 38 re newly internally generated intangible assets; Van Der Spuy (2015); and the principles in AASB 5/IFRS 5 (paragraphs 41 and 42) re sales	
G. Whether the asset's expected useful life is indefinite or finite and: • if finite, the expected useful life and any material change in the assessment of that useful life compared with the previous assessment; or • if indefinite, reasons supporting the assessment of an indefinite useful life. In giving these reasons, describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.	AICPA 1994 and paragraph 118(a) of AASB 138/IAS 38 re useful life Paragraph 121 of AASB 138/IAS 38, which refers to paragraph 39 of AASB 108/IAS 8, re changes in useful lives Paragraph 122(a) re indefinite useful life	

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
		[This Paper does not address the possible locations of these disclosures within financial statements. In the case of item 1(D), for example, disclosure could be made in either the segment note, a separate unrecognised internally generated intangible assets note or the more general intangible assets note. Furthermore, wherever it is located, it could be presented adjacent to any of the financial or non-financial quantitative information contemplated in items 3 and 4 below that is also disclosed.]
2. Non-financial narrative (qualitative) information		
Narrative qualitative contextual information and descriptions of relevant general aspects of each significant unrecognised internally generated intangible asset that is not otherwise adequately conveyed through other disclosures made about the asset in response to items 1, 3 or 4 listed in this Table. This disclosure could include a faithfully representative discussion of the potential financial and/or non-financial impact on the entity if the entity were to be hypothetically deprived of the asset. It could also include a faithfully representative discussion of changes in the asset's attributes compared with the comparative period (or even differences from budgets/expectations) and their causes, and a discussion of actions taken to rectify adverse changes. *[This type of disclosure could incorporate or supplement the information listed in items 1(A) to (G). Indeed, item 2 could accompany/incorporate item 1(B).* *Furthermore, this type of disclosure could be adopted where it is impracticable for non-financial quantitative information (see item 3 below) and/or financial information (see item 4 below) to be disclosed. It could also be used to provide a context to or supplement that information.* *Although beyond the scope of this Paper, consideration could also be given to a narrative discussion of the relationship between the asset and other interrelated intangible resources. For example, the interrelationship of an entity's brand with the existing supply chain and the assembled workforce, and even more generally within the context of a description of the business model and a discussion of risks and opportunities associated with the asset]*	Paragraph 2.22 of the 2019 Conceptual Framework, which states "…In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate."	ADVANTAGES • Item 2 would provide relevant contextual, supplementary or substitute information in circumstances where other relevant information about the asset requires context or is inadequate or unavailable. DISADVANTAGES • Item 2 could give rise to concerns about disclosing proprietary information; or in the process of avoiding that, merely providing boilerplate information that is limited in its usefulness. • A narrative qualitative description that is focused on particular separately-identified unrecognised internally generated intangible assets would be of limited usefulness if the asset has a relationship with other intangible assets or intangible resources that do not meet the definition of an asset about which related information is not also disclosed. • Narrative qualitative information could be lengthy and difficult to verify, giving rise to audit challenges.
3. Non-financial quantitative information		
Where it can be measured reliably, useful non-financial quantitative information (i.e. relevant numerical measures) that faithfully represents the potential for economic benefits to the entity of each significant unrecognised internally generated intangible asset. The same measures should be disclosed for the comparative period (or periods), calculated on a comparable and consistent basis and supported by explanations of the factors that have caused change in the measures. If there is no relevant non-financial quantitative information that can be measured reliably, disclosure of that fact would be appropriate. *[For the purpose of this Paper, the word 'potential' is taken to refer to the potential for economic benefits.*	Based on paragraphs 4.9 to 4.16 of FRC UK 2019 Discussion Paper *[The UK FRC 2019 Discussion Paper does not clarify what is meant by the word 'potential']*	ADVANTAGES • Compared with financially-based information (item 4), non-financial quantitative information has the potential to provide more useful information about unrecognised internally generated intangible assets that cannot be measured reliably at cost or fair value. In particular, it would provide useful input for users in making their own assessment of each intangible asset and its impact on an entity's value maintenance and creation. (However non-financial quantitative information might also not be reliably measurable). • The item 3 measures that would be most relevant to users are expected to be the same as those that management monitor, in which case they will be readily available at little or no incremental cost (except additional audit costs). • Despite the non-homogeneous nature of many unrecognised internally generated intangible assets, comparability across entities would be enhanced

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
This type of disclosure could also include explanations of how the reported measures compare with management's previously expressed targets. *The nature of the measures would be expected to be those that management are monitoring for the purposes of managing the unrecognised internally generated intangible asset. Some non-financial quantitative information is commonly referred to as key performance indicators (KPIs).* *Information listed in items 1(A) to (G) and 2 could also be disclosed as supplementary information. Also, item 3 could be a substitute for or even supplement the financial information contemplated in item 4]*		under item 3 if the disclosures are made in accordance with guidance contained in an accounting standard, and could be supplemented by industry-specific best practices. DISADVANTAGES: • The measures under item 3 would need to be clearly defined and supported by explanations as their selection could be highly subjective and their significance would be difficult for a user to judge. • Some information under item 3 might be regarded as proprietary information or commercially sensitive that would put the entity at a competitive disadvantage. • In some circumstances, some non-financial quantitative measures might relate (directly or indirectly) to more than a subject asset. For example, disclosure of statistics from customer satisfaction surveys might convey information about a particular internally generated brand but also about the entity as a whole (internally generated goodwill). • Disclosure of the item 3 measures might be more suited to management commentary *[which is the apparent view of the staff of the FRC UK, as reflected in section 4 of its Discussion Paper 2019, and agreed to by a majority of respondents, as reflected in the FRC UK Feedback Statement 2021]* rather than as part of the notes to the financial statements. • Item 3 could result in a relatively significant volume of disclosure at a time when standard setters are aware of concerns about the volume of disclosures required by other standards, as well as the ineffective communication of information provided by existing disclosures (see section 4.3). • The cost of implementation of item 3 could be significant. For example, costs would be incurred to develop models for measuring the non-financial information to be disclosed; and auditors may need to verify measures used by management against external sources, which would involve an assessment of those measures' credibility or reliability/faithful representation. • Disclosure of non-financial quantitative information about only unrecognised internally generated intangible assets (and therefore not also about recognised internally generated intangible assets) could give the appearance of a lack of balance in the type of information disclosed.
4. Financial information		
A. Recognised expenses associated with significant unrecognised internally generated intangible assets *[perhaps with the assets itemised, consistent with item 1(A)]* and, where the expenses can be clearly distinguished, separated between expenses incurred with a view to benefit in the future and expenses that unambiguously relate to the current period, supplemented by disclosure of: (i) the accounting policy for separating out future-oriented expenditure (ii) the cumulative amount of future-oriented current and past expenditure on each significant unrecognised internally generated intangible asset (iii) the periods in which benefits from future-oriented current and past expenditure on each significant internally generated intangible asset are expected to be derived *[which would be consistent with item 1(G)]*	Based on paragraphs 1.7, 3.4, 3.5 and 3.9(d) of FRC UK 2019 Discussion Paper. The FRC UK expresses the suggestion in broad terms of intangibles rather than in narrow terms of intangible assets	ADVANTAGES: • There is precedent for and familiarity with item 4(A) to some extent. This is because AASB 138/IAS 38 already requires disclosure of the aggregate of R&D expenditure recognised as an expense during the period. *[However, that disclosure does not separately identify the component expected to give rise to future benefits (and is therefore of limited use in distinguishing between successful and unsuccessful efforts), nor does it require disaggregation by asset.]* • Items 4(A)(ii) and (iii) could partly compensate for information that might be regarded as missing as a result of paragraph 71 of AASB 138/IAS 38's requirement that "Expenditure on an intangible item that was initially

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
Where the future-oriented expenses cannot be clearly distinguished, disclose a statement to that effect. *[In relation to item 4(A)(ii), amortisation/impairment information could also be disclosed, in a similar vein to item 4(B) below.* *The information associated with item 4(A)(iii) could be further enhanced if it were accompanied by disclosures that convey information about the extent to which the current period's revenue (or the current period's expenditure saved) can be reliably attributed to past expenses that were disclosed in the period they were incurred as future-oriented because they were expected to give rise to revenue/cost savings in the current period.* *Information similar to that listed in items 1(A) to (G) and 2, and even item 3, could also be disclosed as supplementary information]*		recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date." • Item 4(A) is a disclosure equivalent of the presentation/'conditional recognition approach' contemplated by Barker et al (2020) – see section A2.1.1. That is, item 4(A) would result in information on: o net income before investment in future-oriented intangible assets; and o expenditure on future-oriented intangible assets, analysed by nature. Accordingly, it "would assist users to distinguish the financial performance of the period, without the distortion caused by expenses charged to profit or loss simply as a matter of accounting policy, and which relate to the period only in that they are incurred in the period and do not satisfy the requirements to be recognised as assets." (Paragraph 3.6 of FRC UK 2019 Discussion Paper). • Combining item 4(A) with the supplementary information identified in item 4(A)(i) could enhance the relevance of the information and mitigate concerns about comparability. • Given the disadvantages identified in relation to items 4(B) to 4(D) below, item 4(A) might be the most acceptable type of financial information to preparers/auditors. DISADVANTAGES: • It could be difficult to reliably attribute recognised expenses to unrecognised internally generated intangible assets in general, let alone to specific unrecognised internally generated intangible assets. • Highly subjective in distinguishing expenditure that is clearly incurred with a view to benefit future periods from that which is not (and which particular future periods they might be) – for example, it may be particularly challenging to reliably distinguish between the costs of maintaining and enhancing a brand. Accounting standards could only give limited guidance on making the distinction. Unless accounting standards can set out robust definitions, a requirement to separately report investment in future-oriented unrecognised intangible assets provides too much latitude to management, so the information would lack comparability. *[To overcome this concern, an alternative approach could be to provide a more detailed analysis of expenses than is currently required by paragraph 99 of AASB 101/IAS 1* Presentation of Financial Statements *so that users can make their own assessment of what they would regard as future-oriented. However, it is likely that users could make use of that type of information more for assessing entity value (which is beyond the scope of this Paper) rather than for individual assets' values.]* • How item 4(A) relates to the 'probable future economic benefits' recognition criterion in paragraph 21(a) or the 'expected future economic benefits' arm of the definition of an asset in paragraph 8 of AASB 138/IAS 38 is unclear. If item 4(A) only treats expenditure on assets with **probable** future economic benefits as being future-oriented expenditure and item 4(A) is adopted as the only disclosure type, then information about many unrecognised internally generated intangible assets (i.e. those that fail the probable future economic benefits recognition criterion) would not be provided. However, if item 4(A)

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
		does not take that narrow view of future-oriented expenditure, by using **expected** future economic benefits as the criterion, the usefulness of the accumulated expenditure that would be disclosed under item 4(A)(ii) could also be questionable. *[This type of concern is considered more fully in the 2nd disadvantage noted under item 4(B).]* • Item 4(A) would be based on historical cost and therefore not provide current (fair value) based information. • Relative to the benefits, item 4(A) could be costly to implement and audit.
B. Where it can be measured reliably in accordance with paragraph 21(b) of AASB 138/IAS 38, cost (accumulated [consistent with paragraphs 66 and 67 of AASB 138/IAS 38] and amortised/impaired [consistent with relevant Standards addressing amortisation and impairment]) amounts for each significant unrecognised internally generated intangible asset, together with information about the uncertainties relating to future economic benefits. If cost cannot be measured reliably, disclose a statement to that effect. *[Items 1(A) to (C) and 2, and even item 3, could also be disclosed as supplementary information. Also, similar to items 1(D) to (G), in parallel with the requirements in paragraphs 118 and 122 of AASB 138/IAAS 38 for classes of recognised internally generated intangible assets measured at cost, item 4(B) could be supplemented by the disclosure of additional relevant information relating to useful lives, reconciliation of opening and closing disclosed amounts, restrictions on title, and segments.* *Item 4(B) differs from item 4(A)(ii) to the extent the basis for determining the cumulative amount of future-oriented past expenditure differs from the basis for determining accumulated costs under item 4(B). The amounts that would be disclosed might differ because item 4(B) is subject to the reliable measurement criterion in paragraph 21(b) of AASB 138/IAS 38 whereas item 4(A)(ii) is subject to an entity's accounting policy and ability to clearly distinguish future-oriented expenditure from other expenditure]*	Based on consistency with determination of cost under paragraphs 66 and 67 of AASB 138/IAS 38, and therefore the disclosure equivalent of recognised internally generated intangible assets measured at cost	ADVANTAGES: • To some extent, item 4(B) would provide some of the same kind of information that would be provided if the intangible assets were to be recognised at cost less amortisation/impairment. • Item 4(B) would provide information that is broadly comparable with information provided by the recognition of intangible and tangible assets at cost based on the general asset recognition criteria. • Item 4(B) would be consistent with paragraphs 21(b) and 57(f) of AASB 138/IAS 38 in relation to the reliable measurement at cost criterion. DISADVANTAGES : • It might not be possible to reliably distinguish cost attributable to an individual identifiable unrecognised internally generated intangible asset from the cost of developing the business as a whole (see, for example, paragraph 64 of AASB 138/IAS 38). This disadvantage is similar to the 3rd disadvantage noted above in relation to item 3. • Unlike the clarity provided by paragraph 65 of AASB 138/IAS 38 for recognised internally generated intangible assets, it is unclear when cost accumulation should commence under item 4(B) and, in contrast to paragraph 71, whether costs prior to that point should also be subsequently incorporated into the disclosed amount. For example, consistent with the definition of an asset in paragraph 8 of AASB 138/IAS 38, it might be that cost accumulation should commence and be disclosed when future economic benefits are **expected** to flow to the entity (assuming the other aspects of the definition of an asset are satisfied). This contrasts with cost accumulation for recognised internally generated intangible assets, which does not commence until future economic benefits are **probable**. If cost accumulation were to commence at the point the asset is identified, the meaningfulness and usefulness of the cost information could be questionable (e.g. it would not reflect the costs incurred in creating the asset but rather the costs incurred subsequent to the asset coming into existence). However, if the cost information is not disclosed because of that concern and item 4(B) is adopted as the only type of information disclosed, information about many unrecognised internally generated intangible assets would be absent from financial statements. • Related to the immediately previous disadvantage, users could be confused because the disclosed cost of unrecognised intangible assets arising from development activities that fail the restrictive criteria in paragraph 57 but can be reliably measured as per the criterion of paragraph 21(b) may be on a

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
		different cost measurement basis compared with the recognised cost of intangible assets arising from development activities that satisfy the criteria in paragraph 57. Further confusion might arise in the face of paragraph 71's requirement that once expenditure is expensed it cannot be subsequently reversed and recognised as an asset. • Disclosure of a cost measure of an unrecognised intangible asset that failed the probable future economic benefits general recognition criterion specified in paragraph 21(a) of AASB 138/IAS 38 could be misconstrued by users, particularly if contextual information about the likelihood of future economic benefits is not also disclosed or heeded. • Item 4(B) could give rise to a perception of double counting when items are initially expensed because they fail the asset recognition criteria and subsequently incorporated into disclosures of cost. • Item 4(B) might not provide sufficient information about unrecognised internally generated intangible assets for which cost cannot be measured reliably. • Item 4(B) would give rise to the question of how information, credible enough for disclosure, is not credible enough for recognition, blurring the line between recognised information and disclosed information. *[However, there is precedent for disclosures of alternative measures of recognised amounts (see for example paragraph 124(a)(iii) of AASB 138/IAS 38, paragraphs 77(e) and 79(d) of AASB 116/IAS 16 and paragraph 25 of AASB 7/IFRS 7* Financial Instruments: Disclosures*) albeit not for unrecognised amounts]*. This could otherwise potentially undermine confidence in the recognised amounts in financial statements or add to user confusion. • Item 4(B) would be at least as costly to implement as recognition/measurement at cost.
C. Unless the possibility of any inflow is remote, for each significant unrecognised internally generated intangible asset, disclose where practicable: (i) an estimate of its financial effect (measured consistently/symmetrically with the principles in paragraphs 36 to 52 of AASB 137/IAS 37. *[In essence, paragraph 36 requires the best estimate of the expenditure required to settle a present obligation at the end of the reporting period. Paragraph 38 states: "the estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period."]*) (ii) an indication of the uncertainties relating to the amount or timing of any inflow. Where (i) or (ii) is not disclosed because it is not practicable to do so, state that fact. In some cases, disclosure of (i) or (ii) can be expected to seriously prejudice the competitiveness of the entity. In such cases, an entity need not disclose (i) or (ii), but discloses the general nature instead.	Based on symmetry with AASB 137/IAS 37	ADVANTAGES: • Item 4(C) would provide symmetry with the current requirements for unrecognised present obligations. • Item 4(C) would be less onerous than other item 4 disclosures, with inbuilt pragmatic relief through the exceptions based on practicability and prejudicial to competitiveness. DISADVANTAGES: • The current asymmetry in the disclosure of contingent liabilities and contingent assets is arguably justifiable from a prudence perspective. • Given the unique nature of many unrecognised internally generated intangible assets, there may be more difficulties faced in estimating the financial effect of such an asset compared with an unrecognised present obligation. • Item 4(C)(i) would exceed the current disclosures required to be made in relation to the assessment of impairment of recognised assets under AASB 136/IAS 36. • Item 4(C) would possibly be less informative for users of financial statements than other contemplated financial disclosures.

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
[An estimate of an asset's financial effect could be presented as the present value of the future revenue expected to be generated by the asset. *Other information, similar to that listed in items 1(A) to (G) and 2, and even item 3, could also be disclosed as supplementary information]*		• Item 4(C) might not provide sufficient information about internally generated intangible assets for which it is not practicable to provide an estimate of financial effect and an indication of uncertainties. • Item 4(C) would require a high level of judgement, which has implications for the quality of information or auditor responsibilities. • Item 4(C) is based on requirements that are old and subject to review by the IASB (as noted in Appendix 6 below). • In practice, it may be difficult to segregate the inflows between those that are directly attributable to a specific unrecognised internally generated intangible asset and goodwill. • In respect of item 4(C)(ii), disclosure of uncertainties, it might be too difficult to attribute uncertainties to a specific unrecognised asset. For example, the uncertainties may relate to the entire business model. A related issue is whether, in such circumstances, disclosure of the uncertainties should be made outside the financial statements but in other parts of the annual report such as the Directors' Report or management commentary, which may be considered more appropriate places to communicate in full the underlying risks and uncertainties attributable to a particular business model.
D. Where it can be measured reliably in accordance with AASB 13/IFRS 13 *Fair Value Measurement*, fair value of each significant unrecognised internally generated intangible asset, supplemented by: (i) a statement whether estimated by the directors or independent valuer (ii) the effective date of the estimate (iii) the basis of fair value measurement (e.g. relief from royalties) (iv) the key assumptions underlying the measurement method, similar to the requirements of AASB 13/IFRS 13 and its related disclosures If fair value cannot be measured reliably, disclose a statement to that effect. *[This item would not necessarily be constrained by the 'active market' restriction imposed by paragraph 75 of AASB 138/IAS 38.* *If fair value can be measured reliably but future economic benefits are not probable, the level of expected-but-not-probable future economic benefits would be reflected in the fair value estimate.* *Items 1(A) to (C) and 2, and even item 3, could also be disclosed as supplementary information. Also, similar to items 1(D) to (G), in parallel with the requirements in paragraphs 118 and 122 of AASB 138/IAAS 38 for classes of recognised internally generated intangible assets measured at fair value, item 4(D) could also be supplemented by the disclosure of additional relevant information relating to useful lives, reconciliation of opening and closing disclosed amounts, restrictions on title, and segments. In relation to for-profit entities, it could be supplemented by information about cost, consistent with paragraphs 124(a)(iii) and Aus124.1 of AASB 138/IAS 38.*	Based on the principles in AASB 13/IFRS 13. Item 4(D)(ii) is consistent with paragraph 124(a)(i) of AASB 138/IAS 38 re revalued recognised intangible assets	ADVANTAGES: • Item 4(D) would provide a significant amount of the same information that could be provided if the intangible assets were to be required to be initially recognised (and allowed to be subsequently revalued in the absence of an active market); or had been acquired in a business combination. • Item 4(D) would provide information comparable with information provided through the recognition of tangible assets measured at fair value. • Item 4(D) could be implemented using the hypothetical business combination technique advocated by Keys and Ardern (2008). • Item 4(D) would be useful as a marker against which a user can make their own assessment of the value of the intangible assets. • Item 4(D) avoids the challenges and judgements necessary to reliably determine cost (item 4(B)) – although, depending on circumstances, item 4(D) faces its own (potentially greater) challenges and judgements. DISADVANTAGES: • Practical challenges of reliable measurements, or at least confidence in those measurements. *[In response to this concern, as noted in Column 1, consideration could be given to disclosing a fair value range – however, that might also undermine confidence in the reliability of the disclosed amounts.]* • There may be questions about whether there is a sufficient number of valuers or other professionals with the necessary skills and expertise to reliably determine fair values if the disclosures were to be applicable to a wide range of entities. • There may be concerns about the implications for any future business combination in which the entity is the acquiree, if the disclosed amounts differ substantially from the amounts subsequently recognised under AASB 3/IFRS 3 by the acquirer.

POSSIBLE DISCLOSURES ABOUT UNRECOGNISED INTERNALLY GENERATED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	SOURCE	ADVANTAGES and DISADVANTAGES
If item 4(D) were regarded as too onerous to apply to all significant unrecognised internally generated intangible assets, consideration could be given to limiting its application to those assets that are held for sale, to supplement the information contemplated in item 1(F). *If there is concern that a point estimate of fair value is too unreliable, consideration could be given to disclosing a range of values together with the underlying assumptions supporting the low and high estimate.* *This item focuses on fair value. Conceivably, as acknowledged in the 2019 Conceptual Framework, other current value bases (such as value in use or current cost) could be adopted. These alternatives are not explored further in this Paper]*		• Disclosure of fair value could be perceived as inconsistent with paragraph 75 of AASB 138/IAS 38, which prohibits the revaluation to fair value of recognised intangible assets that cannot be determined by reference to an active market. • Item 4(D) might not provide sufficient information about internally generated intangible assets for which fair value cannot be measured reliably. • Disclosure of the fair value of an unrecognised intangible asset that failed the probable future economic benefits general recognition criterion specified in paragraph 21(a) of AASB 138/IAS 38 could be misconstrued by users. • Item 4(D) would be at least as costly to implement as recognition/measurement. • As for item 4(B) above, item 4(D) would open up the question of how information that is credible enough for disclosure purposes is not credible enough for recognition purposes. • Unless the entity adopts a revaluation policy, disclosure of fair value of only unrecognised internally generated intangible assets would be inconsistent with the recognition/measurement of other assets. • If item 4(D) were to be prescribed for disclosure, arguably consideration of subsequent measurement of recognised intangible assets would also need to be considered, which could delay incremental improvements being made to the Standard. *[If item 4(D) were not required, a question arises as to whether entities should be prohibited from making these disclosures, or encouraged to do so. Arguably, as long as those disclosures are accompanied by contextual supplementary disclosures, it should not be necessary to prohibit or encourage it (based on paragraphs 5.2 to 5.4 of FRC UK 2019 Discussion Paper)]*

All of the items listed in Column 1 of Table A go beyond what is currently voluntarily disclosed in financial statements (and in most, if not all, annual reports), which could be interpreted as implying the market is not demanding such disclosures in that format. However, given that the market is not perfect, any of the disclosures could be relevant and contribute to achieving the disclosure objective identified in section 4.1 and enhance comparability.

To supplement the more comprehensive list of advantages and disadvantages in Column 3 of Table A, sections 4.2.1 to 4.2.4 below draw out and discuss further issues pertinent to each broad category of information. Consistent with the overall purpose of this Paper, the discussion does not attempt to come to definitive conclusions on whether and, if so, which disclosures should be specified in AASB 138/IAS 38. Nor does it conclude whether it would be appropriate for a standard setter to express a preference on them or whether it should be left to management to determine what would suit the circumstances. Instead, the discussion aims to identify some issues that could be considered in identifying suitable disclosures that satisfy the overall disclosure objective. To further assist the discussion, Appendix 8 provides a comprehensive comparative example illustrating what each additional disclosure could look like for a particular hypothetical unrecognised internally generated intangible asset that is deemed prohibited from recognition by paragraph 63 of AASB 138/IAS 38.

4.2.1 Non-financial non-quantitative disclosures (items 1(A) to (G)) and non-financial narrative (qualitative) disclosures (item 2)

A starting point for the contemplated disclosures listed in Table A is the identification and description of specific significant unrecognised internally generated intangible assets, which is equivalent to the minimum that would be necessary to satisfy the encouragement in paragraph 128(b) of AASB 138/IAS 38. This suggests that disclosure of a description of the significant assets (i.e. item 1(A)) could be regarded as basic relevant information, and therefore the minimum necessary to provide some level of information about the assets for users.

If that is accepted, the process of identification and related description necessary to satisfy item 1(A) could be informed by the guidance on the definition of 'intangible asset' in AASB 138/IAS 38,[26] and the list of classes of intangible assets in paragraph 119 of AASB 138/IAS 38 and paragraphs IE 16 to IE 44 of the Illustrative Examples to IFRS 3. Additional guidance on the meaning of 'significant' (if it is the terminology adopted in the context of unrecognised internally generated intangible assets) could also be provided in the Standard. Consistent with the 2019 Conceptual Framework, the determination of appropriate descriptions that reflect an entity's particular circumstances would entail an entity being satisfied that the descriptions faithfully represent the underlying phenomenon they purport to represent.

The question then is whether to specify non-financial non-quantitative disclosures beyond item 1(A), being items 1(B) to (G), and whether to extend disclosures even further to include non-financial narrative (qualitative) information (item 2). Although not all the item 1 disclosures were explicitly raised as possibilities in the AASB staff-administered surveys, it is informative to consider the views on the item 1 disclosures of users and preparers/auditors as expressed through responses to those surveys. In particular:

- from a user perspective, only items 1(D) to (F) (i.e. information about segments, title restrictions and held for sale) were explicitly mentioned in the survey. They were supported at least to some extent by seven, five and eight respondents respectively, out of a total population of 20 respondents; and
- from a preparer/auditor perspective, only items 1(D) to (G) (item (G) being information about useful life) were explicitly mentioned in the survey. They were supported at least to some extent by eight, ten, eight and eight respondents respectively, out of a total population of 12 respondents.

It is notable that the items listed as items 1(A) to (G) are effectively equivalent to the type of non-financial non-quantitative information currently required to be disclosed about recognised intangible assets (and

26 As noted in section A1.1, this Paper excludes critical consideration of the current definition of 'intangible asset' in AASB 138/IAS 38, and indeed the definition of 'asset' in the 2019 Conceptual Framework.

tangible assets). As noted under the advantages in Column 3 of Table A, the disclosures would provide useful information about relevant characteristics of unrecognised internally generated intangible assets.

If it is accepted that items 1(A) to (G) would provide useful information to users in a cost-effective way, a consequential question is whether that information should be accompanied by the other types of information listed in Table A. On an assumption some level of item 2 non-financial narrative (qualitative) disclosure would be relevant in its own right or as a context or as a supplement to other disclosed information in most circumstances, and could be presented in a way that faithfully represents in a cost effective way what it purports to represent, the remainder of this section considers issues relevant to determining:

- which type of non-financial quantitative information might be suitable for disclosure and in what circumstances (section 4.2.2);
- which type of financial information might be suitable for disclosure and in what circumstances (section 4.2.3); and
- whether and under what circumstances financial or non-financial quantitative information would be preferred (section 4.2.4) and, if the latter is to be disclosed, whether it would best be located in the financial statements or management commentary (section 4.2.5).

4.2.2 Non-financial quantitative disclosures (item 3)

Despite the focus of accounting standard setting being naturally on financial information, there could be merit in consideration being given to disclosure of non-financial quantitative information, particularly given the level of concern about the reliability of financial measures of unrecognised internally generated intangible assets. Therefore, disclosure that appropriately reflects the trade-off between relevance and faithful representation (including reliable measurement) of non-financial quantitative information could be contemplated.

There are various types of non-financial quantitative information that could be disclosed about an unrecognised internally generated intangible asset, including information about the creation of the asset, the current state of the asset, and the benefits derived to date and expected to be derived from the asset by the entity.

One approach to identifying relevant non-financial quantitative measures would be to consider the information that would be considered if valuation were the objective. For example, in relation to a brand, Ratnatunga (2002) identifies seven criteria for scoring brand strength that, when combined with an assessment of brand earnings, provide brand valuation. Although not all seven criteria are non-financial quantitative inputs to a valuation, some could be used as the basis for disclosures under item 3 (and the others could be considered for disclosure under item 2).[27]

Given the diverse and often unique nature of unrecognised internally generated intangible assets even of the same type across entities within the same industry, the same kind of non-financial quantitative information about a particular asset might not be relevant in all cases without additional contextual information. For example, in relation to a customer list, without contextual information such as privacy constraints, the size of the list of patients of a medical facility might be of limited relevance and not faithfully represent the phenomenon it purports to represent because privacy requirements might be more restrictive than in other entities or industries.

In addition, it might be that not all unrecognised internally generated intangible assets would readily lend themselves to disclosures of quantifiable non-financial information because of the level of measurement

---

27 The seven criteria are: the market in which the brand participates, the stability of the market, the degree of customer loyalty, brand leadership in the market, long-term investment in the brand, geographic scope and degree of protection.

uncertainty.[28] In those cases, consistent with paragraph 2.22 of the 2019 Conceptual Framework noted in section 2.2 above, narrative style information (item 2 in Table A above) might be appropriate instead. This might be preferable to persisting with dubious non-financial quantitative information that is accompanied by inadequate contextual narrative-style information.

Rather than an accounting standard specifying a preference for a particular type of non-financial quantitative information, the cost of preparing the disclosures could be reduced if they were specified or allowed to be based on the information the entity uses as a basis for making decisions about (i.e. monitoring) the intangible asset. The disclosures could be modified as necessary to avoid the disclosure of proprietary information.

Where it can meet the relevance and faithful representation qualitative characteristics, possible examples of non-financial quantitative disclosure in relation to particular types of unrecognised internally generated intangible assets include:

- for research:
    - measures quantifying the entity's efforts in accumulating research knowledge (e.g. the size of a research project, perhaps as indicated by factors such as labour hours, specialist equipment hours used, number of discrete experiments, size of samples tested, number of new research projects commenced during the period);
    - measures quantifying the size of the accumulated research knowledge (e.g. the size of the knowledge base, perhaps as indicated by factors such as the number of published research papers, the number of new discoveries [distinguishing between those with known applications from those with no as-yet-known applications], the number [and nature] of research projects discontinued or deferred during the period, the number of research projects progressed to the development phase, the number of patents submitted for registration, the number of patents successfully registered); and
    - measures quantifying the prospect for future economic benefits from the accumulated research knowledge (e.g. the number of potential customers who could benefit from the research findings, the size of the market for products that could be developed from the research – perhaps distinguishing between the total addressable market and the existing market); and
- for a customer list:
    - measures that indicate the level of activities undertaken by the entity with the objective of retaining existing customers and attracting new customers (e.g. the number of advertisements taken out in a trade magazine, the number of customer-only invitation events);
    - measures that indicate the size of the customer list (and the extent to which it has changed during the period) and how the entity has benefited from it (e.g. number of subscriptions to a service, number of units sold to customers on the list, the total number of customers and the change in the number of customers since the previous comparative period, stratified demographic information about the customers on the list such as age group, income range and type of employment); and
    - measures that indicate the extent to which future benefits could flow to the entity from the customer list (e.g. an indicator of customer loyalty such as the number of customers making repeat purchases within a specified period after their first purchase, the results of a customer satisfaction survey, customer loyalty rankings).

As noted as a disadvantage in Table A, a significant concern about non-financial quantitative information as a disclosure item in financial statements is whether it is possible to isolate the quantitative measures attributable to a particular identifiable unrecognised internally generated intangible asset from other

---

28 It is interesting to note that, in many diverse walks of life, concerns about non-financial quantitative measurement uncertainty have been overcome and non-financial quantitative information has been generally accepted as a basis for making significant decisions. For example, Olympic gold medals in gymnastics, diving and snowboarding are awarded based on arguably highly subjective criteria. Furthermore, psychologists and economists have derived principles for measuring levels of happiness, satisfaction and wellbeing that are used as a basis for policy decision making. Although often consensus-based or based on a large number of inputs so as to average out individual distortions, these examples demonstrate the potential power and influence of non-financial quantitative information.

resources such as internally generated goodwill or other intangible resources. If it is not possible to make the distinction, consideration needs to be given to whether that matters and whether accompanying contextual disclosures would be necessary and sufficient to clarify the 'scope' of the measures.

4.2.3 Financial disclosures (items 4(A) to (D) in Table A)

In contemplating financial disclosures about unrecognised internally generated intangible assets, consideration could be given to the relationship of that information with financial information included in the financial statements relating to recognised assets, and how best to communicate that relationship. One point at which recognised and disclosed financial information could interact is in relation to impairment testing, where the value of unrecognised internally generated intangible assets may support the carrying amount of a recognised asset that is part of a cash generating unit. In that respect, the financial effect of disclosed unrecognised internally generated intangible assets would be effectively reflected in the financial statements twice – once as financial support for justifying the carrying amount of recognised assets and again as financial disclosure of the unrecognised assets in their own right.

There might also be concerns about what some might perceive as double counting where, for example, items are expensed when first incurred because the asset recognition criteria were not met, but are then incorporated into financial disclosures contemplated in this Paper in subsequent years, particularly if the information disclosed is cost-based information. However, that perception of double counting is unavoidable if any types of disclosures about unrecognised intangible assets are to be made, although the double counting is more explicit if financial disclosures rather than non-financial disclosures are made.

Despite these observations, it seems reasonable to expect that financial disclosures could provide relevant information, particularly if those disclosures are accompanied by contextual and explanatory details. However, in accordance with the 2019 Conceptual Framework, the disclosures would be inappropriate where the level of measurement uncertainty is so great as to render them insufficient faithful representations of the phenomena they purport to represent. The following considers issues pertaining to whether the financial disclosures should be historically-oriented cost-based or future-oriented value-based.

4.2.3.1 Cost-based information

Item 4(A) (accumulated future-oriented expenditure)[29] and item 4(B) (accumulated costs) focus on the costs that have been incurred to create or enhance each significant unrecognised internally generated intangible asset, and are broadly the disclosure equivalent of recognised internally generated intangible assets, other intangible assets, and tangible assets measured at cost. However, as explained in Table A, the accumulated amounts that would be disclosed under each option (i.e. item 4(A) versus item 4(B)) would be expected to differ as they are derived through different means.

Unrecognised internally generated intangible assets, which by definition do not exist until they are expected to give rise to future economic benefits, might not have yet satisfied the probable future economic benefits recognition criterion of paragraph 21(a) of AASB 138/IAS 38. As noted as a disadvantage in Column 3 of Table A under items 4(A) and 4(B), if the amount disclosed included only the costs incurred after future economic benefits are assessed to be expected or probable, the usefulness of disclosing that amount would be questionable because the disclosed amount would not reflect the true full cost of creating the asset. On the other hand, inclusion in the disclosed amount of costs incurred before future economic benefits are expected or probable could be perceived as anomalous in the face of paragraph 71

29 Item 4(A) also contemplates disclosure that distinguishes future-oriented current period expenses from expenses that are unambiguously related to the current period. Whilst potentially providing useful information, on its own such information about a single period's expenses would not provide holistic information about individually significant unrecognised internally generated intangible assets and therefore is not the focus of the discussion in this sub-section.

of AASB 138/IAS 38, to the extent it is reasonable to expect there to be some level of consistency between recognised amounts and disclosed amounts for the same kinds of assets.[30]

Although many internally generated intangible assets are unrecognised because cost cannot be reliably measured in accordance with paragraphs 21(b) and 57(f) of AASB 138/IAS 38, it is possible that cost could be reliably measurable for some internally generated intangible assets that are deemed prohibited from recognition. Therefore, disclosure of information about the cost of the asset could be justified, if that cost information is regarded as relevant.

As for disclosure of non-financial quantitative information, a significant concern about disclosure of cost (however determined) is whether it is possible to reliably distinguish the cost attributable to a particular identifiable unrecognised internally generated intangible asset from other intangible resources such as internally generated goodwill. Accordingly, regard would need to be had to the same considerations noted at the end of section 4.2.2.

4.2.3.2 Value-based information

Disclosure of value-based information might be regarded as suitable where the value reflects an appropriate balance between relevance and reliable measurement. Item 4(C) is focused on the financial effect of an asset (e.g. the present value of future revenue expected to be generated by the asset). Item 4(D) is focused on the fair value of the asset,[31] which is broadly the disclosure equivalent of the accounting for recognised internally generated intangible assets, other intangible assets, and tangible assets measured at fair value. The remainder of the discussion in this sub-section is focused on fair value.

Disclosure of the fair value of an unrecognised internally generated intangible asset would be consistent with the initial accounting for separately recognised intangible assets acquired in a business combination that are of the same kind as the unrecognised internally generated intangible asset.[32] Despite this, in contemplating disclosure of fair value, given paragraph 75 of AASB 138/IAS 38, consideration would need to be given to whether such disclosure would be appropriate in circumstances where fair value could not be determined by reference to an active market. That decision would involve considering the guidance in paragraph 2.22 of the 2019 Conceptual Framework (cited in section 2.2 above) relating to the tension between relevance and reliability/faithful representation that permeates many accounting policy decisions, and whether, on balance, information other than fair value would provide more relevant and reliable information. In addressing this issue, it is notable that the determination of fair value under AASB 13/IFRS 13 is not dependent on the existence of active markets.

In assessing the relevance and reliability of fair value disclosures, consideration could also be given to paragraph 4.10 of the FRC UK 2019 Discussion Paper, which states "It is doubtful if the value of an intangible will often be a particularly useful metric. Investors require information that helps them to make their own assessment of intangibles and their impact on financial performance; reporting subjective valuations may displace information that would enable greater insight". As noted in Table A above, rather than conclude that this doubt would justify non-disclosure of fair values in all cases, consideration could be given to limiting the application of item 4(D) to significant unrecognised internally generated intangible assets that are held for sale.

If, after consideration of the above issues, a decision is made to disclose financial information about unrecognised internally generated intangible assets, then rather than AASB 138/IAS 38 specifying a

30 Paragraph 71 of AASB 138/IAS 38 states: "Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date."

31 Although fair value is the focus of item 4(D), as noted in Table A, other bases for the determination of current values are conceivable, such as value in use and current cost. Discussion of these other bases is beyond the scope of this Paper. Issues discussed in relation to fair value are expected to similarly apply in relation to other current value bases.

32 Landsman et al (2021) studied the value relevance of acquired intangible assets in equity valuation and found that they are positively associated with stock prices, demonstrating a high relevance for equity investors.

preference for disclosure of cost or value, it could specify disclosure of information that is most consistent with the entity's measurement/remeasurement policy for recognised intangible assets.

4.2.4 Financial or non-financial quantitative disclosures

Based on the above discussion, in addition to the non-financial non-quantitative information identified in items 1(A) to (G) and non-financial narrative (qualitative) information identified in item 2 about each significant unrecognised internally generated intangible asset, and depending on particular circumstances, users might benefit from disclosure of:

- non-financial quantitative information (i.e. item 3); and/or
- financial information (i.e. any one of items 4(A) to (D) – whether focused on cost or fair value).

The following identifies some of the additional issues that might need to be resolved if a robust disclosure-only approach to amending AASB 138/IAS 38 is to be pursued.

4.2.4.1 Balancing relevance and reliability/faithful representation in a hierarchical approach

Wyatt (2008) provides a broad review of the literature concerning the relevance and reliability of financial and non-financial information related to intangibles and how they impact on share price (i.e. their 'value relevance'). One observation Wyatt makes is that although financial information is likely to be relevant, it is less likely to be reliable in the earlier stages of investments. Wyatt (2008) states, "Non-financial information is likely to be value-relevant if it is sufficiently salient to the firm's economic reality and precisely measured to be informative about the earnings effects of the firm's interaction with its environment." However, Wyatt (2008) observes that, on the strength of some of the results, non-financial measures of brands are less reliably measurable than certain financial measures. This observation suggests that the type of information contemplated for disclosure should have regard to the particular circumstances of and type of entity and the nature of the asset as well as the asset's stage of development.

Along those lines, the preliminary analysis of responses to a recent survey of preparers and users conducted by the University of Ferrara (reported during an Institute of Chartered Accountants of Scotland (ICAS) webinar *The Production and Consumption of Information on Intangibles* conducted on 30 November 2021 and referred to in the summary of EFRAG's activities in section A2.2) suggests, for example, consideration could be given to R&D being measured at cost and brands being measured at fair value.

In circumstances where cost or fair value reflects an appropriate balance between relevance and reliable measurement (and is trusted by users), for consistency with the information reflected through the recognition of intangible assets that meet the recognition criteria, financial information about unrecognised internally generated intangible assets might be more useful to users than non-financial quantitative information. Accordingly, a more appropriate approach than specifying disclosure of either financial or non-financial quantitative information for all significant unrecognised internally generated intangible assets could be for an entity to disclose for each significant asset the relevant non-financial non-quantitative information (listed as items 1(A) to (G)) together with the type of information that would provide the most useful information in the circumstances (accompanied by narrative qualitative information [item 2] that provides an appropriate context), conceivably along the following lines:

- disclose cost (i.e. item 4(B)) where it reflects an appropriate balance between relevance and reliable measurement;
- but where it does not, disclose fair value (i.e. item 4(D)) where it reflects an appropriate balance between relevance and reliable measurement;
- but where it does not, disclose non-financial quantitative information (i.e. item 3) that could be used by users as input to their own assessments of cost or fair value, where that quantitative information reflects an appropriate balance between relevance and reliable measurement;

- but where it does not, disclose narrative qualitative information (i.e. item 2) in addition to contextual information that faithfully represents the asset.[33]

In considering this possible hierarchy, it should be acknowledged that many unrecognised internally generated intangible assets are unlikely to be reliably measurable and/or usefully measured at cost. Furthermore, many unrecognised internally generated intangible assets are unlikely to be regarded as reliably measurable at fair value (or trusted by users), particularly if fair value cannot be determined by reference to an active market for consistency with paragraph 75 of AASB 138/IAS 38. Therefore, it would be expected that the disclosed information would often need to be non-financial quantitative information. The extent to which non-financial quantitative information can reflect an appropriate balance of faithful representation of relevant phenomenon and reliable measurement is circumstance specific. Consideration could also be given to the extent to which independent experts rather than an entity's own assessment of the quantities to be measured are warranted.

A modification to the above hierarchy could be to adopt fair value in preference to cost (or even remove cost as an option altogether), particularly on the basis that fair value would provide more current information. Contemplation could be also given to disclosure of, for any one asset, both financial and non-financial quantitative information.

Furthermore, an alternative to a stringent hierarchy would be to allow a free choice, perhaps with a guiding principle that an entity discloses information that it anticipates a potential hypothetical acquirer of the business would need in making an acquisition decision. Yet another alternative would be an approach based on the ideas of Cohen et al (2021), who are focused on reducing the volume of disclosures.[34] They argue that "one way to make disclosures more informative, while also slimming them down, is to tailor disclosure requirements to the company type". They illustrate their ideas by considering the disclosures suitable for particular types of business models, focusing particularly on subscription-based companies (e.g. an entertainment company providing a streaming service by subscription) compared with transaction-based companies (e.g. a transport company providing a pay-for-use taxi service). Cohen et al suggest that not all companies operating under the same type of business model should be subject to the same disclosures. Instead they suggest that companies that do not want to disclose certain information, such as non-financial quantitative information like market size or user/subscriber characteristics, should be "free to withhold that information, but only if they are willing to remove the related stories from their investor materials entirely". Although Cohen et al's ideas are not focused on unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38, presumably their underlying approach could be adapted to such a narrower focus.

To further inform the debate on disclosure of financial versus non-financial quantitative information, it is useful to consider the views of users and preparers/auditors as expressed through the AASB staff-administered surveys detailed in Appendices 3 and 4. In particular:

- from a user perspective, the responses indicated there was a reasonable level of acceptance by respondents of the potential usefulness of different types of possible disclosures as follows:
  - financial type information (in particular, expenditures incurred [item 4(A)] or fair values [item 4(D)]) could be supported at least to some extent by 19 of the 20 respondents. Even though the survey did not directly ask respondents about their preference for disclosure of cost (item 4(B)) as an alternative type of financial information to be disclosed, the survey asked about respondents' three-preferred accounting options. In response, nine of the 20 respondents selected non-recognition with disclosure of cost as one of their three preferences;[35] and

33 Item 4(A) is excluded from this hierarchy on the basis that, if cost is not reliably measurable, then it is likely that the separate components referred to in item 4(A) are also not reliably measurable. If cost is reliably measurable, it might be argued that item 4(B) would provide more useful information about individual unrecognised internally generated intangible assets than item 4(A). Item 4(C) is also excluded from the hierarchy, although it is acknowledged that it could conceivably replace items 4(B) and (D) as a less onerous alternative.

34 Cohen et al's particular focus is on disclosures in prospectuses, but their ideas could be translated into a financial statements context.

35 Respondents were not directly asked about item 4(C) re symmetry with AASB 137/IAS 37, and no comments were made by them about that option.

  - non-financial quantitative type information (item 3) could be supported at least to some extent by ten of the 20 respondents.

  The survey did not directly ask whether respondents preferred financial (item 4) or non-financial quantitative (item 3) information. However, as noted in section A3.4.2.4, views can be inferred based on the number and types of disclosures for which respondents expressed at least some level of acceptance. In particular, in that regard, ten of the 20 respondents selected both at least one type of financial (item 4) and non-financial quantitative (item 3) disclosure. This could be interpreted as half of an albeit low number of respondents indicating a preference for both types of information together, or that they could use either type to meet their needs. However, a significant minority (five of the 20 respondents) indicated support for only financial information (item 4);[36] and
- from a preparer/auditor perspective, there is some indication from the comments from a preparer/auditor perspective expressed during the Deakin focus group and the EFRAG Advisory Panel meeting (in relation to both, see Appendix 5) and the FRC UK Feedback Statement 2021 (see section A2.2.2) that, compared with non-financial disclosures, financial disclosures would give rise to greater concerns about a high level of management judgement and compliance costs. This is also consistent with the AASB staff-administered preparer/auditor survey results, which generally indicate slightly less resistance from preparers/auditors to non-financial disclosures relative to financial disclosures as noted in section A4.3.2.5. The level of resistance was higher from auditors than from preparers for both financial and non-financial disclosures, including in relation to non-financial quantitative disclosures.

In addition, as reported during the ICAS webinar (November 2021), the University of Ferrara research found that there was a general preference amongst users and preparers for a combination of narrative, key performance indicators and financial figures.

If non-financial quantitative information is preferred in some or all cases, an issue to be addressed is where the disclosures should be made – in the financial statements or elsewhere (such as in the accompanying management commentary). This issue is not as significant if only financial information is to be disclosed, as that kind of information falls more clearly within the scope of financial statements. This question in relation to non-financial quantitative disclosures is addressed in section 4.2.5, after considering some further issues relating to the implications of disclosure of financial or non-financial quantitative information.

4.2.4.2 Disclosure of comparative information

Irrespective of the outcome of the debate over disclosure of financial versus non-financial quantitative information, as alluded to in Table A, consideration could also be given to the number of comparative periods to be provided and whether comparisons with budgets or management's targets are warranted. Also, where there are changes in a particular unrecognised internally generated intangible asset from one period to the next, consideration could be given to whether explanations of the changes/variances from previous expectations should be provided as well as a narrative description of actions taken, possibly including associated costs incurred, to rectify any adverse changes.

4.2.4.3 Transitional issues

If either financial or non-financial quantitative information is preferred in some or all cases, an issue to be addressed is transition. This is because, for some older unrecognised internally generated intangible assets, the information might not be available to enable reliable determination of financial information

36 Only one of the 20 respondents selected only non-financial disclosures (being one of the seven UAC members), but that did not include non-financial quantitative information.

about cumulative cost or cumulative non-financial quantitative information. In that case, narrative qualitative information (item 2) could be disclosed on its own or together with either:

- fair value; or
- non-financial quantitative information or costs incurred in the current period.

4.2.4.4 Relationship to recognised intangible assets

Another question that arises is whether the disclosures, particularly if they are non-financial quantitative or narrative based, would be regarded as more extensive than the current disclosures required of recognised intangible assets and whether that would be appropriate. In that regard, consideration could be given to whether there would be benefit in using the disclosures about unrecognised internally generated intangible assets as a basis for expanding the disclosures about recognised intangible assets – although that issue is beyond the scope of this Paper.

4.2.4.5 Auditing standards

Disclosures in the financial statements are within the scope of the audit. Disclosures in management commentary included in the annual report, whilst in Australia not within the scope of the audit, would be reviewed by the auditor as the auditor is required to read and consider such information for consistency with the financial statements. Therefore, any disclosures in financial statements (or in management commentary) about unrecognised internally generated intangible assets would have audit implications. Consideration could be given to accounting standard setters liaising with auditing standard setters to help ensure auditing standards are robust enough to provide sufficient guidance for the audit or review of any information about unrecognised internally generated intangible assets contemplated for disclosure in financial statements (or management commentary).

4.2.4.6 Accounting standard-setting process considerations

Section 1.2.6 suggests that a full review of AASB 138/IAS 38, including its recognition/measurement requirements, and of the accounting for intangible resources that do not meet the definition of an asset, might be too ambitious at this time. Due to the nature of such a review, initiating it now could delay the achievement of some less ambitious (i.e. disclosure-only) improvements, especially if those disclosures would not clash with potential longer-term improvements. On that basis, this Paper has focused on technical and practical accounting issues related to identifying relevant and faithfully representative financial statement disclosures about unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38 that would strike an appropriate balance between costs and benefits. It is within that context that this section addresses a standard-setting process issue that would arise if amendments to AASB 138/IAS 38 only in relation to disclosures about unrecognised internally generated intangible assets were to be pursued. Raising this issue here acknowledges that standard setting is not only a technical endeavour – it is also a political/consultative process that needs to have regard to and balance a broad range of conflicting views held by constituents that can be best achieved by building a consensus.

It is evident from the discussion earlier in this Paper that there are varying levels of contention surrounding different possible disclosure approaches. Accordingly, there is likely to be varying degrees of resistance from different types of constituents to any contemplated improvements to the disclosure requirements in AASB 138/IAS 38. Some improvements might be too ambitious, particularly in the short term. If that is the case, following due process, a standard-setting disclosure-only project would need to have regard to the most effective way to proceed. For example, consideration could be given to structuring the project in stages. One particular way to do that could be:

- firstly, because they are perhaps the least contentious, to consider whether and if so what narrative (qualitative) and non-financial non-quantitative disclosures to prescribe. At its most basic level, this

could include consideration of making the current encouragement in paragraph 128(b) of AASB 138/IAS 38 mandatory, at least for some types of entities;
- secondly, because they are likely to be more contentious than the first stage (but, at least in relation to some aspects, less contentious than financial disclosures), to consider whether and if so what complementary non-financial quantitative disclosures to prescribe; and
- thirdly, because they are likely to be the most contentious type of disclosures, to consider whether and if so what substituting or complementary financial disclosures to prescribe.

However, the feasibility of such a staged approach might be questioned, particularly to the extent that the identification of information for disclosure during the first stage would depend on the information that might be identified for disclosure in the second and third stages. On the other hand, if a staged approach is considered feasible, deliberations at each of the second and third stages could be informed by the results of a post-implementation review of the effectiveness of the requirements imposed in the earlier stages. Other aspects of the accounting for intangible resources and the requirements of AASB 138/IAS 38, including recognition and measurement, could then be considered in due course.

4.2.5 Location of non-financial quantitative disclosures

Paragraphs 3.2 and 3.3 of the 2019 Conceptual Framework make it clear that financial statements should include useful **financial** information about both recognised and unrecognised assets. The Framework states that financial information includes information about the nature of those assets and risks arising from them. The question arises as to whether the non-financial quantitative information contemplated in Table A above would fall within the scope of financial statements (e.g. because it is information relevant to the nature of the assets and risks arising from them) or whether it would be more appropriately located within management commentary.[37]

There is precedent for non-financial quantitative information about recognised assets being regarded as suitable for inclusion in financial statements. In particular, AASB 141/IAS 41 *Agriculture* requires disclosure of such information in the notes to financial statements unless it is disclosed "elsewhere in information published with the financial statements".[38]

It could be argued that information relating to items that meet the definition of an asset, even if they are unrecognised, should be disclosed in financial statements. However, there is no precedent in accounting standards for the inclusion of non-financial quantitative information about unrecognised assets being included in financial statements,[39] and therefore recognition status might be regarded by some as an appropriate objective basis for distinguishing between financial statements and management commentary. Such an approach would mean non-financial quantitative information about unrecognised internally generated intangible assets would be excluded from financial statements and instead included in management commentary.

A more refined distinction could be made through a subjective assessment of degrees of relevance, whereby non-financial quantitative information about unrecognised internally generated intangible assets

---

37 A related question, which is beyond the scope of this Paper, is whether any leakage of information beyond particular identifiable unrecognised internally generated intangible assets into internally generated goodwill would justify the information being disclosed in management commentary rather than in the financial statements.

38 Paragraph 46 of AASB 141/IAS 41 states:

"If not disclosed elsewhere in information published with the financial statements, an entity shall describe:
(a) the nature of its activities involving each group of biological assets; and
(b) non-financial measures or estimates of the physical quantities of:
(i) each group of the entity's biological assets at the end of the period; and
(ii) output of agricultural produce during the period."

No reason is provided in the Basis for Conclusions on AASB 141/IAS 41 to justify why the IASB decided to require disclosure of the non-financial quantitative information, nor to give entities the option of making this disclosure elsewhere in information published with the financial statements.

39 Although there is precedent for prescribed disclosure of financial information (i.e. where practicable, a measurement estimate of the financial effect) about unrecognised items through AASB 137/IAS 37 in relation to contingent liabilities and contingent assets.

that is highly relevant to users as judged by preparers is included in financial statements. If this latter distinction between financial statements and management commentary were adopted, it would be subject to individual judgement, potentially resulting in inconsistent information disclosed by entities in the same industry. However, if the distinction is adopted, it is likely non-financial quantitative information about unrecognised internally generated intangible assets would fall within the scope of financial statements of intangible-asset-intensive entities given the degree of relevance of such information to users.

Of note is that, as reported during the ICAS webinar (November 2021), the research undertaken by the University of Ferrara referred to in section A2.2 found that there was a tendency for both preparers and users to prefer information about intangibles to be included in notes to the financial statements.

As noted in section 1.2.4, the debate about the scope of financial statements relative to management commentary is not resolved in this Paper. It might be resolved as a consequence of the current IASB's Management Commentary project. In the meantime, this Paper proceeds on the assumption that any contemplated information that is a serious contender for disclosure, whether financial or non-financial information about unrecognised internally generated intangible assets, are highly relevant to users and therefore suitable for consideration for inclusion in the notes of financial statements.

A question then is whether the disclosures should apply to all for-profit private sector entities currently subject to AASB 138/IAS 38. This issue is discussed briefly in Appendix 7 below. Accordingly, the next issue discussed here is whether the suggested disclosures should be encouraged or required.

4.3 Encouraged or required disclosures

Arguments in favour of encouraging rather than requiring additional disclosures about internally generated intangible assets include:

- the concern that financial statements already contain excessive disclosure requirements. Furthermore, a survey by the IASB in 2013 found that over 80 percent of respondents (consisting of preparers, users and others) stated that a disclosure problem exists in that the current requirements result in disclosures that are poorly communicated, do not contain enough relevant information, and contain too much irrelevant information.[40] In an Australian context, similar evidence can be found in Saha et al (2018), which characterises the issue as a disclosure overload problem. Accordingly, mandating disclosure of information about unrecognised internally generated intangible assets would potentially exacerbate the concerns about excessive disclosures;
- in addition to paragraph 128(b) of AASB 138/IAS 38's encouraged disclosure, there is precedent for disclosure encouragements in several other accounting standards.[41] They include:
  - paragraph 87 of AASB 112/IAS 12 *Income Taxes*, which encourages disclosure of unrecognised deferred tax liabilities in respect of investments in subsidiaries, branches and associates and interests in joint arrangements, where practicable;
  - paragraph 79(d) of AASB 116/IAS 16 *Property, Plant and Equipment*, which encourages an entity that uses the cost model to disclose the fair value when this is materially different from the carrying amount; and
  - paragraph 43 of AASB 141/IAS 41, which encourages an entity "to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate". Furthermore, paragraph 51 of AASB 141/IAS 41 states that "the fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market". When the production cycle is greater than one year, an entity is encouraged to disclose "the amount of change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes".

40 The results of this survey are reported on page 34 onwards of the IASB's May 2013 document titled 'Discussion Forum—Financial Reporting Disclosure Feedback Statement'.

41 As noted earlier, disclosures about intangible assets and other intangible resources are also effectively encouraged through the IASB's Practice Statement *Management Commentary*.

Only the Basis for Conclusions on AASB 141/IAS 41 provides a rationale for an encouragement rather than a requirement. In particular, in relation to the explicit encouragement in paragraph 51 of AASB 141/IAS 41, paragraph BC76 states "The Board concluded that the separate disclosure should not be required because of practicability concerns. However, the Board decided to encourage the separate disclosure, given that such disclosure may be useful and practically determinable in some circumstances …". If that same kind of rationale were the basis for paragraph 128(b) of AASB 138/IAS 38, the implication is the encouraged disclosure is expected to be useful to users of financial statements, but the cost of determining it might exceed the benefits in relation to some entities. Based on the same rationale, it could be argued that any disclosures this Paper contemplates for inclusion in financial statements should be encouraged rather than mandated, leaving an individual entity to make its assessment of the cost/benefit equation; and

- consistent with a comment made during AASB staff discussions with a primary user, encouragements might be preferable to requirements because encouragements have the added advantage of creating competitive tension amongst preparers – there are benefits in allowing market forces impelled by that tension to operate. This is also consistent with the findings of Skinner (2008), who commented that "to the extent investors find disclosures useful, market forces will provide managers with incentives to disclose them if those disclosures pass the cost-benefit test". The encouragements would provide a framework within which market forces could operate, thus enhancing comparability across entities compared with there being no encouragements.

Counterarguments, favouring requirements over encouragements, include:

- concerns that encouragements do not facilitate the achievement of a high enough level of comparability of the resulting information across entities;[42]
- unless mandated, depending on how entities interpret the requirements in AASB 108/IAS 8 *Accounting Policies, Changes in Estimates and Errors* on changes in accounting policies regarding voluntary disclosures, entities might inappropriately take the opportunity to adopt the encouragement only in periods when the disclosures throw a positive light on the entity and elect to be silent in other circumstances; and
- there is evidence that suggests encouraging disclosure of information about unrecognised internally generated intangible assets would be ineffective. In particular, there is evidence that paragraph 128(b) of AASB 138 is not currently followed by any preparers, and therefore presumably not only by those for which the costs outweigh the benefits. In particular, the evidence from Ho et al (2020) and Davern et al (2021) reported in section A2.1.2 below suggests the encouragement is ineffective in providing useful information for users in relation to any entities.[43] Furthermore, users responding to the AASB staff-administered user survey unanimously advised they had not seen examples of the encouragement being followed in any circumstance. Accordingly, it is questionable how effective the encouragement in AASB 138/IAS 38 is, or how effective any encouragement of additional disclosures contemplated in this Paper (or encouragements in any AASB/IASB accounting standard[44]) can be.

If disclosures about unrecognised internally generated intangible assets were to be mandated, further consideration would need to be given to the level of prescription – for example, whether the requirements should restrict the disclosures to either financial or non-financial quantitative information and, if so, what type of information; or whether the entity preparing the financial statements should be allowed to make its own decision on that issue having regard to the circumstances (perhaps subject to the type of conditions suggested by Cohen et al (2021) – as summarised in section 4.2.4.1 above). Consistent with the

42 Arguably, this concern about comparability could be mitigated if, in response to any encouraged disclosures, specific industry sectors developed their own standardised disclosures. Alternatively, the encouragement could be expressed and structured in such a way that, if an entity elects to make the disclosures, the standard specifies a mandatory framework within which the voluntary disclosures are to be made.

43 Monem et al (2017) found some evidence that entities made disclosures in their annual reports but not in their financial statements, although that research was based on a broader definition of intangibles and not just intangible assets within the scope of this Paper.

44 This is a potential area for future research as there has not been much, if any, research into how effective encouragements in accounting standards are. Although there is limited research in terms of accounting standards, Bochkay et al (2021) found some positive effects (i.e. increased voluntary disclosures) arising from the voluntary disclosure standards developed by the Sustainability Accounting Standards Board.

discussion in sections 4.2.1 to 4.2.4, a factor to consider in determining the level of prescription would be the trade-off between comparability across entities and the flexibility appropriate to enable an entity to reflect its particular circumstances.

Any decision on this issue might also be affected by a consideration of the extent to which any prescription should be expressed as rules rather than principles, as considered further in section 4.4. Irrespective of that issue, before any conclusion is made on whether or not additional disclosures should be mandated, consideration should be given to the demarcation between financial statements and management commentary (as discussed at the end of section 4.2.5 immediately above) and a more substantive cost/benefit analysis than was undertaken as part of this Paper.

4.4 Principles or rules-based disclosures

There is ongoing debate about the merits of a principles-based approach relative to a more rules-based approach to the specification of disclosures. This is evident from the reaction to date to the proposals in IASB Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (see the IASB's website project update, and AASB ED 309 *Disclosure Requirements in Australian Accounting Standards – A Pilot Approach,* which incorporates the IASB ED).

This Paper does not enter that debate, which is better served by others (such as Cohen et al (2021), albeit with their focus on disclosures in initial public offering documents rather than in financial statements). Instead, this Paper acknowledges that the outcome of the debate would be expected to have implications for how any decisions about the issues addressed in this Paper would be implemented by standard setters.

Irrespective of whether a principles- or rules-based approach were to be adopted, in line with paragraph 7.5 of the 2019 Conceptual Framework, a disclosure objective along the lines of that noted at the end of section 4.1 above could be specified and accompanied by guidance. The level of prescription expanding on such an objective would be affected by the fact that often the nature of unrecognised internally generated intangible assets tends to differ across different industries and even across entities within an industry. This diversity and uniqueness of many intangible assets might affect the extent to which consistency and comparability in disclosures about those intangible assets can be mandated, let alone achieved.

In line with the discussion throughout this Paper, section 4.5 summarises the issues this Paper puts forward for consideration.

4.5 Summary of issues for consideration

This Paper suggests, as a first step, consideration be given to improving the current approach taken by AASB 138/IAS 38 to disclosures in financial statements about unrecognised internally generated intangible assets within that Standard's scope. This could be regarded as an interim solution until (and even if) AASB 138/IAS 38's recognition/measurement and other requirements are reviewed, and disclosures about intangible resources that are not intangible assets are addressed.

In particular, consideration could be given to specifying a requirement or encouragement that is expressed as a principle with a guiding objective and accompanied by supporting guidance along the following lines:

The principle:

> *An entity discloses information in its financial statements about each significant unrecognised internally generated intangible asset controlled by the entity that plays a key role in the pursuit of the entity's objectives.*

The disclosure objective:

To provide information in the financial statements that enables users to assess the current and expected future financial impact on the entity and management's stewardship of each significant unrecognised internally generated intangible asset controlled by the entity.

Guidance:

- *In identifying the intangible assets that play a key role in the pursuit of the entity's objectives, consideration could be given to the guidance on:*
  - *the definition of 'intangible assets' in AASB 138/IAS 38*
  - *materiality in paragraphs 29 to 31 of AASB 101/IAS 1* Presentation of Financial Statements *(and the guidance also in AASB/IFRS Practice Statement 2* Making Materiality Judgements*)*
  - *possible classes of intangible assets identified in paragraph 119 of AASB 138/IAS 38 and paragraphs IE 16 to IE 44 of the Illustrative Examples to IFRS 3*
- *In identifying the entity's objectives, consideration could be given to the guidance on business models and strategies in relevant AASB/IASB publications*[45]
- *In identifying particular disclosures, consideration could be given to disclosing, for each significant unrecognised internally generated intangible asset:*
  - *a description of the asset*
  - *the reason it is considered to play a key role in the pursuit of the entity's objectives*
  - *the reason it initially failed the recognition criteria*
  - *the operating segments in which it is used*
  - *any legal restrictions on its title*
  - *whether at any time during the year it was newly internally generated; or held for sale, abandoned, or sold, or any plan of sale changed (together with a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal)*
  - *its expected useful life and whether the assessment of useful life has changed since the prior period*
  - *financial (cost or fair value), non-financial quantitative, non-financial non-quantitative and/or non-financial narrative (qualitative) information that reflects an appropriate balance between relevance and faithful representation of the potential of the asset to generate economic benefits for the entity that could be used as input for a user's own assessments of financial impact and stewardship. The quantitative information should be calculated on a comparable and consistent basis over time and supported by explanations of the factors that have caused it to change.*

In an Australian-specific context, the above could be specified for at least for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards. Further consideration could be given to not-for-profit and public-sector-specific issues, particularly at the level of the Australian Government and State, Territory and Local Governments (i.e. Tier 1 entities in the public sector) and to for-profit Tier 2 entities (see Appendix 7).

Embarking on a process that considers the issues put forward in this Paper would be consistent with the apparent consensus emerging among national standard setters about the broad direction in which a review of the accounting for intangibles needs to proceed, despite the path not yet being clear. This Paper provides a basis for taking a modest and timely first step on that path while other longer-term projects are

45 At an international level, the recent Exposure Draft of the IASB's *Management Commentary Practice Statement* provides guidance that could help an entity identify its business model and strategies, and therefore its objectives. The type of guidance that could be identified and cross-referenced would depend on the outcome of the IASB's Management Commentary project. Also, it is relevant to note paragraph 24 of the IPSASB's Recommended Practice Guideline *Reporting Service Performance Information* (RPG 3), which states that objectives should be "specific, measurable, achievable, realistic and time-bound."

pursued. The first step could even provide some guidance on any subsequent steps that might be warranted.

Appendix 1: The Scope and Focus of this Paper

The factors considered in determining the scope and main focus of this Paper are summarised in section 1.4. This Appendix describes the following two factors in greater detail:

- the range of technical issues relevant to the accounting for intangible assets (section A1.1); and
- the different channels by which information about intangible assets could be communicated (section A1.2).

A1.1 Technical accounting issues

Intangible assets give rise to many technical accounting issues. Despite the broad range of issues that could be addressed, this Paper particularly focuses on the consequences for disclosures of AASB 138/IAS 38's:

- outright prohibition on the recognition of internally generated brands, mastheads, publishing titles, customer lists and items similar in substance (paragraph 63) and intangible assets arising from research (or from the research phase of an internal project) (paragraph 54);
- recognition criteria for other internally generated intangible assets (paragraph 57) that are more restrictive than the general asset recognition criteria in paragraph 21 of AASB 138/IAS 38; and
- encouragement, rather than requirement, to disclose information about intangible assets controlled by the entity that fail the Standard's recognition criteria (paragraph 128(b)).

This focus is consistent with the AASB 2019 Project Plan and helps keep the project to a manageable size. These issues attract attention both nationally and internationally by accounting standard setters and the academic community. That attention could reflect the fact that some of the other technical issues relating to intangible assets were fundamentally and comprehensively addressed relatively recently in the context of business combinations, for example through the IASB's 2015 Post-Implementation Review of IFRS 3 *Business Combinations*.

Consequently, many technical concepts and pronouncements that currently affect the accounting for intangible assets are merely acknowledged in this Paper. They are taken as given and therefore not critically assessed. They include:

- the concepts, including the current definition of and recognition criteria for assets, in the Conceptual Framework for Financial Reporting (referred to in this Paper as 'the 2019 Conceptual Framework'[46]) and the concepts still incorporated into AASB 138/IAS 38 from the 2004 Conceptual Framework that have not been amended to align with the 2019 Framework;
- the current scope[47] and definitions of 'intangible asset' and related terms in AASB 138/IAS 38 (including contemporary uncertainties/debates that might arise in practice about whether a particular item meets the definition of an intangible asset [e.g. whether digital assets are intangible assets[48]]);

46 The 2019 Conceptual Framework applies from 1 January 2020 to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards, and other for-profit entities electing to apply it. A for-profit entity electing to apply the 2019 Conceptual Framework must also apply the consequential amendments to other pronouncements set out in AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*. Consistent with the comments in sections 1.2.5 and 2.1 above, this Paper does not also consider the Conceptual Framework currently applicable to not-for-profit entities.

47 AASB 138/IAS 38 explicitly excludes from its scope financial assets, as defined in AASB 132/IAS 32 *Financial Instruments: Presentation*; the recognition and measurement of exploration and evaluation assets (AASB 6/IFRS 6 *Exploration for and Evaluation of Mineral Resources*); and expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources (paragraphs 2(b)–(d)). Furthermore, excluded from the scope of AASB 138/IAS 38 are intangible assets within the scope of another Standard (paragraph 2(a)) – examples of which are listed in paragraphs 3 and Aus3.1. Yet other Standards address general requirements (e.g. AASB 101/IAS 1 *Presentation of Financial Statements*). There are also other AASB/IASB pronouncements that apply in particular circumstances – for example Interpretation 132/IFRIC 32 *Intangible Assets – Web Site Costs*. The requirements in these other pronouncements are also taken as a given for the purpose of this Paper.

48 The AASB is considering adding a project on 'digital assets' to its 2022–2026 work programme. Digital Assets is currently an AASB research project and the AASB sought comment through its Agenda Consultation 2022–2026 as input to a forthcoming decision on whether to add the project to its work program. (See section 3.2 and Appendix E of the October 2021 AASB ITC 46 *AASB Agenda Consultation 2022–2026*, which was open for comment until 18 February 2022).

- the current requirements and practices relating to intangible assets embedded in recognised tangible assets (such as intangible components of heritage assets) or financial assets (such as core deposit intangible assets) or purchased goodwill (such as intangible assets acquired in a business combination that fail the AASB 3/IFRS 3 *Business Combinations* criteria for separate asset recognition);
- the current asset recognition requirements in AASB 138/IAS 38, including those in paragraph 57 applicable to the recognition of intangible assets arising from development (or for the development phase of an internal project);
- the current requirements of AASB 138/IAS 38 applicable to externally acquired and internally generated goodwill;
- the current requirements relating to the initial accounting for externally acquired intangible assets (whether acquired separately or in a business combination), and the current requirements specified for business combinations in AASB 3/IFRS 3;
- the other requirements of AASB 138/IAS 38 and other Australian Accounting Standards (and equivalent IASs/IFRSs) with implications for the initial and subsequent accounting for intangible assets that are unrelated to recognition issues. These requirements relate to various matters including useful lives, amortisation methods and some aspects of presentation;
- the current measurement requirements and options for intangible assets in AASB 138/IAS 38 (and consequently AASB 13/IFRS 13 *Fair Value Measurement*);
- the current requirements relating to impairment in AASB 136/IAS 36 *Impairment of Assets*;
- the current mandatory disclosure requirements in AASB 138/IAS 38 relating to recognised intangible assets; and
- the current disclosure requirements for possible assets in AASB 137/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The acceptance of these concepts and requirements for the purpose of this Paper does not imply that they should not be reviewed with the objective of making further improvements to financial reporting.

A1.2 Reporting channels

Information about intangible assets could be communicated through a range of different reporting channels. The focus of this Paper is on the financial statements (including notes) channel of financial reporting. This is because AASB 138/IAS 38 requirements apply to financial statements. As noted in section 1.2.4, management commentary[49] is also acknowledged as a possible alternative/complementary communication channel.

In addition, relevant information about unrecognised and unrevalued intangible assets (and other intangible resources) might also be conveyed through broader 'entity reporting' channels outside the annual report. Examples of these other channels include investor briefings, press releases, conference calls and other investor relation programs (as noted, for example, by Tasker 1998; and Gelb 2002), as well as

49 At an international level, the IASB has issued IFRS Practice Statement 1 *Management Commentary* (December 2010) to provide guidance for the preparation of a narrative report relating to financial statements prepared in accordance with IASB Standards. It provides a broad framework and is non-mandatory unless otherwise required by a regulator. Although the IFRS Practice Statement does not explicitly mention intangible assets, its paragraph 24 anticipates information being included that is essential to an understanding of the entity's most significant resources, risks and relationships. Further, as noted at the end of section 1.1 above, the IASB's recent proposals to revise the Practice Statement anticipate management commentary including information about intangible resources and relationships. The IASB's ED was open for comment until 23 November 2021. See also AASB ED 311 *Management Commentary*, which was open for comment until 1 October 2021. Also relevant is the AASB Staff Paper *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities*, published in May 2021.

Integrated Reporting,[50] Sustainability Reporting,[51] Balanced Score Card Reporting (see, for example, the description of such reporting by the Corporate Finance Institute), Lev's Value Chain Scorecard (as described in Lev 2001), the Danish Trade and Industry Development Council's Intellectual Capital Accounts (Danish Trade and Industry Development Council's Memorandum, May 1997),[52] or even subscription services based on consensus models such as the service provided by Visible Alpha.[53]

Unlike more formalised and traditional accounting standard-setter-related financial reporting channels, these 'entity reporting' channels might be desirable and even preferred:

- by some users, because such channels provide more timely and a broader range of information than financial statements (or annual reports); and
- by some preparers, because otherwise disclosing information in annual reports increases the risk of exposure to litigation.[54]

Whilst acknowledged in this Appendix, these other potential channels of communication of information about intangible resources (including unrecognised internally generated intangible assets) are beyond the scope of this Paper.

Despite that, it is acknowledged that the types of information disclosed through these channels of communication could provide inspiration for identifying specific types of information about unrecognised internally generated intangible assets that could be usefully disclosed in financial statements. Furthermore, other possible sources of inspiration could include the types of disclosures made about exploration and evaluation expenditure and activities in extractive industries, or disclosures more generally in documents published by entities in support of initial public offerings. Not all of these possible sources have been fully investigated for the purpose of this Paper.

---

50 The Value Reporting Foundation International Integrated Reporting Framework's website states on its 'about us' page: "The International Integrated Reporting Framework and Integrated Thinking Principles have been developed and are used around the world, in over 70 countries, to advance communication about value creation, preservation and erosion." As noted on the 'get to grips with the six capitals' page:

> "The primary purpose of an integrated report is to explain to financial capital providers how an organization creates value over time. The best way to do so is through a combination of quantitative and qualitative information, which is where the six capitals come in.
> The capitals are stocks of value that are affected or transformed by the activities and outputs of an organization. The <IR> Framework categorizes them as financial, manufactured, intellectual, human, social and relationship, and natural. Across these six categories, all the forms of capital an organization uses or affects should be considered. An organization's business model draws on various capital inputs and shows how its activities transform them into outputs."

51 The IFRS Foundation website states: "In November 2021 the Trustees published a revised *Constitution* and a Feedback Statement that responds to the feedback from Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*."

52 Six of 20 respondents (but no UAC members) to the AASB staff-administered user survey expressed some level of support for the production of such intellectual capital statements (see section A3.4.2.4).

53 Visible Alpha's website states on its homepage: "Visible Alpha Insights captures the forecasts, assumptions and logic from full working sell-side models and integrates them into comparable views across analysts, companies and peer groups. This deep consensus data provides a quick understanding of the sell-side view on a company or industry at a level of granularity, timeliness and interactivity that has never before been possible."

54 This could be because auditing standards require auditors to assess the consistency of disclosures with the audited financial statements in accordance with paragraph 11 of the Australian Auditing Standard issued by the AUASB, ASA 720 *The Auditor's Responsibilities Relating to Other Information* (Gelb 2002). Indeed, Gelb reports that entities with relatively more R&D and advertising expenditures (a proxy for the existence of internally generated intangible assets) are more likely to have higher disclosure ratings on quarterly reports and investor relation programs disclosures than on annual report disclosures. (ASA 720 conforms with International Standard on Auditing ISA 720 *The Auditor's Responsibilities Relating to Other Information* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).)

Appendix 2: Insights from Academic Research and Accounting Standard-Setters' Activities

This Appendix focuses on the insights provided by both academic research (section A2.1, summarised in section 3.1 above) and accounting standard-setters' activities (section A2.2, summarised in section 3.2 above). Although recognition/measurement is not the focus of this Paper, it is informative to consider the findings of research on that matter as a context for the discussion of using disclosures as a way of supplementing the current recognition/measurement model.

A2.1 Academic research

As noted in the AASB 2019 Project Plan, academic research has helped inform accounting standard setters in relation to the issues relevant to this Paper. Some of that research lends support to the view that it is timely for the requirements in AASB 138/IAS 38 to be reviewed. In identifying this academic research, the following draws heavily from relevant parts of that AASB 2019 Project Plan and a literature review undertaken by Ho et al (2020).

The focus of some of the research is on recognition/measurement and other research focuses on disclosures (whether of financial or non-financial information). Although there is not necessarily a clear distinction between the two types of research in all cases, the research most focused on recognition/measurement is described in section A2.1.1. That section provides a context for section A2.1.2, which describes the research more focused on disclosures.[55]

On the question of whether the current intangible assets accounting requirements cause adverse impacts such as market distortions, it is difficult to structure research to identify whether such impacts arise and, if so, their extent. Similarly, in relation to additional disclosures, it is challenging to structure a research project that could objectively and definitively determine whether the benefits of any possible incremental disclosure would outweigh the costs.

Some reasons identified in the literature for difficulties in assessing the implications of disclosures include the mixed evidence relating to the implications of disclosure, measurement issues with the commonly used proxies for costs and benefits of disclosures, and the difficulty in disentangling proprietary costs and agency/entrenchment costs (Beyer et al 2010; Berger 2011).[56] Berger specifically mentions that the difficulty in disentangling proprietary costs and entrenchment costs "provides an important reason why there are considerable difficulties in using publicly available data to study the question of how much information is being withheld from a firm's disclosures".

Further, Beyer et al (2010) point out that it is difficult to infer the effects of increased disclosures on capital markets. This is because the proxies used to capture proprietary costs of disclosure can also be used to capture the capital market benefits of disclosure. For example, positive news regarding a new drug developed by a pharmaceutical company may increase share price (i.e. capital market benefits) but may also increase competition in the market (i.e. proprietary cost).

55 As noted in Appendix 1, the scope of this Paper is limited to 'intangible assets as defined by and within the scope of AASB 138/IAS 38'. However, in the literature relating to intangible assets, the terminology used is not always consistent nor clear. For example, terms used include 'intangibles', 'intangible resources', 'intangible investments', 'intangible factors' and 'intangible assets' with meanings that may or may not be broader than 'intangible assets as defined by and within the scope of AASB 138/IAS 38'. Although it is the latter that defines the scope of this Paper, some of the literature referred to in this Appendix adopts a broader scope.

56 The research notes that there are two possible motives for firms to withhold discretionary information disclosure, namely proprietary costs and agency/entrenchment costs (Berger and Hann 2007). According to the proprietary cost hypothesis, firms often withhold information disclosure because the disclosure may disadvantage the firm (i.e. losing their competitive advantage). In comparison, according to the agency/entrenchment cost hypothesis, the information disclosure may be withheld mainly because there is a conflict of interest between the management team and shareholders.

Additionally, Ben-Shahar and Schneider (2014) assert that financial disclosures have "unappreciated costs that are hard to measure". Ben-Sharar and Schneider note that the unappreciated costs are caused by the fact that the benefits of disclosure are only realised when users of financial reports pay attention to them. They go on to note that there is an increasing number of mandatory disclosures from time to time and there are still a large number of people who are financially illiterate, which limit the realisation of the theoretical benefits.

Accordingly, caution needs to be taken in relying on the results of research attempting to identify incremental costs and benefits of different types of possible amendments to AASB 138/IAS 38. Despite this, various methodologies attempting to identify the impacts of the current requirements and alternatives have been adopted. The findings are somewhat mixed, as evident in the following.

A2.1.1 Academic research relating to recognition/measurement

There are a range of studies that find intangibles recognised in accordance with the current requirements are sufficiently reliable to be value relevant in their settings (e.g. Barth and Clinch 1998; Barth et al 1998; Godfrey and Koh 2001; Kallapur and Kwan 2004; Wyatt 2005; Nadeem et al 2019; Ritter and Wells 2006; Chalmers et al 2008). Others find that recognised intangible assets are useful in suggesting future entity performance (Ritter and Wells 2006), and improving analyst earnings forecast accuracy (Matolcsy and Wyatt 2006). Some earlier evidence suggests the level of reliability/credibility of revaluations is a determining factor. Cotter and Richardson (2002) demonstrate that the appraiser independence in the revaluation process plays a significant role in market perceptions.

There are long-standing debates amongst academics and practitioners on whether there is a need to change the current intangible assets recognition requirements (e.g. Wallman 1995; Lev and Zarowin 1999; Cañibano et al 2000; Jenkins and Upton 2001; Skinner 2008; Sidhu and Roberts 2008; Penman 2009; Barth 2018).

Academic research that tends to support a review of AASB 138/IAS 38's recognition/measurement requirements to increase the level of recognition include findings reported in:[57]

- a study titled *Accounting for Intangibles: Can Capitalization of R&D Improve Investment Efficiency?* by Dinh et al (2019), an earlier draft of which was presented at the IASB Research Forum in 2018. Relevant particularly from an economic efficiency perspective, it investigates the potential for accounting rules to mitigate under-investment induced by myopic managerial incentives and finds hi-tech companies that cannot capitalise R&D costs suffer higher levels of under-investment relative to software development companies that are able to capitalise such costs;
- a paper titled *Real Effects of Intangibles Capitalization—Empirical Evidence from Voluntary IFRS adoption in Japan* by Amano (2019), which was presented at the IASB Research Forum in 2019. It provides debate on the drastic change in the economy, and how an entity should measure and disclose its intangible assets. The study suggests some stakeholders regard the current approach of expensing most intangible investments to be out of date and insist that intangible assets should be capitalised so that balance sheets more accurately reflect companies' economic value;
- several studies, which conclude that prohibiting internally generated intangibles from recognition in financial statements results in a loss of relevant information (e.g. Wallman 1995; Amir and Lev 1996; Lev and Zarowin 1999; Sidhu and Roberts 2008; Paugam et al 2018; Wu et al 2020). Lev and Zarowin (1999) and Peters and Taylor (2017) argue that the asymmetric rules for acquired and internally generated intangibles hamper the ability of financial statements to reflect the true value of a company's intangible resources. Lev and Zarowin find that the difference between market value and accounting book value of a company has been increasing whilst the usefulness of accounting earnings and equity book values have been deteriorating over time. They advocate for the capitalisation of intangible investments to improve the usefulness of financial information. Moderating this conclusion,

57 Some of which also acknowledges the potential benefits of improving disclosure requirements, as also noted in the following list.

Davern et al (2019) found that, despite Lev and Zarowin's concerns, "financial reports remain relevant for equity valuation in Australia" and note that "Australian investors view such accounting numbers as complements, rather than substitutes, and take the measures into consideration as a bundle for decision-making purposes".

- some studies that particularly address the implications of not recognising intangibles in the US, where intangible assets are largely unrecognised and related expenditures are required to be immediately expensed. Barth et al (2001) argue that information asymmetry is higher for entities with more underlying intangibles and therefore they predict analysts have greater market incentives to cover such entities to provide value-added information. Consistent with their prediction, they find analyst coverage is greater for entities that are relatively intangibles intensive. Perhaps more significantly, they further document that analysts spend more resources to follow these types of entities – raising economic efficiency questions. Consistent with Barth et al's conjecture that information asymmetry is higher for intangible-intensive entities, Barron et al (2002) and Gu and Wang (2005) show that analysts make larger earnings forecast errors for entities with higher underlying intangibles. They comment that while a direct inference should not be drawn from these studies that recognition of internally generated intangibles will benefit analyst forecasts in the US, the evidence is consistent with a demand for intangible-related information to reduce information asymmetry, thereby helping investors understand the underlying economics of intangible-intensive entities. Matolcsy and Wyatt (2006) and Chalmer et al (2012) suggest the absence of potentially useful information about intangible assets may cause market distortions;
- a paper by Barker et al (2020). It provides a comprehensive analysis of the underlying causes of concerns about the current accounting requirements for intangible assets. The authors conclude that initial recognition of expenditure on internally generated intangible assets as an expense or an asset is problematic if the level of uncertainty of future economic benefits (not necessarily easy to assess) is low or high, respectively, and if it changes over time. Establishing a threshold for initial capitalisation is also fraught, as evident from IAS 38's arguably arbitrary and subjective recognition thresholds. As a potential recognition/measurement solution, they conclude a 'conditional capitalisation approach' is worth considering, under which expenditure that initially fails the threshold recognition criteria is initially expensed but then held in abeyance for if and when it becomes likely the investment will pay off. The authors go on to suggest supplementing this income statement presentation-based solution with disclosures outside the financial statements but within the annual report. They comment that "There will always be limits on how much information the financial statements can convey to help investors assess future cash flows" (page 27). In particular "Management commentary, which is part of financial reporting, can be used to present this information" (page 27); and
- those studies that particularly looked at the adoption of AASB 138 as part of IFRS adoption from 1 January 2005 in Australia. Adoption of AASB 138 provided fertile ground for academic research in terms of the impact of adoption[58] and how the market reacted to the change in information. In undertaking their research, Chalmers et al (2008), Chalmers et al (2012) and Russell (2017) noted the shift from pre-2005 Australian GAAP to the adoption of accounting standards based on IFRSs, and AASB 138 in particular, offered a setting to directly examine the relative merits of alternative accounting methods for intangible assets. Some of the resulting research and their findings include:
    - Wyatt (2005) showed that, under the pre-AASB 138 regime, the recognition of internally generated intangible assets was associated with an entity's underlying economics;

58 Ho et al (2020) analysed the trend in the proportion of recognised identifiable intangible assets to total assets of a sample of 55 Australian companies expected to be most likely impacted by the accounting for intangible assets, with the aim of identifying significant write offs (or write downs) of intangible assets in the period leading up to, or immediately after, adoption of AASB 138. They found 23 of the 55 companies reported they were impacted by the adoption of AASB 138. Of those: the ten that reported a derecognition showed a decline in identifiable intangibles of 18 percent (total assets of five percent); the nine that reported a reversal of a revaluation showed a decline in identifiable intangibles of 36 percent (total assets of 14 percent); and the four that did not distinguish between derecognition and reversal of a revaluation showed a decline in identifiable intangibles of 25 percent (total assets of 13 percent). The reversal of revaluations arising from the effect of paragraph 75 of AASB 138/IAS 38 prohibiting the revaluation of recognised intangible assets to fair value unless it can be measured by reference to an active market is addressed in Appendix 9 below.

    - Chalmers et al (2008) compared the value relevance of comparative accounts based on IFRS (and therefore AASB 138) and pre-2005 Australian GAAP (pre-AASB 138) for Australian listed entities with intangibles greater than zero in the year of IFRS adoption. They found both sets of balance sheet valuations of aggregated intangibles for the same year are similarly value relevant. However, aggregated intangible measures under pre-AASB 138 convey incremental information beyond the equivalent measures under AASB 138, but not vice versa. In other words, the balance sheet appears to have lost information content in relation to identifiable intangibles after the adoption of AASB 138; and
    - Chalmers et al (2012) found the result in Matolcsy and Wyatt (2006), which shows capitalised intangibles in general are associated with higher analyst forecast accuracy, does not hold for entities reporting a reduction in recognised intangibles upon implementation of the more restrictive AASB 138 treatment of internally generated intangibles. They conclude AASB 138 might have resulted in a loss of useful information to analysts. This study provides some direct evidence the usefulness of financial statements decreased after adoption of AASB 138. While there is a concern by some that value estimates of internally generated intangibles are too unreliable to be recognised as assets in financial statements, existing evidence from settings where such recognition was permitted “does not suggest that discretion to report intangibles seriously impacts market efficiency” (Wyatt 2008).

In contrast, other academic research tends to reject the need for a review of AASB 138/IAS 38’s recognition/measurement requirements to widen the range of intangible assets being recognised. The research includes findings reported by:

- Skinner (2008), who notes that recognising internally generated intangible assets in financial statements incurs additional costs for preparers. Direct costs include costs for undertaking valuations and extra auditing costs. Apart from such direct costs, there may also be indirect costs, such as proprietary costs of revealing sensitive information to competitors;
- Penman (2016), who concludes that, in fully expensing investments in intangibles, accounting plays a role in informing the market on risk and expected return of such investments; and
- some studies that found opportunistic incentives motivated managers to recognise intangibles under the pre-AASB 138 regime in Australia (e.g. Ely and Waymire 1999; Muller 1999; Gerhardy and Wyatt 2001; Kallapur and Kwan 2004; Jones 2011; Russell 2017). For example, Jones (2011) reports failing entities tend to capitalise intangible assets more aggressively than non-failing entities, with an objective to overstate earnings or to understate leverage.

A2.1.2 Academic research relating to disclosures

The academic research that has focused more on disclosures than recognition/measurement generally supports a view that a financial statements information gap about unrecognised intangible assets could arise unless disclosures are made. Some expect there are market forces at play that would cause relevant disclosures to be made voluntarily, others conclude encouragement of disclosures would be needed and yet others conclude mandated disclosures are warranted. An overview of the relevant literature follows.

Some studies have explicitly looked at the association between disclosures and cost of capital, including those that find disclosures:

- would reduce the cost of capital, including studies by:
    - Botosan (1997), who notes the debate between proponents and opponents of greater disclosures and acknowledges the debate might be unproductive because “the benefits of greater disclosure are not well established and are difficult to quantify” (page 346). Despite that, Botosan goes on to provide direct evidence of the association between disclosure levels in annual reports and cost of equity capital relative to the level of analyst following. Specifically, Botosan analyses 122

manufacturing firms' voluntary disclosures in their 1990 annual reports[59] and finds that higher levels of disclosure are associated with lower cost of equity capital for firms with relatively low analyst following. However, such association is not found for those firms with relatively high analyst following, which Botosan explains is a consequence of the fact that information about a firm that is subject to a high analyst following can also be disseminated to the market through financial analysts, and the market is not constrained to the information in annual reports;
 - Botosan and Plumlee (2002), who find that higher disclosure levels are associated with lower cost of equity capital, and vice versa;
 - those who suggest increased disclosures would reduce information asymmetry, and in turn reduce the cost of capital (e.g. Diamond and Verrecchia 1991; Easley and O'Hara 2004). Furthermore, Leuz and Verrecchia (2000) find that firms that commit to an increased level of disclosure are associated with lower bid-ask spreads and higher share turnover;[60] and
 - those who suggest increased disclosures enhance investors' assessments of the parameters of the distribution of future returns while reducing uncertainties of those returns (i.e. estimation of risks), and therefore a reduction in the cost of capital (e.g. Barry and Brown 1985; Coles et al 1995). Furthermore, Botosan (1997) and Dinh et al (2020) find greater disclosure reduces uncertainty on an entity's future performance; and
- would not necessarily reduce the cost of capital, including studies by:
 - Kim and Verrecchia (1991), who provide evidence that even firms with a relatively greater amount of disclosure have a higher cost of capital in a setting where the increased disclosure motivates investors to seek additional private information. This leads to an increase in information asymmetry between those now more-informed investors who incurred additional costs to become more informed and uninformed investors who are now aware they are missing some information. Both factors lead to a higher cost of capital;
 - Armstrong et al (2011), who, although finding that disclosure may reduce cost of capital, note that because disclosure is costly, firms with low growth options may rationally choose not to incur the costs associated with reducing information asymmetry; and
 - Ely and Waymire (1999) and Kallapur and Kwan (2004), who found that the value relevance of information could come under question if disclosures are made with ulterior motives. Ely and Waymire show that the market was skeptical about disclosures about intangibles during the pre-SEC era in the US.

Some other studies analyse the association between disclosure and the accuracy of analyst forecasts and its potential impact on cost of capital more narrowly, by focusing only on R&D disclosures. They include studies by:

- Jones (2007), who analyses R&D-related information and concludes that firms disclose a variety of information related to R&D. Jones conducts various analyses by categorising the R&D into various groups. Firstly, after separating forward-looking information from general activities disclosure, Jones finds a higher level of forward-looking information disclosure is associated with lower earnings forecast error, but no evidence is found on the association with forecast dispersion. In comparison, a higher level of general activities disclosure is associated with higher analyst earnings forecast error and lower forecast dispersion. Further, Jones separates the disclosure into different stages of R&D activity. When the R&D projects are in progress and at development-stage, a higher level of disclosure is associated

59 The voluntary disclosure information that is considered useful in investment decision making by investors and financial analysts, and used in the construction of the disclosure level variable, include: six items under *Background Information*, five items under *Ten- or Five-Year Summary of Historical Results*, eight items under *Key Non-Financial Statistics*, five items under *Projected Information*, and 11 items under *Management Discussion and Analysis.*

60 Higher share turnover is treated as an indicator of lower information asymmetry because both informed and uninformed traders are more likely to trade in the stock of these firms. As argued by Mohd (2005), "firms with high information asymmetry have lower share turnover because uninformed traders are less likely to trade in these shares, knowing that they will lose to informed traders".

with both lower earnings forecast error and lower sales forecast error. In summary, Jones found higher R&D-related disclosure is mostly associated with increases in the accuracy of analyst forecasts;

- Merkley (2014), who finds that the narrative of R&D disclosure is related to higher analyst following and higher earnings forecast accuracy. The narrative of R&D disclosure is also found to be associated with lower analyst forecast dispersion and lower information asymmetry. These findings support the economic argument that greater disclosure lowers the potential issues caused by information asymmetry and adverse selection, which subsequently result in the higher equity valuation and lower costs of capital. However, Merkley raises a warning for generalisability of the findings considering the unique characteristics of the R&D disclosure setting; and
- Dinh et al (2020) noted the findings of:
  - Entwistle (1999) that investors are skeptical of R&D capitalisation because of reliability concerns; and
  - Cazavan-Jenny et al (2011) and Dinh et al (2016) that R&D capitalisation is only informative when firms are not suspected of earnings management.

  Dinh et al (2020) argue that R&D disclosure can work as a substitute or to make the R&D capitalisation more credible and informative. Analysing the German setting, they find that the magnitude of association between R&D disclosure and cost of capital is dependent on whether the firm is suspected of earnings management. When the firm is not suspected of earnings management, higher level of R&D disclosures is associated with higher market value and lower cost of capital. The market value decreases and cost of capital increases as the R&D capitalisation gets higher, indicating that the information uncertainty caused by R&D capitalisation has a stronger effect than the benefits offered by the R&D disclosure. Such association is significantly more pronounced when the firms are also suspected of earnings management.

Furthermore, some studies identified particular disclosures that could be useful, whether in the financial statements or elsewhere. They include:

- a study by Van Der Spuy (2015), which identified information needed by users of financial statements about unrecognised brand assets that is not currently disclosed. Table A in section 4 above draws heavily on Van Der Spuy's suggestions in identifying possible non-financial non-quantitative items of information more generally about unrecognised internally generated intangible assets. Van Der Spuy argues that it is important for users to incorporate the undisclosed internally generated intangible assets information into their valuation model;
- Merkley (2014), who suggests narrative R&D disclosure that would convey contextual information about a firm's R&D activities be included in the US Security and Exchange Commission's SEC Form 10-K annual report; and
- Lev (2001), who suggests information about an entity's innovation activities be included in annual reports. That information could include non-financial indicators, arranged in three phases according to the cycle of development (discovery and learning phase, implementation phase and commercialisation phase). Some examples, taken from Kang and Gray (2011), include workforce training and development, business collaborations, licensing agreements, brand values, market share and market innovation.

In addition:

- a study by Bloom (2009) is informative about possible specific disclosures, even though its primary suggestion relates to the accounting for goodwill. Bloom suggests no intangible assets should be recognised in the balance sheet and instead they should be presented in a new primary financial statement referred to as a 'Market Capitalisation Statement'. The Statement would reconcile a listed entity's market capitalisation to net tangible assets, itemising classes of identifiable intangible assets as separate line items (preferably at valuation), with goodwill as the balancing item. The Statement would show the relative importance of goodwill, identifiable intangible assets and net tangible assets as constituents of market capitalisation. For the purpose of this Paper, consideration could be given to

adapting this approach as a framework for disclosing (preferably at valuation) unrecognised intangible assets either in management commentary or notes in the financial statements. Such a framework resonates somewhat with the 'hypothetical business combination' approach advocated by Keys and Ardern (2008) as referred to in section A2.2.1 below. However, on its own, it might not provide sufficient information about those intangible assets that cannot be reliably measured at fair value; and

- the ideas of Cohen et al (2021) for disclosures that would justify assertions made by a company in initial public offering documents issued by the company about its value could be applied by analogy to disclosures in financial statements about particular unrecognised internally generated intangible assets within the scope of AASB 138/IAS 38. For example, Cohen et al's ideas could be used to identify suitable disclosures about an entity's customer list where the entity makes claims about the value of that list. In particular, although some of the disclosures would be common irrespective of the entity's business model, other disclosures would differ. By way of example, an entity operating under a:
  - subscription-based model (e.g. providing a subscription-only entertainment streaming service) could disclose the following mainly non-financial quantitative information about its customer list: total subscriber count, subscriber churn, contribution profitability, customer acquisitions, cost of acquiring subscribers and cohorted data; and
  - transaction-based model (e.g. providing a pay-for-use taxi service) could disclose the following mainly non-financial quantitative information about its customer list: active customer count, total orders, contribution profitability, customer acquisitions, customer acquisition costs, promotional activity and cohorted data.

A number of academic studies have concluded that, with the incentive of lowering the cost of capital, entities would make voluntary disclosures in their financial statements (and, if not in their audited financial statements, at least elsewhere in their annual reports or even elsewhere) to compensate for the financial statements information gap otherwise created by the non-recognition of intangible assets. For example:

- Amir and Lev (1996) provide some empirical evidence that entities with high levels of intangibles would voluntarily provide additional disclosures (mainly non-financial), particularly about unrecognised intangible assets. They found that the non-financial information was value relevant, which supported their conclusion that traditional financial reporting is deficient, and that financial and non-financial information can complement each other. (As noted in the AASB Project Plan, Amir et al (2003) investigated whether the information available to investors from sources other than financial reports makes up for the reports' deficiencies in general, and particularly in intangibles-intensive companies. The authors concluded that the findings were somewhat mixed);
- Merkley (2014) asserts that, as earnings performance declines, investors demand more R&D related information because earnings losses and decreases typically do not persist, and the decline creates more uncertainty about a firm's value. In mitigating the uncertainty, managers of firms with lower earnings performance have a higher incentive to provide additional relevant R&D information. Merkley found that entities with R&D investments provide more (less) forward-looking R&D disclosures when their earnings performance declines (improves);
- Chen et al (2017) examined whether paragraph 57 of IAS 38, which effectively requires an entity to gather substantive R&D information for the purposes of determining whether development expenditure can be capitalised, motivates high-technology and science-based entities to voluntarily disclose some of that information. They found entities that capitalise development expenditure under paragraph 57 provide significantly more information than those that do not capitalise. This is explained as being due to the fact the information is more favourable in circumstances where development projects have passed feasibility tests. Voluntarily-disclosed R&D-related information was found to have a positive incremental value for investors relative to the mandated accounting information and that the disclosure is value-relevant to the share price; and
- Skinner (2008) notes that it is difficult to meaningfully measure and weigh the benefits of mandating recognition (and relevant disclosure) against its costs, and suggests market forces will drive managers to voluntarily provide such information if they consider it is worth doing so. Skinner provides and

analyses a summary of some recent proposals for improving disclosures about intangible assets,[61] and concludes mandating extended disclosures is not expected to be effective. Instead, market-based incentives for entities to voluntarily disclose relevant information are likely to be effective. However, Lev (2008) argues against Skinner's reliance on the market view with the argument that: "If market incentives for corporate disclosure are so effective, why require firms to disclose a cash flow statement, segment reporting, or fair values? Obviously, invoking market incentives to flatly reject disclosure proposals, without a careful consideration of market imperfections and managers' incentives, is a slippery slope".

Despite these academic findings/expectations about voluntary disclosures, some of the empirical research undertaken into current practices in Australia relating to encouraged disclosures for the specific purpose of the project of which this Paper is an output found limited evidence of voluntary disclosures.[62] On the face of it, this seems somewhat counterintuitive given the information perceived to have been lost as a result of entities moving from a pre-AASB 138 regime to an AASB 138 regime. However, some related voluntary disclosures that were less explicit were found by some of the research methodologies. Details of that research is as follows:

- Ho et al (2020) addressed three issues (numbered 1., 2. and 3.), only the following parts of which related to disclosures:

  > "1. … 2. … Where … firms had to write-off previously recognised intangibles pursuant to AASB 138, did they then voluntarily provide alternative disclosures elsewhere in their annual reports in relation to the fair value of such intangibles? 3.What form do these disclosures take and where are they positioned in the annual reports? Are any of these disclosures in the audited financial statements (e.g. in the notes to the accounts)?"

  These parts of the research focused on a hand-collected sample size of the annual reports of 55 of the largest 200 Australian Securities Exchange (ASX) listed companies most affected by the adoption of AASB 138. Their annual reports were checked for any write-offs of intangible assets during the years 2000-2010 and any alternative disclosure post-AASB 138 adoption. The researchers made their disclosure assessments by manually reading the accounting policy section and any notes relevant to intangible assets; electronically searching the entire annual reports for the terms 'AASB 138' and 'intangible'; and electronically searching for terms matching the specific types of intangible assets an entity would be expected to have – for example, for a brewing company, 'brand', 'mailing list', 'patents' and 'licences'.

  The research found that, despite the sample of companies being materially impacted by the introduction of AASB 138, those companies have not chosen to disclose information about unrecognised intangible assets in their financial statements nor elsewhere in the annual report. This is despite earlier academic studies (as noted earlier in this Appendix) finding evidence the previously recognised amounts were viewed as credible. The authors note that reasons for this are not well understood but some potential explanations are offered. For example, the findings could reflect that some companies had started writing-down or re-classifying identifiable intangible assets some years before the implementation of AASB 138. Thus, information was not lost suddenly; and even if information were lost, investors could use alternative sources of information. In other words, it is possible that the market participants could make their own estimate of the value of unrecognised (and unrevalued) intangible assets from sources of information other than the financial statements or annual reports.

  The researchers go on to caution against concluding this finding implies there is no need for disclosures about unrecognised intangible assets in financial statements or annual reports. They note it is

61 The proposed approaches draw on non-financial measures and narrative information. Some of the suggestions include: measures of innovative success (including patents recently awarded), customer satisfaction, employee satisfaction, product or service awards; information focused on the three main components of intellectual capital (i.e. human capital, structural capital and relational capital); workforce training and development, business collaborations, licensing agreements, government approvals, brand values, market share and market innovation.

62 As noted in section 1.2 of this Paper, the focus is on accounting for intangible assets in financial statements (or, less so, in management commentary). Of course voluntary disclosure might be made elsewhere, including outside financial reports.

important to understand the reasons for the lack of such disclosures. They urge accounting standard setters to identify and consider the factors that could be driving non-disclosure and possible ways forward, as discussed in Schipper (2007)[63] and Skinner (2008). It is intended this Paper be input to and help facilitate such a consideration;

- Davern et al (2021) reviewed the financial statements of 81 Australian entities in the private for-profit (including listed companies), not-for-profit and public sectors by employing a keyword search to determine whether any entities were making the AASB 138 paragraph 128(b) voluntary disclosure. The keywords/stems searched included 'intangible', 'voluntar*', 'AASB 138', '138.128', '128', 'recognition criteri*'. The 81 entities included 56 that were recipients of Australasian Reporting Awards[64] in the period 2015–2020 as well as a manual search of 25 entities in the for-profit and not-for-profit sectors where intangible assets are likely to play a significant part in the creation of value. They included pharmaceutical and information technology sectors, including universities and not-for-profit medical research institutes. Only one relevant disclosure example was found, relating to disclosure of information to seemingly compensate for the fact revaluations of acquired intangible assets are not allowed in the absence of active markets;[65] and
- The findings of Monem et al (2017) were presented at the AASB Research Forum 2017. They investigated the disclosure practices of 120 ASX listed companies related to internally generated intangibles that do not qualify for recognition under AASB 138. The focus was on the software, pharmaceuticals, biotechnology, and metals and mining industries. Based on a literature survey, the authors identified a specific list of descriptions of potential unrecognised intangibles taking into account the business model of each industry for keyword/stem searching.[66] A content analysis was undertaken of the 2016 annual reports of the 120 companies and 6,510 ASX announcements made by the ASX-listed companies during the year 2016 in relation to unrecognised intangibles.[67] They found the vast majority of the disclosures about unrecognised intangibles made in ASX announcements were industry-specific. The authors comment that although the complexity, diversity, and uncertainty surrounding future economic benefits make it difficult to justify recognition of currently unrecognised intangibles, the study finds managers spend significant time and resources making disclosures related to intangibles as evidenced by the prominence and volume of the disclosures. Whilst there was evidence of variations across industries, generally the disclosures were made in the annual report but outside the financial statements and were most typically qualitative in nature. Monem et al concluded it is reasonable to assume entities voluntarily disclose information on unrecognised intangibles in annual reports outside financial statements or ASX announcements with the purpose of reducing information asymmetry and signalling 'value creation' within the entity (particularly for private sector entities[68]). The study also reports that disclosures appear to be value-relevant (as evident from high market-to-book ratio in the four industries examined).

Before coming to a conclusion that these findings provide evidence Australian entities do or do not disclose adequate information about unrecognised intangible assets, the limitations of the research techniques

---

63 Schipper provides a comprehensive analysis of factors relevant to considering the usefulness of recognised information relative to disclosed information – including how standard setters have decided in the past between recognition and disclosure, and how users have viewed the different ways in which information is conveyed.

64 Further information on the Australasian Reporting Awards can be found at arawards.com.au. The extent to which the awards take account of the quality of disclosures about unrecognised and unrevalued intangible assets would potentially be only a minor component of the overall criteria used for assessing quality.

65 The relevant example can be found in Note 5(b) on page 41 of the 2018 Imugene Limited Annual Report.

66 They considered most of the specific categories of intangible assets as listed in the Illustrative Examples (paragraphs IE16 to IE44) accompanying IFRS 3, modified slightly to reflect expected industry specific descriptions. However, they did not limit themselves to intangible assets as defined in and within the scope of AASB 138. They also considered phenomena that would more typically be regarded as embedded within goodwill, such as human capital. This Paper has focused on their findings as they relate to intangible assets as defined and within the scope of AASB 138.

67 When a disclosure was related to a recognised intangible asset reported in the balance sheet, they classified it as a disclosure of recognised intangibles while in all other cases, disclosures were considered to relate to unrecognised intangibles.

68 As part of their research, not reflected in this précis, Monem et al found that, unlike private sector entities, public sector entities report extensively on their relationship-based intangibles (including customer relationships and satisfaction, and community engagement) and human capital (including employee training and engagement).

adopted should be borne in mind. In particular, the keyword/stem searches of databases and sampled annual reports might have overlooked certain information. For example, searching for 'AASB 138' or 'intangible*' would not enable identification of entities that elect to use either more specific or more generic terminology:

- In relation to more specific terminology, Monem et al as described above, searched for specific types of intangibles that do not qualify for recognition under AASB 138 and therefore 'AASB 138' for example might not have been a term used in relation to those types of assets in annual reports; and
- In relation to more generic language, entities might elect to use terms such as 'shareholder value' or 'entity value' to effectively refer to an entity's future prospects. This would implicitly incorporate all unrecognised and unrevalued intangible assets, as well as other assets including internally generated goodwill and even value arising from phenomena that are not assets, without necessarily separately identifying their respective components. Entities might avoid the more specific terms used in accounting standards like 'intangible' due to concerns about the kind of audit implications noted in section A1.2 above.

The end of section 3.3.2 above includes a discussion of the reasons given by preparers in response to an AASB staff-administered survey for electing to not voluntarily disclose explicit information in financial statements about unrecognised intangible assets in response to the encouragement in paragraph 128(b) of AASB 138/IAS 38.

Rather than focus on the benefits of reduced cost of capital from additional disclosures, as incorporated in the above, some research has turned its attention to the costs that might arise from additional disclosures, and the consequences they might have for entities and users of financial statements. In particular:

- disclosures could unfairly reveal key information to competitors, particularly if intangible assets are major drivers of entity value (Jones 2007); and
- because disclosure is costly (e.g. valuation costs, audit costs and proprietary costs), some firms (e.g. low growth firms) may rationally choose not to increase disclosure and reduce information asymmetry (Armstrong et al 2011).

A2.2 Accounting standard-setters' activities

Much of the material in this section is drawn from sections 2.3 and 2.10 of the AASB 2019 Project Plan. That Plan indicates the AASB and many other accounting standard setters are aware of the potential financial statements information gap that arises from the current accounting requirements within the scope of this Paper. The following outlines the work undertaken by those standard setters in response to that awareness.

A2.2.1 AASB activities

The AASB has been actively engaged in considering matters related to the accounting for intangible assets and participated in the associated international debates for many years. For example, of most relevance within the context of this Paper:

- Following the 26 February 2006 Memorandum of Understanding between the IASB and the US Financial Accounting Standards Board (FASB), the IASB asked AASB staff to shift the focus of their research to drafting a project proposal for use in considering whether to add an intangible assets project to the IASB's and FASB's active agendas.
  The AASB subsequently submitted a project proposal to the IASB in December 2007.[69] The IASB and FASB considered the project proposal at their December 2007 meeting and decided not to take the

69 That project proposal included an analysis of four criteria used by the IASB and FASB to help assess the merits of initiating a project. These criteria included: (a) the relevance to users of the information involved and the reliability of the information that could be provided; (b) existing guidance available; (c) the possibility of increasing convergence; and (d) the quality of the standards to be developed. Further limited details are available in the AASB Intangible Assets Project Summary (last updated 13 December 2012).

project on to their active agendas for the time being, primarily because both Boards had a number of other competing active agenda priorities.

In response, the AASB continued research into the accounting for intangible assets under the aegis of National Standard Setters (NSS),[70] which culminated in the publication of AASB Discussion Paper *Initial Accounting for Internally Generated Intangible Assets* in 2008, referred to as Keys and Ardern (2008) in this Paper. The Discussion Paper discusses possible recognition and measurement methods, and the supplementary disclosures that should be made where an internally generated intangible asset fails the IAS 38 recognition criteria (paragraphs 234 to 241 of the Discussion Paper) and the merits of a disclosure-only approach (paragraphs 242 to 259). It focuses on whether the principles and guidance for identifying the existence of an intangible asset acquired in a business combination specified in IFRS 3 *Business Combinations* (which is incorporated into AASB 3 of the same name) – referred to as a 'hypothetical business combination approach' – could be adopted conceptually and practically for assessing whether internally generated intangible assets (a) exist, (b) can be separately identified and (c) should be recognised.

Representatives of the AASB presented a summary of responses to the Discussion Paper at the NSS September 2009 meeting, noting a majority of respondents indicated that:

- accounting for intangible assets is a controversial area and needs review; and
- the current requirements relating to the initial accounting for internally generated intangible assets are debatable – with mixed views on proposals; and

- In 2011, the AASB undertook a post-implementation review through a questionnaire on the initial accounting for intangible assets acquired in a business combination under IFRS 3 or similar GAAP. The survey results provided a mixed response from users (on usefulness, comparability and information content) and preparers (on identifiability criteria, measurement and implementation issues). Subsequently, after consulting with its constituents, the AASB made a submission to the IASB in 2014 on the post-implementation review of IFRS 3. The submission supported the general approach in IFRS 3 to accounting for business combinations, including the fair value measurement basis, as providing useful information to users of financial statements.

A2.2.2 Other standard-setters' activities

The AASB is not alone in being interested in the accounting requirements for intangible assets, nor in its thought leadership. Other standard setters have shown interest and provided leadership. They include the US Financial Accounting Standards Board (FASB), Accounting Standards Board of Japan (ASBJ), Korean Accounting Standards Board (KASB), European Financial Reporting Advisory Group (EFRAG), UK Financial Reporting Council (FRC UK), the International Public Sector Accounting Standards Board (IPSASB), the International Valuation Standards Council (IVSC) and other individual Board members and staff members of these and various other accounting and related standard setters, working independently or in collaboration. In broad chronological order, their activities include:[71]

- In January 2001, FASB sponsored a report of the Business Reporting Research Project, *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*. The Project giving rise to the report aimed to ascertain the type of information entities in selected industries are reporting outside of financial statements. In relation to unrecognised intangible assets, it concludes:

  > "Accounting standards prohibit recognition of intangible assets in many instances. However, accounting prohibitions do not obviate the existence of those intangible assets or the fact that intangible assets are critical to the success of some businesses. Disclosure of information about unrecognized intangible assets such as research and development, human resources, customer relations, innovations, and others that are critical to the success of a business would be especially helpful to investors in making investment decisions.

70 Since renamed the International Forum of Accounting Standard Setters (IFASS).

71 Some of the work described has a broader scope than this Paper (for example, looking at the broader notion of 'intangibles' rather than '(identifiable) intangible assets'. Despite this, their interest and work on the topic is informative for this Paper.

The detailed findings … show that companies in the pharmaceutical industry made considerable disclosures about their research and development activities and product development pipeline. Disclosures by companies in other industries were generally sparse. The few disclosures found tended to be somewhat vague and not particularly helpful.

One explanation may be that companies in the pharmaceutical industry recognize that information about research and development activities and the product development pipeline is one of their key performance measurements and that investors need it to assess management's plans and strategies. Other industries for which product development is also very important, such as computer systems, may disclose less because they concluded that the benefit of voluntary disclosures in this area does not outweigh the risk of competitive disadvantage." (pages 10 and 11)

- In 2002, the FASB added an enquiry *Disclosure of Information About Intangible Assets Not Recognised in Financial Statements* to its technical agenda based on a Proposal for a New Agenda. However, the project was removed from the FASB's agenda in January 2004. Paragraph 1.26 of the FASB's 2016 Invitation to Comment—Agenda Consultation states that "The FASB acknowledged the importance of this project but decided that the nature and timing of such a project should be considered in the context of its plans for a coordinated agenda with the IASB".
- In 2012, at the NSS March meeting, a representative of ASBJ presented a case study analysis: *Accounting Treatment of Internally Generated Development Costs Under IAS 38*. The analysis indicated diversity in practice with expensing being the norm, or capitalisation in some industries. It found that some users doubted the usefulness of capitalisation but agreed proper disclosure requirements could be a way of improving the information about internally generated development costs.
- In December 2018, EFRAG added a research project on better information on intangibles (a broader notion than the kinds of intangible assets that are within the scope of this Paper) to its research agenda following its public agenda consultation. Page 17 of the EFRAG Annual Review 2020 explains "The focus of the project is to improve information on how entities create, maintain and/or improve their value. The project is limited to information to be provided in IFRS financial reports, including the notes accompanying the primary financial statements and the management commentary. … In 2020 the first deliverable was published: an academic literature review". The EFRAG website also reports on a case-study-based survey conducted by the University of Ferrara with support from a number of bodies including EFRAG, aiming to obtain the opinion of preparers, users, and other relevant stakeholders, on the preparation and use of the information on intangibles. The results of the survey were reported during a 30 November 2021 ICAS webinar.

  In relation to whether a recognition/measurement approach, a disclosure approach or a mixture of the two would be suitable, paragraph 1.17 of the EFRAG Discussion Paper *Better Information on Intangibles: which is the best way to go* (August 2021) states "this Discussion Paper does not present 'one single model' to provide better information on intangibles but, instead, discusses the merits and limitations of various approaches."

  Furthermore, in 2019, EFRAG added a research project on crypto-assets, which focuses on understanding the underlying rights and customer protection associated with acquiring and holding crypto-assets.
- In 2019, the KASB presented at the IFASS October meeting its research project on reporting for intangibles. KASB is exploring a way to complement financial statements with a voluntary separate statement that identifies core intangible assets and presents their monetary values. The contemplated valuation basis for the statement would be similar to a discounted cash flow calculation. The research report arising from the KASB's work is entitled 'No. 51 Core Intangible Production Report (Part 1: Concept and Design, Part 2: Writing Case).[72]

72 The title is based on an online translation tool. The research report is in the Korean language.

- In 2020, the (yet to be published) paper *Perspectives on the Financial Reporting of Intangibles* (referred to in this Paper as Appleton et al 2020), was presented to the September 2020 IFASS meeting. In its abstract, the paper states:

  > "Diversity in views regarding the existence, nature, and extent of the "intangibles problem" in financial reporting and various proposed solutions is well-represented among national accounting standard setters. This paper summarizes the varying perspectives on these issues by a group of national accounting standard setters from Canada, Germany, Japan, the U.K., and the U.S. The paper strives to deliver a balanced discussion of the alternative perspectives to provide fodder for further consideration by the accounting community and to stimulate additional academic research relevant to these issues."

  Much of the early part of the paper addresses the debate of whether the current accounting requirements for intangible items are eroding the relevance of financial statements. The debate arises in part from concern of some standard setters about the increasing extent to which market capitalisation of companies exceeds book values because of the prohibition on the recognition of many internally generated intangible assets and/or the restrictions on the revaluation of recognised intangible assets. The paper canvasses the question of whether the market capitalisation/book value difference provides a justification for lifting the restrictions on recognition and revaluations. The paper does not come to a conclusion on this matter due to the mixed views amongst its authors – some arguing the difference between market capitalisation and book value undermines the usefulness of financial statements whereas others argue the opposite;
- By way of background, for those entities that did not adopt IFRS for accounting periods beginning on or before 31 December 2014 in the UK, it is notable that entities were allowed to capitalise internally generated intangible assets if the assets had readily ascertainable market values (paragraph 14 of UK FRS 10 *Goodwill and Intangible Assets*).

  The FRC UK has undertaken a research project on 'intangibles',[73] which sought to review current requirements and practice for the reporting of intangibles and to develop proposals for their improvement. The scope of the project included the treatment of intangibles in both the financial statements and in narrative communication. In February 2019, the FRC UK issued a Discussion Paper *Business Reporting of Intangibles: Realistic proposals*, the objective of which was to gather views on which intangibles should be reported as assets, disclosure of expenditure on intangibles and narrative reporting. The proposals addressed both recognition/measurement and disclosure approaches, including potentially some financial and non-financial disclosures. In January 2021, the FRC UK published a Feedback Statement on its Business Reporting of Intangibles: Realistic proposals. It reports that, of the 24 respondents (comprising seven professional bodies, five professional services firms, five preparer organisations, three investor organisations, three academics and academic organisations, and one standard setter), "All respondents agreed with the importance of reporting on intangibles" (paragraph 4); they were split on the merits of changing the recognition criteria for measurement at cost; and a majority expressed support for improved narrative reporting about unrecognised intangibles (see paragraphs 21 to 25).
- In July 2021, IPSASB proposed a limited scope project on IPSAS 31 *Intangible Assets* in its *Strategy and Work Program 2019-2023 Mid-Period Work Program Consultation* for comment by 30 November 2021. The proposed minor project would involve an evaluation of IPSAS 31 in light of:
  - measurement principles developed as part of IPSASB ED 77 *Measurement*;
  - heritage principles developed as part of IPSASB ED 78 *Property, Plant, and Equipment*, which proposes a consequential amendment removing the discretion not to recognise intangible heritage assets in IPSAS 31, (which mirrors a similar discretion in IPSAS 17 *Property, Plant, and Equipment*); and

73 The FRC UK working definition of 'intangibles' is "Intangible factors that are important to an entity in its creation of value, whether or not they are secured by legal means and whether or not they meet the current definition of 'assets'" (paragraph 1.7 of FRC UK 2019). This is broader than the definition of 'intangible assets' in AASB 138/IAS 38 and therefore many of the items included within the FRC UK working definition are outside the scope of this Paper.

- principles developed in the ongoing project on natural resources, which are relevant to areas such as the electromagnetic spectrum.

- In September 2021, the IVSC published a Perspectives Paper *Tangible about Intangible Assets, Part 1: The case for realigning reporting standards with modern valuation creation*. A further two papers in the series on intangible assets are anticipated.
- In September 2021, the IASB discussed the scope and objectives of its Extractive Activities research project and tentatively decided (see IASB Update September 2021) that the project's scope and objective shall be limited to the research into and development of requirements or guidance to improve the disclosure about an entity's exploration and evaluation expenditure and activities. Of particular relevance to this Paper, the IASB also tentatively decided not to develop requirements for standardising the accounting for intangible exploration and evaluation expenditure and R&D expenditure. In coming to that tentative decision, the IASB considered the discussion in paragraphs 71 to 75 of the IASB staff paper 'IASB agenda paper 19C', which argued that intangible exploration and evaluation expenditure and R&D expenditure are fundamentally different and accordingly, differing accounting treatments are justified. The IASB also tentatively decided not to explore developing requirements or guidance for the use and disclosure of reserve and resource information in financial statements.
- The US Federal Accounting Standards Advisory Board (FASAB) has initiated an intangible assets project, one objective of which is to further assess the costs vs benefits of developing reporting guidance for intangible assets in addition to developing updates for software reporting guidance (see the intangible assets project web page, accessed February 2022). A task force has also been formed.

Appendix 3: Insights from the AASB Staff-Administered User Survey

A3.1 How the survey was administered

The user survey was administered by AASB staff through:

- an Australian instrument; and
- a separate instrument designed for other jurisdictions.

The Australian instrument, expressed in AASB 138 terms, was first distributed by email to a contact list of users on 17 March 2021. The 84 users invited via direct email to respond to the instrument were selected primarily from the AASB's User Advisory Committee (UAC) and the related contacts of the UAC members as well as selected other participants such as banks as lenders, rating agencies, regulators and academic users. Those addressees were asked to forward the instrument on to others they thought might be interested. The instrument was also promoted extensively through the AASB website and other social media outlets. In addition, a discussion of the issues was conducted during the 1 June 2021 UAC meeting.

The instrument seeking input from users in other jurisdictions was modified slightly from the Australian instrument to reflect its international focus and expressed in IAS 38 (or equivalent) terms. It was sent to national standard setters in the UK, European Union, Canada, New Zealand and South Korea[74] with a request for them to make users in their jurisdictions aware of it through their communication channels. To supplement instrument responses, AASB staff were invited to lead an agenda item devoted to discussion of the issues during the 27 June 2021 EFRAG Intangible Assets Advisory Panel meeting, which included five users.

The objective of all consultations with users was to ascertain directly, in a practical way, an indication of what users perceive their needs to be in relation to unrecognised and unrevalued intangible assets, and their views on the current requirements and possible changes to those requirements. Care was taken to not treat users as a homogenous group, to acknowledge that meeting the needs of some users might impose an unreasonable cost on other users — as noted in paragraph 1.8 of the 2019 Conceptual Framework, "individual primary users have different, and possibly conflicting, information needs and desires". All respondents were assured of confidentiality, and therefore the results reported in this Paper are not attributable to any particular individuals or organisations.

A3.2 Limitations of the survey methodology

Unavoidably, the survey methodology adopted has limitations. In particular, a major unknown is whether responses to the survey are a true and fair reflection of user needs, and in particular of users who are the primary focus of accounting standard setters. It is notoriously difficult in accounting standard setting to motivate a broad range of users to participate in consultations about their information needs. Given the range of abilities and levels of sophistication of users, standard setters, through their due process, might find themselves in the position of having to stand in the shoes of users or at least extrapolate from the limited input received directly from users.

Furthermore, it may be difficult to discern the true needs of users of financial statements by simply asking them what they need. This is because there are possibly two conflicting factors:

- some users might not be discerning at the time of completing the survey or otherwise communicating their information needs and therefore ask for anything and everything, with the intention of selecting what they really need when the time comes to use it. They might not be concerned about information overload nor the cost of providing the information, particularly if they do not bear the costs directly. The

74 These jurisdictions were selected as they have adopted IAS 38 or its equivalent in their domestic accounting standards.

survey attempted to overcome this factor by asking not only what information users want, but also asking respondents to explain how they would use the information. Another approach to mitigate this concern was to consider responses to the preparer/auditor survey (see section 3.3.2 above and Appendix 4 below) undertaken subsequent to the user survey. This helped ascertain perceived costs in meeting asserted needs; or

- some users might ask for less information than they (or other less sophisticated users) really need if they have developed proprietary systems that enable them to fill financial reporting information gaps and beat the market or the less sophisticated users (or hope those less sophisticated users are willing to pay to access the proprietary systems). The survey attempted to overcome this factor by asking respondents to explain why they do not need certain information that could otherwise be provided through financial statements and *prima facie* seems useful.

The direct discussions with users also provide some insights into these two competing factors. However, it is difficult to know how successful the strategies adopted to mitigate these factors have been. Accordingly, the results of the research undertaken for this Paper need to be read within that context.

In addition, there are other factors that might contribute to the inherent limitations in the research undertaken through the user survey, such as the following:

- the views expressed by a respondent to a survey might be the personal views of the respondent rather than the official view of the respondent's employer or other organisation (if any). This will not be an issue if the views are consistent but in certain instances there may be different opinions due to conflicting motivations;
- where a respondent completes a survey that purports to be the views of an organisation, statistically it would only be counted as one response despite the fact it might incorporate a consensus of views of multiple individuals, in contrast to an organisation that encourages each of its members to respond individually. As a consequence, some views might be relatively under represented. To mitigate this concern, the analysis and interpretation of the survey responses does not rely solely on a statistical analysis;
- the level of experience and knowledge of respondents in respect of financial statements might vary significantly. As a result, their information needs might be different – and the views of those less sophisticated, less experienced and less articulate respondents might be relatively under represented. However, this concern should not be overstated as it is reasonable to expect a certain level of user sophistication, as indicated by paragraph 2.36 of the 2019 Conceptual Framework, which states "Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena." Because the AASB UAC is expected to be representative of more sophisticated primary users, the views of its members are shown separately in analysing responses to the survey;
- the depth to which any issue can be explored through an online survey is limited by the very nature of such a survey, given the limits to the types and number of questions that can be reasonably asked in such a format and the amount of time it is reasonable to expect respondents to devote to completing the survey. To mitigate this concern, the survey was limited in scope and focused on the more controversial issues that are expected to be of the greatest interest to users, and supplemented by information obtained through interviews or discussions. Despite this, it is still necessary to infer indicative conclusions from some responses given that it was not possible to raise all questions that could have ideally been asked in an interactive forum; and
- responses to the Australian and international instruments were sought during the COVID-19 global pandemic and therefore resources available to devote to responding to the survey were limited. For example, only two responses were received to the international instrument. This low response rate might also be attributed to the fact that other jurisdictions are undertaking their own work on intangible

assets (see section A2.2.2) or have other priorities and therefore might have regarded the AASB staff-administered survey as a distraction.

A3.3 The survey

The survey was entitled 'AASB SURVEY: Is there a gap in the information provided to the users of financial statements in relation to Intangible Assets?'. After providing some background, it asked specific questions (consisting of multiple-choice and open-ended questions) designed to elicit views from which broad conclusions could be extracted.

The following provides the substance of the most relevant questions pertaining to unrecognised internally generated intangible assets, the answers to which provided input to this Paper. The sequence of the questions immediately below has been arranged in an order that is consistent with the order of the analysis in section A.3.4.2 below.

- How useful do you regard financial statements (including notes) that have been prepared in accordance with AASB 138/IAS 38 relative to other sources of information about internally generated intangible assets in your assessment/analysis of a business with significant unrecognised internally generated intangible assets? What are your reasons for regarding them with that level of usefulness? (Questions 20 and 21)
- How do you compensate for the lack of information in financial statements caused by AASB 138/IAS 38 disallowing the recognition of many, and not requiring disclosures about, unrecognised internally generated intangible assets? (Question 24)
- Do you agree with the existing AASB 138/IAS 38 prohibition on the recognition by all entities of many internally generated intangible assets and the encouragement rather than a requirement for publicly accountable entities to disclose information about those unrecognised assets? Please state the reasons for your answer. (Questions 8 and 9)
- Do you think the so-called asymmetry in relation to the initial accounting for many internally generated intangible assets (where any costs are expensed) compared with acquired intangible assets (where costs are capitalised) can be justified? Please provide a reason for your answer. (Questions 16 and 17)
- Generally, how concerned are you about the gap between book value and market capitalisation of listed entities? What is your reason for that level of concern? (Questions 13 and 14)
- There are different possible approaches to incorporating information about internally generated intangible assets in financial statements ranging across and within: recognition-based approaches, disclosure-of-measurement-based approaches, disclosure-without-measurement-based approaches and other possible approaches. Which approach do you prefer, assuming you can supplement your preferred approach with information from other more timely but less reliable sources? Please also describe how you would make use of the information that would be produced from your preferred approach. (Questions 25 and 26)
- If AASB 138/IAS 38 were to continue to disallow recognition of many internally generated intangible assets in the balance sheet but was amended to require disclosures in the notes to the financial statements, what type of information about those assets should it require to be disclosed? Why do you need that information, and how would you use it? (Questions 28 and 29)
- Which types of entities should be required to make such disclosures? (Question 30)
- Paragraph 128(b) of AASB 138/IAS 38 encourages publicly accountable entities to disclose "a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard". Has that encouragement ever provided you with useful information about unrecognised internally generated intangible assets? (Question 31)

A3.4 Analysis and interpretation of survey responses

A3.4.1 General background of respondents

There were 18 responses to the Australian user instrument and two responses to the international user instrument, categorised as set out in the table below:

Type of user of financial statements	Number
Member of the AASB's UAC[75]	7
Academics	5
Other Australian Users	6
International Users	2

- The seven 'UAC members' identify themselves as analysts or investors in the for-profit private sector.
    - Their levels of experience with financial statements affected by intangible assets comprise:
        - one with basic experience (less than one year)
        - two with advanced experience (6–10 years)
        - four with expert experience (more than ten years).
    - Within the group, each described themselves as familiar with one or more different kinds of intangible assets including: brands, copyrights, customer lists, development costs, licenses, mastheads, patents, publishing titles, research/intellectual capital, trademarks and deferred acquisition/commission costs; in the retail, information and communications technology, technology and financial services industries.
    - Each individual is highly engaged in the Australian standard-setting process by virtue of their membership of the UAC, which was established by the AASB.
- The five 'Academics' consist of university lecturers or researchers.
    - Their levels of experience comprise:
        - two with basic experience (less than one year)
        - one with intermediate experience (3–5 years)
        - one with advanced experience (6–10 years)
        - one with expert experience (more than ten years).
    - Within the group, each described themselves as familiar with one or more different kinds of intangible assets including: brands, copyrights, customer lists, development costs, licenses, patents and trademarks. Except for one respondent who indicated an interest in the wholesale sector, none of the other academics indicated an interest in any specific industry sector.
- The six 'Other Australian Users' consist of:
    - an information solutions company specialising in the use of data, analytics and technology to provide information to businesses and individuals
    - a proprietor of a professional services firm
    - a non-teaching staff member at a not-for-profit public sector tertiary educational institution
    - an employee of a national regulator of certain private sector entities
    - two separate divisions of a national government agency, from their respective roles as users of financial statements of:
        - public sector entities
        - private sector entities.

  They are grouped together in the 'Other Australian Users' category to protect the assured confidentiality of individual responses. The key demographics of this 'Other Australian Users' group include:

75 There are 17 members of the UAC, of which seven responded to the survey and nine participated in the group discussion. Five members who responded to the survey were included in the nine who participated in the group discussion.

- Their levels of experience comprise:
  - one with basic experience (less than one year)
  - three with advanced experience (6–10 years)
  - two with expert experience (more than ten years).
- Within the group, at least one described themselves as familiar with one or more different kinds of intangible assets including: brands, copyrights, customer lists, development costs, licenses, mastheads, patents, publishing titles, research/intellectual capital and trademarks; in the construction, education, information technology, technology and financial services industries and the public sector (general government and public corporations).

- The two international users are an academic and an equity research analyst from South Korea and Denmark respectively.
  - Their levels of experience comprise:
    - one with intermediate experience (3–5 years)
    - one with expert experience (more than ten years).
  - They described themselves as familiar with one or more different kinds of intangible assets including: development costs, patents and research/intellectual capital; in the financial services, technology and healthcare sectors.
- With the exception of two organisations, all respondents answered the survey in their personal capacity.

A3.4.2 Analysis of responses to the technical questions

A3.4.2.1 Recognition requirements for internally generated intangible assets

(a) Views on the usefulness of financial statements prepared in accordance with AASB 138/IAS 38's prohibition on recognition of many internally generated intangible assets relative to other sources of information about such assets (as reflected in responses to Question 20):

Type of respondent	Not Useful at all	Neutral	Extremely Useful	Total
UAC members	6	0	1	7
Academics	4	0	1	5
Other Australian Users	4	1	1	6
International Users	2	0	0	2
Total	16	1	3	20

(b) How users compensate for the lack of information in financial statements about unrecognised internally generated intangible assets? (as reflected in responses to Question 24):

- Other parts of the Annual Report such as the Directors' Report, Management's Discussion and Analysis, Chairman's Statement
- Analyst reports
- Press releases
- Media reports
- Conference calls (i.e. earnings calls, significant events announcements, etc)
- Investor relation programmes
- Integrated Reports
- Feedback from product users and interactions as a customer
- Peer company disclosures
- Academic and management consultancy work regarding the economic value of unrecognised intangible assets such as customers or subscribers
- Survey data

(c) Level of agreement with AASB 138/IAS 38's prohibition on recognition of many internally generated intangible assets (with only encouraged disclosures) (as reflected in responses to Question 8):

Type of respondent	Agree	Disagree	Total
UAC members	6	1	7
Academics	2	3	5
Other Australian Users	3	3	6
International Users	2	0	2
Total	13	7	20

Reasons given for agreeing with the prohibition on recognition include:

- UAC members:
  - "recognising and measuring internally generated intangibles assets would be inherently subjective"
  - recognition would "give management significant discretion"
  - "the cost of recognising and measuring internally generated intangibles may be excessive, especially for smaller entities"
- Other Australian Users:
  - recognition would "create another level of uncertainty within the financial statements"

Reasons given for disagreeing with the prohibition on recognition include:

- Academics:
  - "in this day and age, as we move away from an industrial-focused economy to a knowledge-based economy, entities are making sizeable investments in intangible assets as they represent a key driver of entity value"
- Other Australian Users:
  - "the accounting distinction between whether an intangible asset was acquired or internally generated is not a conceptual distinction"

(d) Level of agreement with asymmetry arising from non-recognition of many internally generated intangible assets compared with recognition of the same kinds of intangible assets acquired in a business combination (as reflected in responses to Question 16):

Type of respondent	Agree	Disagree	Total
UAC members	7	0	7
Academics	2	3	5
Other Australian Users	3	3	6
International Users	2	0	2
Total	14	6	20

Reasons given for agreeing with the asymmetry:

- UAC members:
  - "acquired intangible assets result from an arm's length transaction between unrelated parties"

Reasons given for disagreeing with the asymmetry:

- Academics:
  - "the value of intangibles such as brands increases or decreases over time, depending on how the brand has been performing; therefore, recognition as an intangible asset should not be predicated based purely on an acquisition."

A3.4.2.2 The book value/market capitalisation gap for listed entities

Level of concern about the book value/market capitalisation gap for listed entities (as reflected in responses to Question 13)

Type of respondent	Not Concerned at all	Neutral	Extremely Concerned	Total
UAC members	7	0	0	7
Academics	3	0	2	5
Other Australian Users	3	2	1	6
International Users	2	0	0	2
Total	15	2	3	20

Reasons given for lack of concern:

- UAC members:
  - "book value recognises historical cost and market value (if permitted) on past transactions, it is the role of capital markets to work out present value"
  - "book value is only a proxy for economic value"
- Academics:
  - "market participants value firms in different ways based on various information sources"
- International Users:
  - "The annual accounts are not made to reflect market prices — it is a reporting instrument which shareholders use for valuation purposes"

Reasons given for concern:

- Academics:
  - "as the economy has evolved towards a knowledge based economy, the under recognition of intangible assets is exacerbating the gap between book value and market value"

A3.4.2.3 Preferred broad approach to accounting for internally generated intangible assets

Preferred way of accounting for internally generated intangible assets (as reflected in responses to Questions 25 and 26):

- Question 25 asked respondents to select three preferences from an open-ended list as shown in Options A to L below. Responses are reflected in the first column under each category of user in the table. Although all respondents answered the question, not all of them selected three; and
- Question 26 asked respondents to select their first choice out of their Question 25 preferences. Responses are reflected in the shaded second column under each category of user in the table.[76]

Accounting approaches	UAC members		Academics		Other Australian Users		International Users		Total	
	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference
Recognition/measurement approaches										
A. Initially recognised and measured at fair value and subsequently revalued at fair value, with related disclosures	1	1	2	2	2	2	0	0	5	5
B. Initially recognised and measured at fair value and not subsequently revalued at fair value, with related disclosures	0	0	0	0	1	0	0	0	1	0
C. Initially recognised and measured at cost and subsequently revalued at fair value, with related disclosures	1	0	1	0	4	1	0	0	6	1
D. Initially recognised and measured at cost, with an accounting policy choice of whether or not to be subsequently revalued at fair value, with related disclosures	1	0	2	0	3	0	1	1	7	1
E. Initially recognised and measured at cost and not subsequently revalued at fair value, with related disclosures	1	0	1	1	1	0	0	0	3	1
Disclosure-only approaches										
F. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In addition, initial and subsequent disclosure of fair value	3	2	3	0	1	1	1	0	8	3
G. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In	3	0	2	2	2	1	2	0	9	3

76 Caution is needed in interpreting the statistics in the table. The table is mainly only indicative of the general level of support for different broad approaches to the accounting – whether recognition/measurement based (with related disclosures) or disclosure-only based (without recognition/measurement) or neither. However, the item or items some respondents expressed a level of preference for under 'disclosure-only approaches' also provides a general indication of user preferences for disclosure of financial compared with non-financial information. This issue about the nature of disclosed information is analysed more fully in section A3.4.2.4 immediately below.

Accounting approaches	UAC members		Academics		Other Australian Users		International Users		Total	
	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference	Included in top three preferences	Identified as first preference
addition, initial and subsequent disclosure of cost in the notes to the financial statements										
H. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In addition, initial and subsequent disclosure of some related financial information that might be relevant to a user making their own estimate of fair value (e.g. indications of costs incurred during the reporting period) in the notes to the financial statements	3	0	2	0	1	1	0	0	6	1
I. Not recognised, but instead narrative descriptions in the notes to the financial statements of the nature of each class of intangible asset but without any financial information initially and subsequently	2	0	0	0	1	0	1	0	4	0
Neither recognition/measurement nor disclosure-only approaches										
J. Not recognised, stick with the status quo (no changes are required to AASB 138/IAS 38)	3	3	0	0	1	0	0	0	4	3
K. Not recognised, financial statements are not the appropriate vehicle for conveying information about internally generated intangible assets	2	0	0	0	1	0	1	1	4	1
Other, nominated by respondents (disclosure-only approaches)										
L1. Other: "Underlying earnings and cashflows attributable to unrecognized intangibles"	1	1	0	0	0	0	0	0	1	1
L2. Other: "Voluntarily disclose (not recognise) the estimated value of certain internally generated intangibles independently appraised by experts in the notes to financial statements or in Management's Discussion and Analysis"	0	0	1	0	0	0	0	0	1	0
Total	21	7	14	5	18	6	6	2	59	20

From the above table, three UAC members and one 'Other Australian Users' expressed some level of support for the status quo (item J). Two of those UAC members and the one 'Other Australian Users' went as far as to express a level of support for financial statements not being the appropriate vehicle for conveying information about internally generated intangible assets (item K). Despite this, overall, it can be deduced there was a reasonable level of support expressed for retaining the current recognition/measurement requirements but with improved disclosures of financial information (i.e. items F, G, H and L1). However, there was also some level of support expressed for disclosure of non-financial information (item I).

For those who expressed some level of preference for non-recognition/measurement with improvements to financial disclosures, the following are some of their reasons :

- UAC members:
  - "provides more information than the status quo, but doesn't change the financials per se"
  - "This does not impact the financial statements, but gives the company's view as to the value of the asset and inputs to be accepted/challenged by analysts"
- Academics:
  - "not unreasonable to expect cost information about how much firms are spending each year to generate intangible assets as part of their operating activities"

In contrast, for those who supported recognition of internally generated intangible assets at either cost or fair value (i.e. items A to E), the following are some of their reasons:

- UAC members:
  - "provides the clearest view of the value of the asset to the user"
- Academics:
  - "recognition would reflect the true financial standing of firms, particularly for firms in industries that make significant investments in intangibles"
  - "It'll help investors evaluate the potential of a firm"
- International users:
  - "Accounting for intangibles is the last frontier in terms of relevance versus reliability trade-off controversy. From the perspective of conventional financial reporting systems, it appears insurmountable to narrow the gap between the two primary qualities of information on intangibles. Full and fair disclosure currently appears to be the only feasible solution."

A3.4.2.4 Preferred disclosures about unrecognised internally generated intangible assets

Although some respondents did not express a strong preference for a disclosure-only approach to amending AASB 138/IAS 38 (whether because they preferred a recognition/measurement approach or the status quo or did not think financial statements were the place to report information about internally generated intangible assets), all respondents were asked:

> If AASB 138/IAS 38 were to continue to prohibit recognition of many internally generated intangible assets but require disclosures in the notes to the financial statements, what type of information about those assets should it require to be disclosed?

In responding to this question, respondents were invited to select as many potential disclosure items as they liked from an open-ended list. Although they were given the option of adding items, none did. The table immediately below presents the items in order of popularity (as reflected in responses to Question 28) and the next table indicates the number of disclosure items identified by the respondents within the different groups of users.[77]

77 It is provided to assist in the interpretation of the responses to question 28.

	Type of disclosure	UAC members	Academics	Other Australian users	International Users	Total
Financial Disclosure						
A	Estimates (by the directors or independent valuer) of the fair value of identifiable intangible assets not recognised in the financial statements, and include: (i) Basis of fair value measurement (ii) Key assumptions underlying the measurement method, similar to the requirements of AASB 13 *Fair Value Measurement*	4	3	5	1	13
B	Expenditures in relation to internally generated intangible assets, whether in aggregate or on a project by-project basis	3	3	3	2	11
Non-financial Quantitative Disclosure						
C	Non-financial indicators (e.g. market size and share and customer retention data)	3	3	3	1	10
Non-financial qualitative disclosure						
D	The operating segments in which unrecognised intangible assets (e.g. brands) are used, where such segments can be clearly identified	2	2	2	1	7
E	Intentions to sell any unrecognised intangible assets	2	2	2	2	8
F	Intellectual capital statements, which can be used to show the intellectual capital of an entity. These statements might also help explain the difference between an entity's market capitalisation and book value	0	4	1	1	6
G	Legal restrictions on the title of unrecognised intangible assets	1	1	2	1	5
H *	Information about internally generated intangible assets that are embedded in recognised tangible or financial assets (e.g. core deposit intangible assets)	0	2	1	1	4

*Whilst option H is included in the table above (because it was included as a possible disclosure item in the user survey), given the focus of this Paper is on disclosures about unrecognised intangible assets, this disclosure item has been excluded from interpretation of the survey results as it relates to recognised (albeit embedded) intangible assets (see section A1.1 above).

The table below indicates the number of respondents within a group that selected different numbers of disclosure items:

Number of options selected	UAC members	Academics	Other Australian Users	International Users	Total
1	2	1	2	0	5
2	1	0	0	1	2
3	3	1	2	0	6
4	1	2	0	0	3
5	0	0	0	0	0
6	0	0	2	0	2
7	0	0	0	0	0
8	0	1	0	1	2
Total	7	5	6	2	20

The following are the explanations respondents provided for why they need their chosen disclosure items:

- A UAC member who selected items A, B and C (financial or non-financial quantitative information) said:
  - "Key estimates will enable better appreciation of the risks and true drivers of the business unit or intangible asset. Operational indicators that underpin the intangible will also really help in understanding the business drivers"
- An academic who selected all of the items (i.e. A to H – ranging from financial to non-financial, quantitative and qualitative, information) said:
  - "To gauge how "solid" are the internally generated intangibles in potentially generating economic benefits for the organisation, its time implications, and the firm's efforts and strategy in developing intangibles"
- An academic who selected only item B (financial disclosure of expenditures) said:
  - "Annual information about the cost of internally generated intangible assets can be taken into account when looking at the firm's annual performance"

A3.4.2.5 Types of Australian entities that should be subject to the preferred disclosures

The types of Australian entities Australian users who responded to the survey think should be required to make the preferred disclosures (as reflected in responses to Question 30:[78])

Type of entity	UAC members	Academics	Other Australian Users	Total
Publicly accountable entities	7	5	3	15
Non-publicly accountable entities	0	0	1*	1
Both types of entities	0	0	1	1
No response	0	0	1	1
Total	7	5	6	18

* It is not possible to clarify the view of the Other Australian User that only non-publicly accountable entities should be subject to the preferred disclosures. It could be that the user's organisation already has access to adequate information about publicly accountable entities and therefore only desires the disclosure of information in respect of other entities.

A3.4.2.6 Examples of voluntary disclosures encouraged by paragraph 128(b) of AASB 138/IAS 38

As evident from responses to Question 31, no respondents had seen any examples of entities adopting the encouragement in paragraph 128(b) of AASB 138/IAS 38.

A3.4.3 Interpretation of responses to the survey's key technical questions

From the above analysis of responses to the survey, it is apparent the most common view (particularly among UAC members) in relation to internally generated intangible assets is that financial statements prepared in accordance with AASB 138/IAS 38 are not useful relative to other sources of information about those kinds of assets (16 out of 20 overall, including six of seven UAC members – see section A3.4.2.1(a) above). Despite this, they do not think amending AASB 138/IAS 38 to remove the non-recognition deeming approach would make financial statements more useful.

A minority of respondents expressed some level of support for the view that financial statements are not an appropriate vehicle for communicating information about unrecognised internally generated intangible assets (see section A3.4.2.3). Three respondents (of the 20 overall), who are all UAC members, expressed at least some level of support for the status quo (based on their first preference of the accounting approaches listed in the table in section A3.4.2.3), suggesting no amendments to AASB 138's/IAS 38's requirements are needed.

In contrast, there was some level of support (eight of 20 overall, including only one of seven UAC members) for amendments being made to AASB 138's recognition/measurement requirements (based on their first preference of the accounting approaches in the table in section A3.4.2.3). There was also a similar level of overall support (eight of 20) but a greater level of support from UAC members (three) for financial statements of publicly accountable entities[79] to include improved disclosures about unrecognised internally generated intangible assets (again, based on their first preference of the accounting approaches in the table in section A3.4.2.3).

As noted in section A3.4.2.3 above, irrespective of their preferred accounting approach, all respondents were asked their view on the type of information about unrecognised intangible assets that could be useful if AASB 138/IAS 38 were to continue to prohibit recognition of many such assets but require

78 International users were not asked a similar question as each jurisdiction/country might adopt different approaches to entities that do not have public accountability.

79 Publicly accountable entities are referenced here given that 15 out of 18 Australian respondents (including all seven UAC members) indicated their preference would be for only publicly accountable entities to make the suggested disclosures (See the table in A3.4.2.5 above).

disclosures about them in the notes to financial statements. Although care should be taken in drawing definitive conclusions from the responses, they broadly indicate:[80]

- there is some level of acceptance by a significant majority that **financial** disclosures about unrecognised internally generated intangible assets could be useful (19 of 20 overall, including six of seven UAC members – see section A3.4.2.4);[81]
- there was also some level of acceptance by a majority that **non-financial** disclosures about unrecognised internally generated intangible assets, whether quantitative or non-quantitative, could be useful (15 of 20 overall, including five of seven UAC members – see section A3.4.2.4). Of this number, ten of 15 (including three of five UAC members) indicated a level of acceptance of the usefulness of disclosure of quantitative non-financial information; and
- when comparing preferences for financial disclosures over non-financial quantitative disclosures, nine respondents (including three UAC members) selected only financial disclosures. On the other hand, none of the respondents who could accept non-financial quantitative disclosures excluded financial disclosures. This could be indicating that those respondents can accept that non-financial quantitative information can be used to supplement financial information but perhaps are indicating that it would not be sufficient on its own to meet their information needs.

---

80 As noted in section A3.4.2.4, respondents were invited to select as many disclosure items as they considered possibly useful from an open ended list. They were not limited to one particular type of information (financial or non-financial, quantitative or qualitative). For the purpose of interpreting the responses, any respondent who selected at least one item within a type is taken as a potential supporter of that type, despite the fact they might not have selected all items within that type. For example, in relation to 'financial' type disclosures, respondents taken as indicating some level of acceptance of financial disclosures are those who selected one or both identified items of that type (even if they also selected other types of information).

81 By way of explanation, in arriving at the 19 out of 20 users (including six of seven UAC members) statistic and interpreting it as providing an indication of the level of user acceptance of the usefulness of financial disclosures:
   a. five (including one UAC member) selected only the fair value information item within the 'financial' type;
   b. six (including two UAC members) selected only the expenditure on internally generated intangible assets information item within the 'financial' type; and
   c. eight (including three UAC members) selected both 'financial' type items.

   The same approach has been taken in arriving at the statistics used as an indication of the level of user acceptance of the usefulness of disclosure of non-financial type information and, within that type, quantitative and qualitative type information.

Appendix 4: Insights from the AASB Staff-Administered Preparer/Auditor Survey

A4.1 Background and how the survey was administered

Complementary to the user survey (Appendix 3), and following a similar process, AASB staff also administered an online survey that was made available to a wide range of preparers and auditors of financial statements in Australia. The survey was similar in style to the user survey but the questions were expressed differently to the extent necessary to reflect the different perspectives and also to evince preparer/auditor views on some of the findings from the user survey. It was not distributed internationally due to the low response rate to the international user survey instrument, as noted in section A3.2 above. The responses to the preparer/auditor survey were supplemented by input from detailed discussions with two preparers who did not formally complete the survey. The input from those discussions is excluded from the statistical analysis of survey responses in this Appendix, but that input is reflected in the discussion in the body of this Paper.

A4.2 The survey

The survey was entitled 'AASB PREPARER and AUDITOR SURVEY: Is there a gap in the information provided to the users of financial statements in relation to Intangible Assets that can be filled in a cost-effective way?'.

The following provides the substance of the most relevant questions, the answers to which provided input to this Paper.

- Do you believe that overall the information about intangible assets currently required or encouraged by Australian Accounting Standards to be provided in financial statements strikes the right balance between the costs to preparers of providing the information and the benefits to users of getting the information? (Question 1)
- Do you believe the information about intangible assets currently required or encouraged by Australian Accounting Standards to be provided in financial statements (whether through recognition or disclosure) appropriately reflects an entity's recognised and unrecognised intangible assets? (Question 3)
- Do you agree (and your reasons) with the existing AASB 138 prohibition on the recognition by all entities of many internally generated intangible assets and the encouragement rather than a requirement for publicly accountable entities to disclose information about those unrecognised assets? (Questions 8 and 9)
- Do you think (and your reasons) the so called asymmetry in relation to the initial accounting for internally generated intangible assets (where any costs are expensed) compared with acquired intangible assets (where costs are capitalised) can be justified? (Questions 14 and 15)
- What are the other types of information you are involved in preparing or auditing/reviewing that compensate for the lack of information in financial statements caused by AASB 138 disallowing the recognition of, and not requiring disclosures about, many internally generated intangible assets? (Question 18)
- Do you think the gap between market capitalisation and book value is a good reason for AASB 138 to be amended to require more internally generated intangible assets to be recognised and more recognised intangible assets to be revalued? (Question 12)
- How do you think currently unrecognised internally generated intangible assets should be accounted for in financial statements? From the list of possible approaches, which do you agree with and disagree with? For the ones that you disagree with, what are your reasons? (Questions 19 and 20)

- If AASB 138 were to continue to disallow recognition of many internally generated intangible assets in the balance sheet but was amended to require disclosures in the notes to the financial statements rather than just encouraging them, which disclosures would you accept? For those that you cannot accept, what are your reasons? (Questions 22 and 23)
- Which types of entities should be required to make such disclosures? (Question 25)
- What has been your experience with paragraph 128(b) of AASB 138? (Questions 26 and 27)
- If paragraph 128(b) were expressed as a requirement rather than an encouragement, would you be able to practically, at a reasonable cost, identify significant unrecognised intangible assets to disclose or to audit such disclosure? (Question 28)

A4.3 Analysis and Interpretation of survey responses

A4.3.1 General background of respondents

There were 12 respondents to the survey, as set out in the table below:

Type of respondent	Number
Preparer	6
Auditor	6
Total	12

- The six preparers consist of:
  - one group financial controller of a medical and dental centre
  - one financial controller of a large software firm
  - two principals of different, small accounting firms
  - one member of the finance team of a State's Department of Education
  - one treasurer of a charity
- Within the preparer group, they describe themselves as preparers of private sector for-profit and not-for-profit financial statements as well as public sector not-for-profit financial statements. In terms of industry experience, it includes mining, oil and gas, energy, trade and professional services, education, technology and software as well as religious and cultural. They have had exposure to brands, copyrights, customer lists, development costs, licences, patents, research/intellectual capital, trademarks as well as video media and digital resources.
- The six auditors consist of:
  - two partners in different Big 4 accounting firms
  - one Technical Standards director of a second tier accounting firm
  - one Technical Director of a State's Audit Office
  - one partner in a small accounting firm
  - one advisor to a professional accounting body
- Within the auditor group, they describe themselves as auditors of private sector for-profit financial statements and public sector not-for-profit financial statements. In terms of industry experience, it includes community, financial services, mining, technology, communication, health care, retail and SMEs. They have had exposure to brands, copyrights, customer lists, development costs, licences, patents, research/intellectual capital, trademarks, mastheads and crypto currencies.

A4.3.2 Analysis of responses to the technical questions

A4.3.2.1 Views on the appropriateness of accounting standards in respect of intangible assets

(a) Extent to which the information about intangible assets currently required or encouraged by Australian Accounting Standards strikes the right balance between costs to preparers and benefits to users (as reflected in responses to Question 1)

Type of respondent	Right balance	Wrong balance	Total
Preparer	3	3	6

Auditor	4	2	6
Total	7	5	12

(b) Extent to which the information about intangible assets currently required or encouraged by Australian Accounting Standards to be provided in financial statements (whether through recognition or disclosure) appropriately reflects an entity's recognised and unrecognised intangible assets (as reflected in responses to Question 3)

Type of respondent	Appropriate	Inappropriate	Total
Preparer	0	6	6
Auditor	1	5	6
Total	1	11	12

A4.3.2.2 Recognition requirements for internally generated intangible assets

(a) Level of agreement with AASB 138's prohibition on recognition of many internally generated intangible assets and the encouragement rather than requirement for publicly accountable entities to disclose information about those unrecognised assets (as reflected in responses to Question 8)

Type of respondent	Agree	Disagree	Total
Preparer	3	3	6
Auditor	3	3	6
Total	6	6	12

Reasons given for agreeing with the prohibition on recognition include:

- Preparers:
  - "I feel it strikes the right balance with usefulness/cost"
- Auditors:
  - "A significant difficulty exists in identifying and defining intangible assets, and there is significant overlap/judgement when determining what those assets are and what value is attributable to them"
  - "There is an increased risk of overstatement of assets"

Reasons given for disagreeing with the prohibition on recognition include:

- Preparers:
  - "I think in the evolving world of complex technology and changing business structures, the prohibition on recognition and/or no requirement for disclosure in relation to internal intangible assets means that a significant value driver is missing from the financial statements"
  - "Shareholders, business owners place value on these items, analysts and investors place value on these items, accountants are swimming against the tide"
- Auditors:
  - "Disconnect with market valuations. Standard is no longer fit for purpose as definition of intangibles is inadequate for consistent application plus Fair Value through Reserves for very limited intangibles results in significant valuable information from an investor perspective being excluded from the financial statements"

(b) Level of agreement with the asymmetry in relation to the initial accounting for internally generated intangible assets (where any costs are expensed) compared with acquired intangible assets (where costs are capitalised) (Question 14)

Type of respondent	Agree	Disagree	Total
Preparer	1	5	6
Auditor	3	3	6
Total	4	8	12

Reasons given for agreeing with the asymmetry include:

- Preparers:

- "Acquired assets has a clear historical cost and an arms length transactions vs internally generated may not be so clear"
- Auditors:
  - "Intangibles would be too difficult to value unless we have a market transaction attached to them"

Reasons given for disagreeing with the asymmetry include:

- Preparers:
  - "Just because an asset which can and will be valued by the users of financial reports does not have a historical cost is not a rational reason not to give it its fair value in a financial report"
  - "The asymmetry is perpetuated in the belief that internally generated intangibles do not have a market means of valuation. If there is a market that can be reliably used to value internally generated intangibles, the same rigour and standards as used for acquired intangibles could be applied - albeit with expert, qualified input to assist the valuation"
- Auditors:
  - "The same recognition criteria should be applied regardless of whether a transaction has occurred. The current accounting is dated and reflects 1970's thinking. There has been significant developments with fair value determination and disclosure in particular"

(c) Involvement with other types of information that compensate for the lack of information in financial statements caused by AASB 138 disallowing the recognition of, and not requiring disclosures about, many internally generated intangible assets (as reflected in responses to Question 18)

- Other parts of the Annual Report such as the Directors' Report, Management's Discussion and Analysis, Chairman's Statement
- Analyst reports
- Press releases
- Media reports
- Peer company disclosures
- Conference calls (i.e. earnings calls, significant events announcements, etc.)
- Investor relation programmes such as investor presentations
- Integrated Reports
- Feedback from product users and interactions as a customer
- Peer company disclosures
- Survey data

A4.3.2.3 The book value/market capitalisation gap for listed entities

Extent to which the gap between market capitalisation and book value for listed entities is a good reason for AASB 138 to be amended to require more internally generated intangible assets to be recognised and more recognised intangible assets to be revalued (as reflected in responses to Question 12)

Type of respondent	Justifies amendment	Does not justify amendment	Not applicable (no involvement with listed entities)	Total
Preparer	4	0	2	6
Auditor	2	3	1	6
Total	6	3	3	12

Reasons given for the book value/market capitalisation gap justifying amendment:

- Auditors:
  - "The market takes into account to an extent the cash flows generated for unrecognised intangible assets and potential undervaluation of existing intangible assets"

Reasons given for the book value/market capitalisation gap not justifying amendment:

- Auditors:
  - "I think that a requirement to recognise internally generated intangibles would be a subsequent stage of what would be a large project. I don't believe that this can be appropriately addressed without a robust definition of what is an intangible asset in today's economies"

A4.3.2.4 Preferred approach to accounting for internally generated intangible assets

Level of agreement or disagreement with alternative possible accounting approaches and, for those disagreed with, state reasons (as reflected in responses to Questions 19 and 20).

Accounting approaches	Preparer		Auditor		Total	
Recognition/measurement approaches	Agree	Disagree	Agree	Disagree	Agree	Disagree
A. Initially recognised and measured at fair value and subsequently revalued at fair value, with related disclosures	0	6	3	3	3	9
B. Initially recognised and measured at cost and subsequently revalued at fair value, with related disclosures	2	4	2	3	4	7
C. Initially recognised and measured at cost and subsequently measured at cost, with related disclosures	3	3	4	2	7	5
D. Initially recognised and measured at cost, with an accounting policy choice of whether or not to be subsequently revalued at fair value, with related disclosures	4	2	3	3	7	5
Disclosure-only approaches						
E. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In addition, initial and subsequent disclosure of fair value (including valuation methodology and underlying significant estimates and judgements) in the notes to the financial statements	3	3	0	6	3	9
F. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In addition, initial and subsequent disclosure of cost in the notes to the financial statements	3	3	1	5	4	8
G. Not recognised, but instead narrative descriptions of the nature of each class of intangible asset. In addition, initial and subsequent disclosure of some related financial information that might be relevant to a user making their own estimate of fair value (e.g. indications of costs incurred during the reporting period) in the notes to the financial statements	3	3	2	4	5	7
H. Not recognised, but instead narrative descriptions in the notes to the financial statements of the nature of each class of intangible asset but without any financial information initially and subsequently	1	5	1	5	2	10
Neither recognition/measurement nor disclosure-only approaches						
I. Not recognised, stay with the status quo (no changes are required to AASB 138)	1	5	1	5	2	10
J. Not recognised, financial statements are not the appropriate vehicle for conveying information about internally generated intangible assets	1	5	1	5	2	10

As respondents were not limited to selecting only one of the listed approaches items A to J, the following is a breakdown of the various broad approaches the 12 respondents indicated they could agree with:

- Four respondents (one preparer and three auditors) indicated that they could agree only with recognition/measurement approaches (the most popular being items C and D)
- Five respondents (three preparers and two auditors) indicated that they could agree with either recognition/measurement or disclosure-only approaches. The most popular disclosure-only approach is item G
- One preparer indicated that they could agree with recognition/measurement or disclosure-only approaches, or even the status quo (item I)
- One auditor indicated that they could agree with disclosure-only approaches, or even the status quo or item J
- One preparer indicated that they could agree with recognition/measurement approaches or even item J.

Despite respondents being asked to state their reasons for disagreeing with particular items listed, not all respondents provided their reasons. Furthermore, those who gave reasons did not necessarily attribute them to particular items they disagreed with, instead making more general comments. The comments made were from:

- Preparers:
  - One, who disagreed with disclosure-only approaches items E, F and H (but agreed with item G and with recognition/measurement approaches items C and D but disagreed with items A and B) said "Good disclosure cannot compensate for bad accounting generally. If disclosure to be added then context via amounts (costs incurred) has to be given otherwise a small/early phase project could be easily be misunderstood as having more value than it actually does. Mandating fv is challenging and costly for preparers, and auditors struggle with the concepts around different valuation techniques". This preparer also disagreed with items I and J.
  - One, who agreed with disclosure-only approaches items E, F and G (but disagreed with item H and recognition/measurement approaches items A, C and D but agreed with item B) said "Disclosure of financial information (cost or fair value), as long as accompanied by the basis of fair value measurement and the accounting policy for fair value and cost measurement would provide some information about the 'size' of the intangible assets". This preparer also disagreed with items I and J.
- Auditors:
  - One, who disagreed with items A to G (but agreed with item H as well as items I and J) said "Too much cost to do any quantification".
  - One, who disagreed with disclosure-only approaches items E to H (but agreed with recognition/measurement approaches items A and D and disagreed with items B and C) said "Narrative disclosures are rarely sufficiently robust enough to convey sufficient information that would enable a user of the accounts to form their own view. Risk of default to boiler plate language". This auditor also disagreed with items I and J.
  - One, who agreed with disclosure-only approach item G (but disagreed with items E, F and H and with recognition/measurement approaches items A, B and D but agreed with item C) said "Cost vs benefit, in essence asking entities to prepare acquisition accounting on the entity every period (which is difficult enough when goodwill is a residual). Difficulty in applying identifiability criteria to unrecognised intangibles". This auditor also disagreed with items I and J.

A4.3.2.5 Preferred disclosures about unrecognised intangible assets

Although some respondents did not express any level of agreement with disclosure-only approaches to amending AASB 138, all respondents were asked:

> If AASB 138 were to continue to disallow recognition of many internally generated intangible assets in the balance sheet but was amended to require disclosures in the notes to the financial statements rather than just encouraging them, which of the disclosures in the table below would you disagree with? For those that you disagree with, state your reasons. (As reflected in responses to Questions 22 and 23).

	Type of disclosure	Preparer	Auditor	Total
		Disagree	Disagree	Disagree
Financial Disclosure				
A	Estimates (by the directors or independent valuer) of the fair value of significant identifiable intangible assets not recognised in the financial statements, supplemented with relevant contextual information	0	4	4
B	Cost (accumulated and amortised) of significant unrecognised intangible assets	1	4	5
C	An estimate of the financial effect of each significant unrecognised intangible asset with an indication of the uncertainties relating to the amount or timing of inflows expected from the asset; but only where there is more than a remote possibility of any inflow, and it is practicable to make the disclosure and it would not be prejudicial to the entity's competitiveness	1	4	5
D	Expenses associated with each significant unrecognised intangible asset, being those incurred with a view to benefit in subsequent accounting periods clearly differentiated from expenses that unambiguously relate to the period, supplemented with relevant contextual information	0	4	4
Non-financial Quantitative Disclosure				
E	Non-financial indicators (e.g. market size and share and customer retention data)	0	3	3
Non-financial Qualitative Disclosure				
F	Intellectual capital statements, which can be used to show the intellectual capital of an entity. These statements might also help explain the difference between an entity's market capitalisation and book value	0	3	3
G	The operating segments in which significant unrecognised intangible assets (e.g. brands) are used	0	4	4
H	Legal restrictions on the title of significant unrecognised intangible assets	0	2	2
I	Intentions to sell any significant unrecognised intangible assets	1	3	4
J	The expected life of significant unrecognised intangible assets	0	4	4

Reasons given for disagreements with the items listed above are as follows:

- A preparer who disagreed only with item C stated that "an estimate of financial effect could be misleading".
- A preparer who only disagreed with item I stated "future intentions like to sell are troublesome and unlikely to be disclosed frequently unless already public".
- An auditor who disagreed only with items A and E stated that "estimates are subject to increased risk and questionable as to how reliable they would be".
- An auditor who disagreed with items A to D, F, G and J stated that the "current identifiability criteria and control criteria are difficult to apply, and don't necessarily capture items of significant value (as demonstrated by recent SAAS IFRIC agenda decision)". [The reference to 'SAAS' is to Software as a Service, which is explained in investopedia.com]
- An auditor who disagreed with items B to E, G, I and J stated that "I don't see particular benefit in mandating significant increases in disclosure and think that the interaction with the IASB MC project would need to be explored. Also, without a clear definition of what an intangible asset is I am not sure whether these requirements would be consistently applied across entities". [The reference to 'MC' is to management commentary]
- An auditor who disagreed with all the listed items stated that "disclosures in financial statements are already excessive - I would not support more disclosures".

A4.3.2.6 Types of Australian entities that should be subject to the preferred disclosures

The types of Australian entities that should be required to make the preferred disclosures (as reflected in responses to Question 25):

Type of entity	Preparer	Auditor	Total
Publicly accountable entities	3	5	8
Both publicly accountable and non-publicly accountable entities	3	1	4
Total	6	6	12

A4.3.2.7 Voluntary disclosures encouraged by paragraph 128(b) of AASB 138

(a) As evident from responses to Question 26, none of the respondents had been involved in making or auditing the disclosure encouraged by paragraph 128(b) of AASB 138.

(b) The following are the reasons for not voluntarily making the disclosure, provided by preparers and auditors for entities that respondents have had involvement with. Respondents were asked to select any number of reasons (as reflected in responses to Question 27). Three respondents did not answer this question as they have not been involved with publicly accountable entities.

	Reasons for not making the encouraged disclosure	Preparer	Auditor	Total
A	The cost of providing such information is excessive	2	2	4
B	Fear of disclosing proprietary information, resulting in a potential loss of the entity's competitive advantage	1	2	3
C	The cost of auditing such information is excessive	2	2	4
D	Other impediments to auditing such information, if yes, please identify them. (Although the one respondent who ticked item D also ticked item C immediately above, they did not identify other impediments).	1	0	1
E	Users would not find the information useful	0	0	0
F	On its own, the information is incomplete	2	2	4
G	Users can readily access the information they need about unrecognised intangible assets from other parts of the annual report such as Management's Discussion and Analysis	1	0	1
H	Users can readily access the information they need about unrecognised intangible assets from other publicly available sources (excluding the financial statements and annual report)	0	0	0
I	In relation to financial statements, the entity's obligation is to only comply with the requirements in the Standard	0	1	1

(c) If paragraph 128(b) were expressed as a requirement rather than an encouragement, could it be practically implemented and audited at a reasonable cost? (as reflected in responses to Question 28)

Type of respondent	Yes	No	Unsure	Not applicable*	Total
Preparer	2	0	1	3	6
Auditor	1	2	2	1	6
Total	3	2	3	4	12

*No involvement with publicly accountable entities.

A4.3.2.8 Interpretation of responses to the survey's key technical questions

From the above analysis, a significant majority of the albeit low number of preparers/auditors who responded to the survey expressed an overall view that the information about intangible assets currently required or encouraged by Australian Accounting Standards to be provided in financial statements (whether through recognition or disclosure) does not appropriately reflect an entity's recognised and unrecognised intangible assets (11 of 12 respondents, see section A4.3.2.1). Despite that, a slight majority (seven of the 12, also see section A4.3.2.1) could accept that, overall, the current Standards strike an appropriate balance between costs to preparers and benefits to users. In particular, before being asked about other possible accounting approaches, respondents were evenly split on their level of agreement with the prohibition on recognition of many internally generated intangible assets and the encouragement, rather than requirement, for publicly accountable entities to disclose information about those unrecognised assets (see section A4.3.2.2(a)).

However, when presented with a list of possible alternative accounting approaches to unrecognised internally generated intangible assets, ten of the respondents disagreed with retaining the status quo (as reflected in their views on item I listed in section A4.3.2.4). Many of the respondents went on to express at least some level of agreement with amending the recognition/measurement requirements or disclosure requirements as follows:

- 11 of the 12 respondents indicated some level of agreement with amending the recognition/measurement requirements in some way; and

- seven of the 12 indicated some level of agreement with improving disclosures.

As noted in section A4.3.2.5, irrespective of their preferences in respect of the accounting for unrecognised internally generated intangible assets, all respondents were asked their views on the type of information that could be required to be disclosed about such assets. Although care should be taken in drawing definitive conclusions, the responses broadly indicate a reasonable level of acceptance from both preparers and auditors (but more so from preparers) of disclosure of financial, non-financial quantitative and/or non-financial qualitative information. Only one respondent indicated that they would not support any additional disclosure.

Appendix 5: Insights from other AASB Staff Outreach

A5.1 Insights from a Deakin University hosted focus group

Deakin Business School's Department of Accounting hosted a forum on 14 April 2021 to discuss the accounting for intangible assets. There were 12 academics, a representative from a professional body and a technical director from an accounting firm. Many of the academics had previously been auditors, preparers, analysts or business owners, and therefore also shared those perspectives and experiences. Accordingly, the summary below reflects an amalgam of user/preparer/auditor views.

At a high level, the general theoretical perspective expressed was that, to better align with the economic underpinnings, there should not be different rules for tangible and intangible assets. Consistent with that perspective, at a lower level, a common view expressed was that the dichotomy between internally generated and externally acquired intangible assets is artificial, and not a logical point from which to set accounting standards. Furthermore, the 'active market' construct was also criticised as not being a relevant criterion for establishing measurement rules (this issue is addressed in Appendix 9 below).

However, from a more practical perspective there was general acknowledgement that valuation is a problem for intangible assets because they are heterogeneous, non-standard (or unique), and often have weak property (control of use) rights status. It was noted measurement accompanied by transparency around assumptions would be useful, although it was also noted there is a shortage of competent valuers. In that regard, it was further noted the costs of valuation and assurance are high.

Within that context, the general view was that, although theoretically more intangible assets should perhaps be recognised, the inherent uncertainties and measurement difficulties would and should preclude this at this time. It was acknowledged that, because capital markets can see through the accounting for intangible assets, recognition of more intangible assets would not be a problem. A comment was made that prudence/conservatism is firmly entrenched and is inconsistent with expanding recognition.

It was pointed out that it is not the role of accounting to value an entity. Instead, the role is to measure and recognise the effects of the entity's economic transactions, taking a prudent approach. That is, measurement and recognition in relation to long-term assets reflect the expenditures the entity is undertaking and the horizon over which future benefits can be expected. In contrast, value reflects the benefits entities hope to generate in the future from operating the assets. Accounting is an input to valuation and not a valuation statement.

In acknowledging the inherent uncertainties, there was discussion of increasing the information about intangibles by increasing the line items in the income statement.

It was also noted there is already a significant amount of qualitative information in the annual report about intangibles (that may or may not have met the definition of assets). Some expressed a view it would be worth considering more systematically augmenting recognised intangibles numbers with qualitative and quantitative disclosures that set out what intangibles the entity believes it has in its stock of assets.

On the ‘user’ issue and the view different users have different needs, it was noted growth investors have a greater interest in information about intangible assets than balance sheet investors, and balance sheet investors have a greater interest in them than cashflow investors, suggesting all have an interest but it is particularly important for entities attempting to grow. These entities likely have a thin information environment compared to entities that have already grown and have an established product pipeline and production function, supply and distribution chains.

Overall, it is apparent from the discussion there is not a great deal of support from a practical perspective for relaxing AASB 138/IAS 38 recognition requirements, but there is some level of support for improved disclosures about unrecognised intangible assets.

A5.2 Insights from an EFRAG Intangible Assets Advisory Panel meeting

AASB staff had a brief opportunity to discuss some issues relevant to this Paper during an EFRAG Advisory Panel meeting held on 27 June 2021. The Panel consists of 15 members (five users, six preparers and four valuers) and one observer from the European Federation of Financial Analysts Societies (EFFAS)). Some of the points made during the discussion included:

- IAS 38 is an outdated standard compared with business models these days. Although information about intangible assets is important, because of the judgement involved it is important the Standard provides 'boundaries' of what can be capitalised. A stringent accounting standard is required to set a boundary and to safeguard the types of intangible assets recognised by management;
- more explanation is needed, perhaps in the Basis for Conclusion, as to why the recognition criteria under IAS 38 is more rigorous or conservative than under IAS 16 applicable to tangible assets;
- 'asymmetry' between accounting for internally generated intangible assets and intangible assets acquired in a business combination can be justified because in the latter case there has been generally a competitive bidding process, which provides some validation of the values of the assets. By comparison, internally generated assets arise from management simply spending money and they might be good or bad spending decisions. Accordingly, internally generated intangible assets should not be recognised, but disclosures about them should be made. This is because the objective of corporate reporting should enable analysts and investors to make up their mind on what a business is worth. (The alternative view was also expressed that analysts and investors are interested in returns that entities generate on their invested capital. Recognition of acquired intangible assets but deemed non-recognition of internally generated intangible assets of the same kind gives rise to challenges of interpreting the information in terms of return on invested capital);
- if IAS 38 were to contemplate more assets being recognised then the accounting for impairment should also be reviewed;
- restrictive recognition rules are justifiable because it is difficult to distinguish the expenditures incurred for internally generated assets from those incurred to develop the business as a whole;
- judgement is needed to assess whether the criteria for recognising internally generated intangible assets are met. Entities would have different approaches to apply this judgement. For example, some may be more prudent than others, thus undermining comparability; and
- audit quality could be impaired if a high level of judgement is required to audit internally generated intangible assets.

Overall, consistent with the Deakin focus group, it was evident from the discussion there is not a great deal of support from particularly a practical perspective for relaxing IAS 38 recognition requirements, but there is some support for improved disclosures about unrecognised intangible assets.

Appendix 6: Symmetry with AASB 137/IAS 37

This Paper presumes any additional disclosures about unrecognised intangible assets would be specified through AASB 138/IAS 38. This Appendix considers whether they should instead be specified in AASB 137/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This is particularly relevant if a decision were to be made to prescribe disclosures that are symmetrical with the current disclosure requirements for unrecognised present obligations contained in AASB 137/IAS 37, which is one of the options labelled as item 4(C) in Table A in section 4.2 above.

AASB 137/IAS 37 specifies disclosure requirements for (a) possible obligations and (b) present obligations that fail the liability recognition criteria. In contrast, it only specifies disclosure requirements for possible assets – it does not specify disclosures for 'assets that fail the asset recognition criteria'.

The definitions of 'possible obligations' and 'possible assets' in paragraph 10 of AASB 137/IAS 37 are symmetrical. However, the specification of disclosures about 'unrecognised present obligations' but not for 'unrecognised assets' is asymmetrical.[82] An explanation for this asymmetry is not articulated in the Basis for Conclusions on IAS 37, although it could be speculated as being due to a pragmatic application of the concept of prudence.[83]

Irrespective of the reason for the asymmetry, the asymmetry gives rise to the question of whether it would be appropriate to consider expanding the definition of a contingent asset in AASB 137/IAS 37 to include unrecognised assets. If that were to be done, the following disclosure requirements for unrecognised present obligations in paragraphs 86, 91 and 92 could be symmetrically specified for unrecognised assets:

> "Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
> (a) an estimate of its financial effect, measured under paragraphs 36–52;
> (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
> (c) the possibility of any reimbursement." (paragraph 86)
>
> "Where any of the information required by paragraph … 86 … is not disclosed because it is not practicable to do so, that fact shall be stated." (paragraph 91)
>
> "In extremely rare cases, disclosure of some or all of the information required by paragraph … [86] … can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the … contingent liability … In such cases, an entity need not disclose the information, but shall disclose the general nature."[84] (paragraph 92)

---

82 For example, unless the likelihood is remote, a present obligation that fails the 'probable outflow' recognition criterion is required to be disclosed as a contingent liability, irrespective of whether it fails the 'reliable measurement' recognition criterion. In contrast, asymmetrically, an asset that fails the 'probable inflow' and/or 'reliable measurement' recognition criteria is never required to be disclosed as a contingent asset.

83 This is evident from the asymmetrical thresholds required to be applied by AASB 137/IAS 37. For example, in the context of a possible obligation or a present obligation, the likelihood of an outflow only needs to be more than remote to trigger disclosure. In contrast, in the context of a possible asset, the likelihood of an inflow needs to be probable to trigger disclosure; and the standard even goes on to apply a 'virtually certain' threshold for the recognition of a possible asset.

84 There is some symmetry between these disclosures and the disclosure requirements relating to contingent assets (i.e. possible assets), as evident from the requirements in paragraph 89 of AASB 137/IAS 37:

> "Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out … [earlier in the Standard]."

And paragraph 90 provides a cautionary note:

> "It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising."

Accordingly, instead of considering adopting the same kind of disclosures required of unrecognised present obligations for unrecognised internally generated intangible assets, consideration could be given to adopting the same kind of disclosures required of possible assets for which an inflow of economic benefits is probable for unrecognised internally generated intangible assets. If that were the case, consideration could also be given to expanding the disclosure to include the amount or timing of any inflows, given that it would not be limited to circumstances where an inflow of economic benefits is probable. Both approaches would achieve similar outcomes.

For a number of years, the IASB has considered reviewing IAS 37, but the asymmetrical definitions and therefore treatment of unrecognised present obligations and unrecognised assets has not been a part of that consideration.[85] Although questions have been raised about the requirements for contingent assets, they have focused more on whether the requirements are warranted given the existence of IAS 38 – the suggestion has even been made to remove the notion of contingent assets from IAS 37. For example, question 3 in the June 2005 IASB Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits* addressed the issue of whether contingent assets should be removed from IAS 37 so that they can be dealt with by IAS 38.[86] In other words, in relation to contingent assets, the tendency in any considerations by the IASB to date has been towards aligning IAS 37 with IAS 38 rather than the other way around.

Despite this, consideration could be given to expanding AASB 137/IAS 37 to include disclosures about unrecognised intangible assets. However, the focus of this Paper is not on where any disclosures should be specified but rather what those disclosures should be. In relation to where best to locate any new disclosure specifications, consideration could be given to the merits of keeping all disclosure requirements relating to intangible assets in the accounting standard dedicated to such assets (i.e. AASB 138/IAS 38) relative to the merits of keeping all disclosure requirements relating to unrecognised items in the accounting standard dedicated to such items (i.e. AASB 137/IAS 37).

As of February 2022, the only current IASB project addressing IAS 37 (added to the IASB work plan in January 2020) is 'Provisions – Targeted Improvements', which will involve aligning the definition of a liability and requirements for identifying liabilities with the 2019 Conceptual Framework; and clarifying two aspects of the measurement requirement. Accordingly, there does not appear to be an appetite for amending the definition of contingent assets in a way that would specify disclosures for unrecognised (intangible) assets through IAS 37 (AASB 137). However, some of the disclosure principles adopted in AASB 137/IAS 37 for contingent liabilities (including unrecognised present obligations) could provide a useful basis for considering disclosure principles to be incorporated into AASB 138/IAS 38 (see section 4 above).

85 The concerns expressed about IAS 37 have been more focused on the suitability of the term 'provisions' and the consistency of IAS 37 requirements with the definition of 'liabilities'.

86 However, following feedback from stakeholders in response to the Exposure Draft, the IASB did not subsequently amend IAS 37 for this issue.

Appendix 7: Disclosures for Australian Tier 2 Entities

As noted in section 1.2, the focus of this Paper is on disclosures by publicly accountable (Tier 1) entities. AASB accounting standards applicable to Tier 1 entities incorporate IFRSs issued by the IASB and include a limited number of Australian-specific requirements. Under AASB 1053 *Application of Tiers of Australian Accounting Standards*, accounting requirements for other (i.e. Tier 2) entities comprise the recognition and measurement requirements of Tier 1 (including consolidation and the equity method of accounting) but substantially reduced disclosure requirements (see paragraphs 8 and 9 of AASB 1053).[87]

As from the financial year beginning on 1 July 2021, the substantially reduced disclosure requirements applicable to Tier 2 entities are specified in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (with early application permitted). AASB 1060 was developed by the AASB using the IASB's *IFRS for SMEs* as a starting point via a bottom-up approach.[88] Therefore, whilst the disclosures required by AASB 1060 are similar to those required by *IFRS for SMEs*, they are not identical.[89]

Relieving Australian Tier 2 entities from the disclosures contemplated in this Paper for Tier 1 entities would be consistent with the encouragement in paragraph 128(b) of AASB 138 being excluded from AASB 1060.[90] Furthermore, as noted in section A3.4.2.6 above, the responses to the AASB staff-administered Australian user survey instrument overwhelmingly support relieving Tier 2 entities from any disclosures about unrecognised intangible assets contemplated as part of this Paper, although that view is not so strongly evident from the preparer/auditor survey responses (see section A4.3.2.6).

In contrast, AASB 1060 does not relieve Tier 2 entities from disclosures about contingent liabilities that are unrecognised present obligations. The unrecognised present obligations disclosure requirements are contained in paragraphs 154 and 156 of AASB 1060. They are identical to AASB 137/IAS 37, although AASB 137/IAS 37 contains more guidance.[91] The AASB's rationale for imposing the unrecognised present obligations disclosure requirements on Tier 2 entities was to ensure consistency with the *IFRS for SMEs* (and the rationale in paragraph 156 of the Basis for Conclusions on *IFRS for SMEs*) which, as noted earlier, was the starting point for developing AASB 1060. If, as discussed in section 4.2 and Appendix 6 above, there is considered to be merit in specifying symmetrical disclosures about unrecognised present obligations and unrecognised assets, consideration would need to be given to what the implications would be for Tier 2 entities.

Any decision on the question of whether Tier 2 entities should be subject to any of the disclosures contemplated in this Paper will be subject to the AASB's due processes as set out in the relevant standard setting frameworks.[92]

---

87 Information regarding which entities are classified as Tier 1 or Tier 2 is in paragraphs 11 to 13 of AASB 1053.

88 See paragraph BC35 of the Basis for Conclusions on AASB 1060.

89 For example, paragraph BC37 in the Basis for Conclusions on AASB 1060 states:

> "The Simplified Disclosures framework is based on the premise that the disclosures in the *IFRS for SMEs* Standard should be retained where the R&M requirements and options are the same or similar in the *IFRS for SMEs* Standard and full IFRS. Disclosures relating to R&M options or treatments in the *IFRS for SMEs* Standard that are not available in full IFRS will be removed. Disclosures have only been added in comparison with the *IFRS for SMEs* Standard base where the R&M principles were significantly different or certain topics are not addressed under the *IFRS for SMEs* Standard." (references to 'R&M' are to 'recognition and measurement').

90 AASB 1060 omission of the encouragement is consistent with the *IFRS for SMEs* also omitting the encouragement. Paragraph 156 of the Basis for Conclusions on *IFRS for SMEs* states that:

> "the disclosure requirements in the *IFRS for SMEs* are substantially reduced when compared with the disclosure requirements in full IFRSs. The reasons for the reductions are of four principal types:
>
> (a) …
>
> (d) Some disclosures are not included on the basis of users' needs or cost-benefit considerations."

91 See paragraphs 87 and 88 of AASB 137/IAS 37.

92 The AASB's approach when considering whether to add or amend disclosure requirements in AASB 1060 in relation to amendments made by the IASB to full IFRS Standards is set out in paragraph 56 of the AASB For-Profit Standard Setting Framework (July 2021) and paragraph 43 of the AASB Not-For-Profit Standard Setting Framework (July 2021).

Appendix 8: Comprehensive Illustration Comparing Possible Disclosures

The following Table provides an example of what each individual disclosure item listed in Table A of section 4.2 might look like for a hypothetical significant unrecognised internally generated intangible asset (Pure Organic Soft Drink Brand A) controlled by an entity (Entity X) as at 30 June 20x5. The Table is designed to inform debate on which items of possible disclosures, individually or in full or partial combination, might be most relevant and in what circumstances. Together with the identified advantages and disadvantages listed in Table A and the related discussion in sections 4.2.1 to 4.2.3, the Table will also contribute to any discussion about impediments to implementation of any disclosure suggestions and therefore help in assessing how useful and workable any of the disclosures might be in practice. Further, it might help identify alternative approaches not contemplated in this Paper.

The Table should not be read as implying that this Paper advocates that any or all the listed disclosures would be expected to be made in any or all circumstances. In the Table:

- the first column lists the item numbers in sequential order from Table A;
- the second column paraphrases the associated disclosures described more fully in Table A; and
- the third column provides an example of what each disclosure item could be in different hypothetical circumstances of Entity X, particularly in relation to Brand A, on the assumption the information is material. Different scenarios are illustrated within some items (indicated in italicised text) and therefore individual scenarios are not necessarily reflected consistently in the illustrated disclosures for all items. Comparatives are only shown where particularly pertinent to the scenario being illustrated.

ITEM NO.	CONTEMPLATED DISCLOSURE	EXAMPLE OF THE DISCLOSURE FOR A HYPOTHETICAL ENTITY
Non-financial non-quantitative information		
1(A)	A description of the asset	Brand A Pure Organic Soft Drink
1(B)	Reason Brand A is significant	Brand A generated the majority of Entity X's revenue over the past three years and is expected to continue to do so for the foreseeable future
1(C)	Reason Brand A is not recognised as an asset	Brand A is prohibited from recognition as an asset under paragraph 63 of AASB 138/IAS 38
1(D)	Operating segment to which Brand A is attributable	Beverages
1(E)	Whether any legal restrictions on the title to Brand A, and details thereof	*[If no legal restrictions, nothing to disclose]* *[If legal restrictions, disclose details, for example …]* Entity X has entered into a licensing agreement with Entity Y that gives Entity Y the exclusive legal right to sell Brand A Pure Organic Soft Drinks in Country Z. Under the terms of the licensing agreement, renegotiable annually, Entity X will continue to manufacture Brand A products and Entity Y will be responsible for the product's packaging, marketing and distribution in Country Z.
1(F)	Whether at any time during the year Brand A was: • newly internally generated; or • held for sale, abandoned, sold, or any plan of sale changed, together with a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal	*[If no, nothing to disclose]* *[If yes to any of the actions listed, disclose that fact and the related details, for example …]* • *[if 'held for sale' at year end…]* In line with its strategy of building brands and then selling them after five to eight years, on 30 June 20x5, Entity X announced its intention to dispose of Brand A (together with Brand A's dedicated bottling machine – see Note Y *[the associated asset is a recognised asset that would be presented and disclosed in accordance with AASB 5/IFRS 5]*) and initiated an active program to locate a buyer. • *[if sold during the year and not previously disclosed as 'held for sale' …]* Entity X sold Brand A on 31 March 20x5 for $B cash, which is recognised as income in the statement of financial performance.
1(G)	Information about Brand A's expected useful life, including whether it is expected to be finite or indefinite	*[Assuming finite life and not 'held for sale']* Due to the nature of the market and evolving consumer tastes, Brand A is expected to have a finite useful life. It was identified as a distinct brand name on 1 July 20x1. At the end of last year, it was assessed to have a remaining useful life of seven years. Due to the ongoing success of Brand A during the year and after an assessment of the

<table>
<tr><th>ITEM NO.</th><th>CONTEMPLATED DISCLOSURE</th><th>EXAMPLE OF THE DISCLOSURE FOR A HYPOTHETICAL ENTITY</th></tr>
<tr><td></td><td></td><td>market including competing brands and consumer sentiment, it is now assessed to have a remaining useful life of nine years.</td></tr>
<tr><td colspan="3">Non-financial narrative (qualitative) information</td></tr>
<tr><td>2</td><td>Narrative qualitative description of relevant general aspects of Brand A</td><td>Brand A is the market leader by volume in the niche organic soft drinks market in … [identify geographic and/or demographic details]. Brand A's dominance over competing brands is primarily a result of its secret organic ingredients developed in-house, which appeal to the health conscious consumer, and unique bottle shape. The brand is supported by a targeted social media marketing and advertising campaign, digital platform, and copyright protection over its distinctive colour and bottle shape that independent market research undertaken by W Consultants indicates has high recognition amongst the general public as being associated with Brand A.
[It might also be appropriate to provide more extensive narrative disclosures, whether as context to other disclosed information or as a substitute for other information that is not disclosed as part of items 1, 3 and 4, as contemplated under item 2 in Table A. For the purpose of this illustration, details of the results of the independent market research are presented in the form of non-financial quantitative information and therefore illustrated under item 3 immediately below rather than as part of the illustration of item 2. Depending on circumstances, it might be necessary to provide a greater amount of narrative qualitative description to provide users with more comprehensive information about the results of the market research if the results are in a narrative qualitative format. Additional contextual information might also be warranted, to the extent Brand A is interrelated with other assets, whether recognised or unrecognised, or even other resources available to the entity that do not meet the definition of assets.]</td></tr>
<tr><td colspan="3">Non-financial quantitative information</td></tr>
<tr><td rowspan="5">3</td><td rowspan="5">Non-financial quantitative information (e.g. about the creation of Brand A and information focusing on benefits derived and/or expected to be derived from Brand A by the entity):</td><td>[The following examples show different types of non-financial quantitative information that could be disclosed, singularly or in combination, in addition to at least item 1(A)]</td></tr>
<tr><td>During the development of Brand A, which was launched on 1 July 20x1, there have been:
seven devoted full time equivalent marketing/sales staff. That was until the beginning of this year when two staff were transferred to other brand-development projects given Brand A is now well established.
[include quantitative information about other relevant factors that contributed to creating/maintaining/enhancing Brand A, for example, indicators of size of advertising or marketing campaigns, number of legal actions taken to protect the brand]</td></tr>
<tr><td>More than X million units of Brand A products have been sold since Brand A was launched.
Sales of Brand A products increased by Y amount (Z%) on last year [or perhaps even a five year trend could be presented]. The increase is attributable to the continued growth in health conscious consumers and Entity X's ongoing marketing campaign.</td></tr>
<tr><td>The non-financial numerical measures in the table below provide an indication of the extent to which Brand A is expected to continue to provide benefit to Entity X. They have been provided by an independent consultant, W Consultants, by ranking Brand A against competing brands.
<table>
<tr><th>Measures*</th><th>Description</th><th>Ranking as at 30 June 20x5#</th><th>Ranking as at 30 June 20x4</th></tr>
<tr><td>Brand visibility</td><td>How a brand is perceived by customers</td><td>2</td><td>2</td></tr>
<tr><td>Brand positioning and messaging</td><td>The feelings and positive experiences evoked by customers when they interact with a brand</td><td>1</td><td>1</td></tr>
<tr><td>Customer loyalty</td><td>The percentage of high-quality satisfied customers who would purchase the brand again</td><td>2</td><td>1</td></tr>
</table>
Based on a population of six competing brands as at 30 June 20x5 and five competing brands as at 30 June 20x4
[* For the purpose of this illustration, the examples of non-financial quantitative information (column 1) and their corresponding descriptions (column 2) have been sourced from Brand Valuation: Measuring the Value of a Brand (hellostepchange.com)]</td></tr>
<tr><td>The measure of customer loyalty to Brand A has fallen as at 30 June 20x5 when compared with 30 June 20x4. This can be attributed to Brand A products that were sold between 1 and 7 June 20x5 and had to be recalled due to … [include the reason for the recall]. As a result, the entity experienced a few weeks of negative publicity, which contributed to the deterioration in the customer loyalty ranking. The cause of the recall has since been addressed by … [include details of how the cause of the recall was addressed] and procedures put in place to ensure it does not happen again. [Provide details of the basis for being confident the cause of the recall will not recur].</td></tr>
<tr><td colspan="3">Financial information</td></tr>
<tr><td>4</td><td></td><td>[The following examples show different types of financial information that could be disclosed in addition to at least item 1(A)]</td></tr>
</table>

ITEM NO.	CONTEMPLATED DISCLOSURE	EXAMPLE OF THE DISCLOSURE FOR A HYPOTHETICAL ENTITY
4(A)	Recognised expenses for all significant unrecognised internally generated intangible assets, distinguishing between those expenses that will clearly benefit future periods and those that will not	Recognised expenses associated with all of Entity X's significant unrecognised internally generated intangible assets *[perhaps with the assets itemised, consistent with item 1(A)]* are $B, of which $C are assessed to be of a kind that will clearly benefit future periods.
4(A)(i)	Accounting policy for separating out future-oriented expenditure	*[Assuming future-oriented expenditure can be clearly distinguished …]* The accounting policy is based on the nature of an expenditure and for which there is evidence of future benefits based on a business case that is supported by underlying market analysis. Only expenditure that can be clearly related to expected future economic benefits beyond 12 months is potentially classified as 'future-oriented expenditure'. Accordingly, for the purpose of disclosure, no advertising and sales activities are classified as future-oriented. However, where there is evidence of future benefits, expenditure incurred by the marketing department to create a brand and to enhance it are classified as future-oriented. For example, expenditure to develop a long-term brand awareness strategy and packaging design refinements are classified as future-oriented where there is evidence of future benefits.
4(A)(ii)	Cumulative amount of future-oriented expenditure for Brand A	The cumulative amount of assessed future-oriented expenditure to date that is attributable to Brand A is $D.
4(A)(iii)	Future periods expected to benefit from future-oriented expenditure on Brand A	Nine years.
4(B)	Original cost and amortised/impaired amount, if reliably measurable. If not, disclose that fact	*[Assuming it is reliably measurable …]* Brand A's original cost $E; amortised amount $F.
4(C)	*[Possible disclosures based on symmetry with AASB 137/IAS 37]:* Unless remote or impracticable, disclose:	
4(C)(i)	Financial effect	Brand A is expected to generate revenue in the range of $G to $H (measured in present value terms) over the next nine years.
4(C)(ii)	Uncertainties relating to amount or timing	Risks associated with that estimate of Brand A's future revenue include the continued availability of key organic ingredients and disruptions to the Entity X's supply chain, which may cause timing delays or lead to increased production cost, which may ultimately affect customer pricing. Climactic conditions also affect consumer demand for Brand A organic soft drinks.
	If impracticable to disclose the financial effect or uncertainties relating to amount or timing, state that fact	*[If it is assessed to be impracticable to disclose item 4(C)(i) …]* It is not practical to estimate the potential financial effect of Brand A but marketing and economic advice indicates consumer demand will continue to grow steadily for the foreseeable future.
	If prejudicial to disclose the financial effect or uncertainties relating to amount or timing, disclose general nature	*[If it is assessed to be prejudicial to disclose items 4(C)(i) or (ii) …]* Sales of Brand A have grown steadily despite competitors coming into the market. New entrants are expected and therefore Entity X continues to focus on the quality of the ingredients and health benefits of the products in its marketing campaigns.
4(D)	Fair value, if reliably measurable. If not, disclose that fact	*[Assuming it is reliably measurable, even if not measurable by reference to an active market …]* Brand A's fair value $J.
4(D)(i)	Whether directors or independent estimate	Independent valuer
4(D)(ii)	Effective date of the estimate	30 June 20x5
4(D)(iii)	Basis of measurement of fair value of Brand A	There is no active market for internally generated Brand A. Accordingly, the basis of measurement is the relief from royalties method, being an income approach valuation technique under which value is determined based on a hypothetical payment that would otherwise be required to be made to a third party as a licence fee for the right to use the asset to derive benefits.
4(D)(iv)	Key assumptions in estimating fair value of Brand A	The key assumptions made in applying the relief from royalties method are: • Expected future revenue: $K • Expected useful life: nine years • Notional royalty rate: X% • Discount rate: Y% • Tax rate: 30%

Appendix 9: Issues Relevant to Unrevalued Recognised Intangible Assets

A9.1 Introduction

Paragraph 75 of AASB 138/IAS 38 deems that recognised intangible assets cannot be revalued to fair value if fair value cannot be measured by reference to an active market[93] – even if the asset can otherwise be reliably measured at fair value in accordance with AASB 13/IFRS 13 *Fair Value Measurement*.

In contrast, before AASB 138 became applicable, extant Australian Accounting Standards (and the extant Conceptual Framework) allowed Australian entities that adopted a revaluation policy to apply judgement in assessing whether their recognised intangible assets met the revaluation criteria. On adoption of AASB 138, these entities were required to reverse some previous upward revaluations of intangible assets that remained recognised.

Except in the lead-up to and in the year of adoption of AASB 138, AASB 138/IAS 38 did not replace the information that was lost through application of paragraph 75 with mandatory disclosures.

In developing this Paper with its focus on information about unrecognised internally generated intangible assets, consideration was also given to information about recognised intangible assets that are deemed prohibited from revaluation. The purpose of this Appendix is to document the findings from that consideration, without coming to any conclusions on it, as input to any future debate on the issue.

The main question addressed in this Appendix is whether additional disclosures relating to the fair value of recognised intangible assets carried at cost would help improve the usefulness of financial statements. In that regard, there is precedent for information about measurements that differ from recognised amounts being required or encouraged by accounting standards to be disclosed in financial statements:

- paragraph 25 of AASB 7/IFRS 7 *Financial Instruments: Disclosures* requires, in certain circumstances, the disclosure of fair value by class of financial assets and financial liabilities in a way that permits it to be compared against the carrying amount in the statement of financial position;
- paragraph 77(e) of AASB 116/IAS 16 *Property, Plant and Equipment* requires for each revalued class of property, plant and equipment of for-profit entities, disclosure of the carrying amount that would have been recognised had the assets been carried under the cost model. An equivalent requirement applies to for-profit entities under paragraph 124(a)(iii) of AASB 138/IAS 38 for revalued recognised intangible assets; and
- paragraph 79(d) of AASB 116/IAS 16 encourages an entity that uses the cost model to disclose the fair value of property, plant and equipment when this is materially different from the carrying amount. Asymmetrically, the same encouragement is not made in an intangible asset context.

A9.2 Views expressed through the AASB staff-administered surveys

A9.2.1 Users

The survey asked about:

- the level of agreement by respondents with the existing AASB 138/IAS 38 restrictions on the subsequent revaluation of acquired intangible assets, giving reasons. (Questions 10, 11 and 22)
- whether respondents agree with the so called asymmetry in relation to the subsequent accounting for recognised acquired intangible assets (where revaluations are significantly restricted) compared

93 'Active market' is defined in Appendix A of AASB 13/IFRS 13 as "a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis".

with tangible assets (where there are fewer restrictions on revaluations), giving reasons. (Questions 18 and 19)

In response:

(a) Level of usefulness of financial statements prepared in accordance with AASB 138/IAS 38's restrictions on revaluations of recognised intangible assets relative to other sources of information about those assets:

Type of respondent	Not Useful at all	Neutral	Useful	Total
UAC members	6	0	1	7
Academics	5	0	0	5
Other Australian Users	5	1	0	6
International Users	2	0	0	2
Total	18	1	1	20

(b) Level of agreement with the restrictions on revaluations of recognised intangible assets:

Type of respondent	Agree	Disagree	Total
UAC members	7	0	7
Academics	4	1	5
Other Australian Users	3	3	6
International Users	1	1	2
Total	15	5	20

Reasons given for agreeing with the current restrictions:

- UAC members:
  - "in favor of prudence due to the inherent subjectivity in revaluing recognised intangible assets, which could give rise to management bias"
- Other Australian Users:
  - "intangible assets are usually unique to an organisation, therefore, it is difficult to obtain comparable market data to perform a revaluation unlike tangible assets"

Reasons given for disagreeing with the current restrictions:

- Other Australian Users:
  - "it would not seem appropriate to restrict subsequent revaluation when a fair value of an intangible asset is available"

(c) Level of agreement with asymmetry between requirements relating to revaluations of tangible and intangible assets:

Type of respondent	Agree	Disagree	Total
UAC members	6	1	7
Academics	2	3	5
Other Australian Users	3	3	6
International Users	1	1	2
Total	12	8	20

Reasons given for agreeing with the asymmetry:

- UAC members:
  - "most tangible assets have observable inputs, this is typically not as common with intangible assets; therefore, the asymmetry is justifiable"

Reasons given for disagreeing with the asymmetry:

- Academics:
  - "recognised intangible assets and tangible assets are assessed for impairment under the same accounting standard, which is AASB 136 *Impairment*, therefore, to be consistent, both assets should be subject to the same criteria to enable a revaluation"

- Other Australian Users:
  - “having mixed restrictions on revaluations does not appear appropriate, particularly as intangible assets will become even more prominent in generating economic value across both the public and private sectors into the future”
- International Users:
  - “revaluation of tangible assets using lower level fair value metrics equally tends to cause reliability issues”

A9.2.1.1 Overview of users’ views

From the above analysis, the common view among users who responded to the survey is that financial statements prepared in accordance with AASB 138/IAS 38’s ‘active market’ restriction on revaluations are not useful relative to other sources of information about unrevalued recognised intangible assets (18 of 20 overall, including six of seven UAC members – see (a) above). Despite this, respondents do not think removing the revaluation restriction would make financial statements more useful.

As noted in relation to unrecognised internally generated intangible assets, three respondents (of the 20 overall), who are all UAC members, expressed at least some level of support for the status quo, suggesting no amendments to AASB 138/IAS 38’s subsequent measurement or disclosure requirements are needed.

However, even though there was no specific survey question that asked whether respondents would find disclosure of the fair value of recognised intangible assets useful, there were some indications users could find it useful. In particular, responses to:

- Question 28 (see section A3.4.2.4), despite its focus on possible disclosure items for unrecognised internally generated intangible assets, indicate a significant level of acceptance of the usefulness of disclosure of fair value of those assets (13 of 20 overall, including four of seven UAC members); and
- Question 25 (see section A3.4.2.3), despite its focus on user views in respect of the preferred overall accounting for unrecognised intangible assets, indicate eight of 20 respondents (including three of seven UAC members) show a level of acceptance of the usefulness of disclosure of the fair value of unrecognised intangible assets.

A9.2.2 Preparers/Auditors

The survey asked:

- whether respondents agree with the existing AASB 138 ‘active market’ restriction on the subsequent revaluation of acquired intangible assets? (Question 10)
- whether respondents agree with the so-called asymmetry in relation to the subsequent measurement of recognised acquired intangible assets compared with tangible assets? (Question 16)

In response:

(a) Level of agreement with AASB 138 restrictions (requirement for an active market) on the subsequent revaluation of acquired intangible assets

Type of respondent	Agree	Disagree	Total
Preparer	3	3	6
Auditor	2	4	6
Total	5	7	12

Reasons given for agreeing with the current restrictions:

- Preparers:
  - “many assets are not revalued and the level of judgement and complexity are high. The costs of engaging valuers/other experts would be a deterrent for many preparers”
  - “active market is practical and workable. For other intangible assets, the costs to value may exceed the benefits of the information”

- Auditors:
  - "Often difficult to attribute value between similar/related assets"

Reasons given for disagreeing with the current restrictions:

- Auditors:
  - "I think to have an active market is too strict, and is inconsistent with other assets that can be at fair value"
  - "AASB 138 has a higher asset recognition threshold for intangible assets than other assets; also inconsistent with the framework"

(b) Level of agreement with the asymmetry between requirements relating to revaluations of tangible and intangible assets

Type of respondent	Agree	Disagree	Total
Preparer	4	2	6
Auditor	2	4	6
Total	6	6	12

Reasons given for agreeing with the asymmetry:

- Preparers:
  - "by definition the value of a tangible assets is much clearer to identify"
  - "generally less complexity with tangible assets"

Reasons given for disagreeing with the asymmetry:

- Auditors:
  - "the valuation industry is far more developed now and the use of fair value is pervasive. I do not see a fundamental difference between financial assets, tangible assets and intangible assets in terms of valuations"
  - "accounting standards make artificial distinctions based on arch conservatism rather than user needs in a modern economy"
  - "I believe that an intangible asset should be able to be revalued as long as reliable"

A9.2.2.1 Overview of preparer/auditor views

From the above analysis, it is apparent that a slight majority (seven out of 12 – see (a) above) disagree with the AASB 138/IAS 38 restriction (requirement for an active market) on the subsequent revaluation of acquired intangible assets. This is broadly consistent with the even split when it came to the respondents' views on the asymmetry between requirements relating to revaluations of tangible and intangible assets.

Even though there was no specific question that asked whether respondents would find disclosure of the fair value of recognised intangible assets useful, there were some indications preparers/auditors could find it useful. In particular, responses to Question 21 (see section A4.3.2.5), despite its focus on possible disclosure items relating to unrecognised internally generated intangible assets, show a significant level of acceptance of the usefulness of disclosure of fair value of those assets (eight of 12 overall, including all six preparers).

A9.3 Possible disclosures about unrevalued recognised intangible assets

Based on the input from the surveys, the following Table B identifies possible useful information that could be identified for disclosure in financial statements. The disclosure could be contemplated for all unrevalued recognised intangible assets, or only in those circumstances where an entity adopts a revaluation policy.

Similar to Table A in section 4:

- Column 1 of the following Table B presents possible items of information for disclosure; and
- Column 2 includes some advantages and disadvantages of each type of disclosure.

TABLE B

POSSIBLE DISCLOSURES ABOUT UNREVALUED RECOGNISED INTANGIBLE ASSETS WITHIN THE SCOPE OF AASB 138/IAS 38	**ADVANTAGES and DISADVANTAGES**
1. Non-financial non-quantitative information	
A. A description of each significant unrevalued recognised intangible asset B. The reason the asset is significant C. An indication of the extent to which the fair value of the asset is considered to exceed its carrying amount, and why *[For unrevalued recognised intangible assets, it would not be necessary to specify as new disclosures the equivalent of items 1(D) to 1(G) of Table A in Section 4 contemplated for unrecognised internally generated intangible assets. This is because, where relevant, those disclosures are effectively already mandated in AASB 138/IAS 38 or other standards for recognised assets.]*	ADVANTAGES: • Items 1(A) and (B) provide basic information as a relevant starting point and context for the disclosure of other information about each asset. • Item 1(C) could be less onerous than the alternative in item 3 below of an estimation and disclosure of the actual fair value. DISADVANTAGES: • There is limited evidence from academic research and the AASB staff-administered surveys supporting the need for this information. • The information from item 1(C) could be too vague to be useful (e.g. if phrases like 'not significantly different from', 'significantly more than', 'materially higher than' or 'more than 20 percent greater than' were to be used), and could result in merely boilerplate disclosures. On the other hand, if the indication contemplated by item 1(C) were to be only met by disclosure of a percentage amount or a measure of the difference between fair value and carrying amount, it would be as onerous to fulfil as item 3 below.
2. Non-financial narrative (qualitative) information	
Narrative qualitative contextual information and descriptions of relevant general aspects of each significant unrevalued recognised intangible asset that is not otherwise adequately conveyed through other disclosures made about the asset.	Item 2 would have the same kind of advantages and disadvantages as those noted for item 2 in Table A in Section 4.
3. Non-financial quantitative information	
Where it can be measured reliably, useful non-financial quantitative information (i.e. relevant numerical measures) that faithfully represents the potential for economic benefits to the entity of each significant asset that users could use as input for their own estimates of fair value. If there is no relevant non-financial quantitative information that can be measured reliably, that fact should be disclosed.	Item 3 would have the same kind of advantages and disadvantages as those noted for item 3 in Table A in Section 4.
4. Financial information	
Where it can be measured reliably in accordance with AASB 13/IFRS 13, fair value of each significant unrevalued recognised intangible asset, supplemented by: (i) the carrying amount (ii) a statement whether estimated by the directors or independent valuer (iii) the effective date of the estimate (iv) the basis of fair value measurement (e.g. relief from royalties) (v) the key assumptions underlying the measurement method, similar to the requirements of AASB 13/IFRS 13 and its related disclosures. If fair value cannot be measured reliably, that fact should be disclosed.	Item 4 would have the same kind of advantages and disadvantages as those noted for item 4 in Table A in section 4.

The discussion immediately following Table A in section 4.2 in relation to the usefulness of non-financial non-quantitative information and the relative merits of financial versus non-financial quantitative information is applicable in relation to this Table and is therefore not repeated in this Appendix. However, from a standard-setting process perspective, contemplating additional disclosures about unrevalued recognised intangible assets at the same time as contemplating disclosures about unrecognised internally generated intangible assets could unduly delay incremental improvements to AASB 13/IAS 38.

REFERENCE LIST

Australian Accounting Standards Board (AASB) publications: AASB publications can be freely accessed from the AASB website – accessed 6 December 2021. Accordingly, the current AASB Standards referred to in this Paper are not itemised in this Reference List. Current AASB Standards incorporate IASB Standards. All IASB Standards referred to in this Paper can be accessed from the IASB website through basic registration. IASB material located on the AASB website is only accessible from an Australian Internet Protocol (IP) address. For convenience, superseded AASB Standards referred to in this Paper as well as other publications that are not Standards are itemised as follows:

AASB (1983) AASB 1011/AAS 13 *Accounting for Research and Development Costs*.

AASB (1995) SAC 4 *Definition and Recognition of the Elements of Financial Statements*.

AASB (1996) AASB 1013/AAS 18 *Accounting for Goodwill*.

AASB (1997) AASB 1021/AAS 4 *Depreciation*, Australian Accounting Standards Board.

AASB (1999) AASB 1015/AAS 21 *Acquisitions of Assets*.

AASB (2001) AASB 1041 *Revaluation of Non-current Assets and Statement of Accounting Concepts*.

AASB (2004) AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards*.

AASB (2004) *Framework for the Preparation and Presentation of Financial Statements*.

AASB (2005) AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

AASB (2010) AASB Practice Statement 1 *Management Commentary*, which incorporates the IFRS Practice Statement 1 *Management Commentary*.

AASB (2011) *AASB Policies and Procedures*.

AASB (2011) *Questionnaire for Preparers, Advisors, Auditors and Regulators of General Purpose Financial Statements: Initial Accounting for Intangible Assets Acquired in Business Combinations*.

AASB (2012) AASB Intangible Assets Project Summary (last updated 13 December 2012).

AASB (2014) *IASB Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations*.

AASB (2014) Submission to IASB*: IASB Request for Information Post-implementation Review: IFRS 3 Business Combinations*.

AASB (2019) AASB *Conceptual Framework for Financial Reporting*.

AASB (2019) *Intangibles Reporting Project Plan*.

AASB (2019) *November 2019 meeting minutes*.

AASB (2021) Staff Paper *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities*.

AASB (2021) AASB Practice Statement 2 *Making Materiality Judgements*, which incorporates the IFRS Practice Statement 2 *Making Materiality Judgements*.

AASB (2021) ED 309 *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which incorporates IFRS ED 2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*.

AASB (2021) ED 311 *Management Commentary*, which incorporates IFRS ED/2021/6 Management Commentary IFRS Foundation.

AASB (2021) Invitation to Comment ITC 46 *AASB Agenda Consultation 2022-2026*.

AASB (2021) AASB *For-Profit Standard Setting Framework*.

AASB (2021) AASB *Not-For-Profit Standard Setting Framework*.

AASB and Auditing and Assurance Standards Board (AUASB) (2021) Corporate Plan 2021-2022.

Accounting Standards Board of Japan (ASBJ) (2012) *Accounting Treatment of Internally Generated Development Costs Under IAS 38*, accessed 6 December 2021 (Presented to the NSS March 2012 meeting).

American Institute of Certified Public Accountants (AICPA) Committees (1994) *Improving business reporting-- a customer focus: meeting the information needs of investors and creditors: a comprehensive report*, AICPA Historical Collection , accessed 6 December 2021.

Amano Y (2020) 'Real Effects of Intangibles Capitalization—Empirical Evidence from Voluntary IFRS Adoption in Japan', *Journal of International Accounting Research*, 19(3), 19-36, https://doi.org/10.2308/JIAR-19-539.

Amir E and Lev B (1996) 'Value-relevance of nonfinancial information: The wireless communications industry', *Journal of Accounting and Economics*, 22(1-3), 3-30, https://doi.org/10.1016/S0165-4101(96)00430-2.

Amir E, Lev B, and Sougiannis T (2003) 'Do financial analysts get intangibles?' *European Accounting Review*, 12(4), 635-659, https://doi.org/10.1080/0963818032000141879.

Appleton A, Barckow A, Kawanishi Y, Kogasaka A, Lennard A, Mezon L and Vllmann R (2020) 'Perspectives on the Financial Reporting of Intangibles', discussed at the *International Forum of Accounting Standard Setters*, not yet published.

Armstrong CS, Core JE, Taylor DJ and Verrecchia RE (2011) 'When Does Information Asymmetry Affect the Cost of Capital?', *Journal of Accounting Research,* 49(1), 1-40, https://doi.org/10.1111/j.1475-679X.2010.00391.x.

AUASB, Auditing Standard ASA 720, *The Auditor's Responsibilities Relating to Other Information*, Auditing and Assurance Standards Board, accessed 6 December 2021.

Barker R, Lennard A, Penman S, and Teixeira A (2020) 'Accounting for intangible assets: suggested solutions', *Accounting and Business Research*, 1-30, https://doi.org/10.1080/00014788.2021.1938963.

Barron OE, Byard D, Kile C, and Riedl EJ (2002) 'High-Technology Intangibles and Analysts' Forecasts', *Journal of Accounting Research*, 40(2), 289-312, https://doi.org/10.1111/1475-679X.00048.

Barry CB and Brown SJ (1985) 'Differential Information and Security Market Equilibrium', *The Journal of Financial and Quantitative Analysis*, https://doi.org/10.2307/2330758.

Barth ME (2018) 'The Future of Financial Reporting: Insights from Research', *Abacus*, 54(1), 66-78 https://doi.org/10.1111/abac.12124.

Barth ME and Clinch G (1998) 'Revalued Financial, Tangible, and Intangible Assets: Associations with Share Prices and Non-Market-Based Value Estimates', *Journal of Accounting Research*, 36, 199-233, https://doi.org/10.2307/2491314.

Barth ME, Clement MB, Foster G, and Kasznik R (1998) 'Brand Values and Capital Market Valuation', *Review of Accounting Studies*, 3(1/2), 41-68, https://doi.org/10.1023/A:1009620132177.

Barth ME, Kasznik R, and McNichols MF (2001) 'Analyst Coverage and Intangible Assets', *Journal of Accounting Research,*39(1), 1-34, https://doi.org/10.1111/1475-679X.00001.

Ben-Shahar O, and Schneider CE (2014) 'The Futility of Cost-Benefit Analysis in Financial Disclosure Regulation', *The Journal of Legal Studies*, 43(S2), S253-S271, https://doi.org/10.1086/675771.

Berger PG (2011) 'Challenges and opportunities in disclosure research—A discussion of 'the financial reporting environment: Review of the recent literature'', *Journal of Accounting and Economics*, 51(1-2), 204-218, https://doi.org/10.1016/j.jacceco.2011.01.001.

Berger PG and Hann RN (2007) 'Segment Profitability and the Proprietary and Agency Costs of Disclosure', *SSRN Electronic Journal*, http://dx.doi.org/10.2139/ssrn.436740.

Beyer A, Cohen DA, Lys TZ, and Walther BR (2010) 'The financial reporting environment: Review of the recent literature', *Journal of Accounting and Economics*, 50(2-3), 296-343, https://doi.org/10.1016/j.jacceco.2010.10.003.

Bloom M (2009) 'Accounting for Goodwill', *Abacus*, 45(3), 379-389, https://doi.org/10.1111/j.1467-6281.2009.00295.x.

Bochkay K, Hales J and Serafeim G (2021) 'Disclosure standards and communication norms: Evidence of voluntary disclosure standards as a coordinating device for capital market', *SSRN Electronic Journal*, https://doi.org/10.2139/ssrn.3928979.

Botosan CA (1997) 'Disclosure level and the cost of equity capital', *The Accounting review*, 72(3), 323-329.

Botosan CA and Plumlee MA (2002) 'A Re-examination of Disclosure Level and the Expected Cost of Equity Capital', *Journal of Accounting Research*, 40(1), 21-40,https://doi.org/10.1111/1475-679X.00037.

Bratten B, Choudhary P and Schipper K (2013) 'Evidence that Market Participants Assess Recognized and Disclosed Items Similarly when Reliability is Not an Issue', *The Accounting Review*, 88(4), 1179-1210, https://doi.org/10.2308/accr-50421.

Cañibano L, Garcia-Ayuso M and Sanchez P (2000) 'Accounting for intangibles: a literature review', *Journal of Accounting Literature*, 19, 102-128.

Cazavan-Jeny A, Jeanjean T and Joos P (2011) 'Accounting choice and future performance: The case of R&D accounting in France', *Journal of Accounting and Public Policy*, 30(2), 145-165, https://doi.org/10.1016/j.jaccpubpol.2010.09.016.

Chalmers K, Clinch G, and Godfrey JM (2008) 'Adoption of International Financial Reporting Standards: Impact on the Value Relevance of Intangible Assets', *Australian Accounting Review*, 18(3), 237-247, https://doi.org/10.1111/j.1835-2561.2008.0028.x.

Chalmers K, Clinch G, Godfrey JM, and Wei Z (2012) 'Intangible assets, IFRS and analysts' earnings forecasts', *Accounting & Finance*, 52(3), 691-721, https://doi.org/10.1111/j.1467-629X.2011.00424.x.

Chen E, Gavious I, and Lev B (2017) 'The positive externalities of IFRS R&D capitalization: enhanced voluntary disclosure', *Review of Accounting Studies*, 22(2), 677-714,https://doi.org/10.1007/s11142-017-9399-x.

Cohen MC, Damodaran A and McCarthy D (2021) 'Initial Public Offerings: Dealing with the Disclosure Dilemma', *SSRN Electronic Journal*, http://dx.doi.org/10.2139/ssrn.3936750.

Coleman B, Merkley KJ and Pacelli J (2021) 'Man Versus Machine: A Comparison of Robo-Analyst and Traditional Research Analyst Investment Recommendations', *SSRN Electronic Journal*, https://doi.org/10.2139/ssrn.3514879.

Coles JL, Loewenstein U and Suay, J (1995) 'On Equilibrium Pricing under Parameter Uncertainty', *The Journal of Financial and Quantitative Analysis*, 30(3), 347-347, https://doi.org/10.2307/2331345.

Corporate Finance Institute (n.d), *Balanced Scorecard*, Corporate Finance Institute, accessed 6 December 2021.

Cotter J and Richardson S (2002) 'Reliability of asset revaluations: The impact of appraiser independence', *Review of Accounting Studies*, 7(4), 435-457, https://doi.org/10.1023/A:1020763612369.

The Danish Trade and Industry Development Council (1997), *Intellectual Capital Accounts Reporting and managing intellectual capital*, Danish Trade and Industry Development Council, accessed 6 December 2021.

Davern M, Gyles N, Hanlon D and Pinnuck M (2019) 'Is Financial Reporting Still Useful? Australian Evidence', *Abacus*, 55(1), 237-272, https://doi.org/10.1111/abac.12152.

Davern M, Tan B, and Gu J (2021) 'Disclosing Unrecognized Intangibles The Search for Exemplars', *Department of Accounting, Faculty of Business & Economics*.

Diamond DW and Verrecchia RE (1991) 'Disclosure, Liquidity, and the Cost of Capital', *The Journal of Finance*, 46(4), 1325-1359, https://doi.org/10.1111/j.1540-6261.1991.tb04620.x.

Dinh T, Kang H and Schultze W (2016), 'Capitalizing Research & Development: Signaling or Earnings Management?', *European Accounting Review*, 25(2), 373-401, https://doi.org/10.1080/09638180.2015.1031149.

Dinh T, Schultze W, List T and Zbiegly N (2020) 'R&D Disclosures and Capitalization under IAS 38—Evidence on the Interplay between National Institutional Regulations and IFRS Adoption', *Journal of International Accounting Research*, 19(1), 29-55, https://doi.org/10.2308/jiar-17-522.

Dinh T, Sidhu B.K and Yu C (2019) 'Accounting for Intangibles: Can Capitalization of R&D Improve Investment Efficiency?', *Abacus*, 55(1), 92-127, https://doi.org/10.1111/abac.12149.

Dumble K and Li A (2021) *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities*, AASB, accessed 6 December 2021.

Easley D and O'Hara M (2004) 'Information and the Cost of Capital', *The Journal of Finance*, 59(4), 1553-1583, doi.org/10.1111/j.1540-6261.2004.00672.x.

European Financial Reporting Advisory Group (EFRAG) (2020) *Annual Review 2020*, accessed 6 December 2021.

EFRAG (2021) *University of Ferrara, EFFAS, EFRAG, ICAS joint case study-based survey on intangibles*, accessed 6 December 2021.

EFRAG (2021) *Discussion Paper: Better Information on Intangibles: which is the best way to go?*, August, accessed 6 December 2021.

Ely K and Waymire G (1999) 'Intangible Assets and Stock Prices in the Pre-SEC Era', *Journal of Accounting Research*, 37, 17-44,doi.org/10.2307/2491343.

Entwistle GM (1999) 'Exploring the R&D Disclosure Environment', *Accounting Horizons*, 13(4), 323-342, doi.org/10.2308/acch.1999.13.4.323.

Federal Accounting Standards Advisory Board (US FASAB) (n,d) *Intangible Assets Task Force*, accessed 6 December 2021.

FASAB (n,d) *Intangible Assets*, accessed 6 December 2021.

Financial Accounting Standards Board (FASB) (2001) Steering Committee Report, Business Reporting Research Project, *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*,accessed 6 December 2021.

FASB (2016) *Invitation to Comment—Agenda Consultation*, accessed 6 December 2021.

FASB (2001) *Proposal for a New Agenda Project - Disclosure of Information About Intangible Assets Not Recognized In Financial Statements*, accessed 6 December 2021

Financial Reporting Council (FRC UK) (2021) Discussion Paper *Business Reporting of Intangibles: Realistic proposals*, accessed 6 December 2021.

FRC UK (2021) Feedback Statement: Business Reporting of Intangibles: Realistic proposals, accessed 6 December 2021.

Financial Reporting Council (FRC Australia) (2015), *Oversight of Australian Standard Setting*, accessed 6 December 2021.

Gelb DS (2002) 'Intangible Assets and Firms' Disclosures: An Empirical Investigation', Journal of Business Finance Accounting, 29(3&4), 457-476. https://doi.org/10.1111/1468-5957.00438.

Gerhardy P and Wyatt L (2001) 'An Analysis of Corporate Lobbying on Australia's ED 49, Accounting for Identifiable Intangible Assets', *Pacific Accounting Review*, 13(2), 71-102, https://doi.org/10.1108/eb037961. [AASB ED 49 *Accounting for Identifiable Intangible Assets* was issued in 1989].

Godfrey J and Koh PS (2001) 'The Relevance to Firm Valuation of Capitalising Intangible Assets in Total and by Category', *Australian Accounting Review*, 11(25), 39-48. https://doi.org/10.1111/j.1835-2561.2001.tb00186.x.

Grant M (2021) *Software-as-a-Service*, Investopedia, accessed 6 December 2021.

Gu F and Wang W (2005) 'Intangible Assets, Information Complexity, and Analysts' Earnings Forecasts', *Journal of Business Finance & Accounting*, 32(9-10), 1673-1702. https://doi.org/10.1111/j.0306-686X.2005.00644.x.

Step Change (2019) '*Brand Valuation: Measuring the Value of a Brand*', accessed 6 December 2021.

Ho S, Sidhu BK and Yang F (2020) 'The impact of disallowing the recognition of internally generated intangibles on Australian firms upon the implementation of AASB 138', University of Sydney Business School Working Paper.

Institute of Chartered Accountants of Scotland (ICAS) (2021) webinar *The production and consumption of information on intangible*, ICAS Foundation, accessed 29 November 2021.

International Accounting Standards Board (IASB) publications: IASB Standards referred to in this Paper that are incorporated into AASB Standards are not itemised in this Reference List (see the note under AASB publications at the beginning of this Reference List). Other IASB publications referred to in this Paper are itemised as follows:

IASB (2005) *Exposure Draft of Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits* , IFRS Foundation, accessed 6 December 2021.

IASB (2013) *Discussion Forum—Financial Reporting Disclosure Feedback Statement*, IFRS Foundation, accessed 6 December 2021.

IASB (2015) *Post-Implementation Review of IFRS 3 Business Combinations*, IFRS Foundation, accessed 6 December 2021.

IASB (2020) *Post-implementation Review of IFRS 10 Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IFRS Foundation, accessed 6 December 2021.

IASB (2021) *September 2021 Staff Paper IASB Agenda Paper 19C: Matters in the scope of IFRS 6*, IFRS Foundation, accessed 6 December 2021.

IASB (2021) *IASB Update September 2021*, IFRS Foundation, accessed 6 December 2021.

IASB (2021) *Sustainability-related Reporting*, IFRS Foundation, accessed 6 December 2021.

IASB (2021) *Work Plan Provisions—Targeted Improvements*, IFRS Foundation, accessed 6 December 2021.

IASB (2021) *IFRS for SMEs*, IFRS Foundation, accessed 6 December 2021.

Imugene Limited (2018) Imugene Limited *Annual Report:2018*, accessed 6 December 2021.

Integrated Reporting, Value Reporting Foundation, Integrated Reporting Framework, accessed 6 December 2021.

International Public Sector Accounting Standards Board (IPSASB) (2021) *Exposure Draft (ED) 78, Property, Plant, and Equipment*, accessed 6 December 2021.

IPSASB (2021) IPSAS 17 *Property, Plant, and Equipment*, accessed 6 December 2021.

IPSASB (2021) IPSAS 31 *Intangible Assets*, accessed 6 December 2021.

IPSASB (2021) Exposure Draft ED 77 *Measurement*, accessed 6 December 2021.

IPSASB (2021) Recommended Practice Guide RPG 3 *Reporting Service Performance Information*, accessed 6 December 2021.

IPSASB (2021) *Strategy and Work Program 2019-2023*, accessed 6 December 2021.

International Valuation Standards Council (IVSC) (2021) Perspectives Paper *Tangible about Intangible Assets, Part 1: The case for realigning reporting standards with modern valuation creation*, accessed 6 December 2021.

Jenkins E and Upton W (2001) 'Internally Generated Intangible Assets: Framing the Discussion', *Australian Accounting Review*, 11(25), 4-11,https://doi.org/10.1111/j.1835-2561.2001.tb00183.x.

Johansen TR and Plenborg T (2013) 'Prioritising disclosures in the annual report', *Accounting and Business Research*, 43(6), 605-635. https://doi.org/10.1080/00014788.2013.827105.

Jones DA (2007) 'Voluntary disclosure in R&D-intensive industries', *Contemporary Accounting Research*, 24(2), 489-522.

Jones S (2011) 'Does the Capitalization of Intangible Assets Increase the Predictability of Corporate Failure?', *Accounting Horizons*, 25(1), 41-70, https://doi.org/10.2308/acch.2011.25.1.41.

Kallapur S and Kwan SYS (2004) 'The Value Relevance and Reliability of Brand Assets Recognized by U.K. Firms', *The Accounting Review*, 79(1), 151-172, https://doi.org/10.2308/accr.2004.79.1.151.

Kang H and Gray SJ (2011) 'The Content of Voluntary Intangible Asset Disclosures: Evidence from Emerging Market Companies', *Journal of International Accounting Research*, 10(1), 109-125, https://doi.org/10.2308/jiar.2011.10.1.109.

Keys R and Ardern D (2008) 'Initial Accounting for Internally Generated Intangible Assets', published as an AASB Discussion Paper, accessed 6 December 2021.

Kim O and Verrecchia RE (1991) 'Trading Volume and Price Reactions to Public Announcements', *Journal of Accounting Research*, 29(2), 302-302, https://doi.org/10.2307/2491051.

Korea Accounting Standards Board (KASB) (2021) *No. 51 Core Intangible Production Report (Part 1: Concept and Design, Part 2: Writing Case)*, accessed 6 December 2021.

Landsman W, Liss A and Selevers S (2021) 'The pricing of acquired intangibles', *Accounting for Transparency*.

Leuz C and Verrecchia R.E (2000) 'The Economic Consequences of Increased Disclosure', *Journal of Accounting Research*, 38, 91-124, https://doi.org/10.2307/2672910.

Lev B (2001) 'Intangibles: Management, Measurement, and Reporting', *Brookings Institution Press.*

Lev B (2008) 'A rejoinder to Douglas Skinner's 'Accounting for intangibles – a critical review of policy recommendations'', *Accounting and Business Research*, 38(3), 209-213, https://doi.org/10.1080/00014788.2008.9663334.

Lev B (2018) 'Intangibles', *SSRN Electronic Journal*, https://doi.org/10.2139/ssrn.3218586.

Lev B and Gu F (2016) 'The end of accounting and the path forward for investors and managers' (1 ed.), *Wiley*.

Lev B and Zarowin P (1999) 'The Boundaries of Financial Reporting and How to Extend Them', *Journal of Accounting Research*, 37(2), 353-353 https://doi.org/10.2307/2491413.

Matolcsy Z and Wyatt A (2006) 'Capitalized intangibles and financial analysts', *Accounting and Finance*, 46(3), 457-479, https://doi.org/10.1111/j.1467-629X.2006.00177.x.

Merkley KJ (2014) 'Narrative Disclosure and Earnings Performance: Evidence from R&D Disclosures', *The Accounting Review*, 89(2), 725-757, https://doi.org/10.2308/accr-50649.

Michels J (2017) 'Disclosure Versus Recognition: Inferences from Subsequent Events', *Journal of Accounting Research*, 55(1), 3-34, https://doi.org/10.1111/1475-679X.12128.

Ministry of Science Technology and Innovation (2003) *Intellectual Capital Statements – The New Guideline*, Danish Ministry of Science, Technology and Innovation, accessed 6 December 2021.

Mohd E (2005) 'Accounting for Software Development Costs and Information Asymmetry', *The Accounting Review*, 80(4), 1211–1231, https://doi.org/10.2308/accr.2005.80.4.1211.

Monem RM, Rahman A and Kabir H (2017) 'Recognition, measurement, and disclosure of intangibles in Australia', presented at the AASB Research Forum 2017.

Muller III, KA (1999) 'An examination of the voluntary recognition of acquired brand names in the United Kingdom', *Journal of Accounting and Economics*, 26(1-3), 179-191, https://doi.org/10.1016/S0165-4101(98)00035-4.

Nadeem M, Dumay J and Massaro M (2019) 'If You Can Measure It, You Can Manage It: A Case of Intellectual Capital', *Australian Accounting Review*, 29(2), 395-407, https://doi.org/10.1111/auar.12227.

Paugam L, Casta JF and Stolowy H (2018) 'Non-additivity in Accounting Valuation: Theory and Applications', *Abacus*, 54(3), 381-416, https://doi.org/10.1111/abac.12125.

Penman S (2016) 'Valuation: Accounting for Risk and the Expected Return', *Abacus*, 52(1), 106-130, https://doi.org/10.1111/abac.12067.

Penman SH (2009) 'Accounting for Intangible Assets: There is Also an Income Statement', *Abacus*, 45(3), 358-371. https://doi.org/10.1111/j.1467-6281.2009.00293.x.

Peters RH and Taylor LA (2017) 'Intangible capital and the investment-q relation', *Journal of Financial Economics*, 123(2), 251-272, https://doi.org/10.1016/j.jfineco.2016.03.011.

Ratnatunga J (2002) 'The Valuation of Capabilities: A New Direction for Management Accounting Research', *Journal of Applied Management Accounting Research*, 1(1), 1-15.

Ritter A and Wells P (2006) 'Identifiable intangible asset disclosures, stock prices and future earnings', *Accounting and Finance*, 46(5), 843-863, https://doi.org/10.1111/j.1467-629X.2006.00190.x.

Russell M (2017) 'Management incentives to recognise intangible assets', *Accounting & Finance*, 57, 211-234, https://doi.org/10.1111/acfi.12154.

Saha A, Morris RD and Kang H (2018) 'Disclosure Overload? An empirical analysis of IFRS disclosure requirements', IFRS Foundation.

Schipper K (2007) 'Required Disclosures in Financial Reports'*, The Accounting Review*, 82(2), 301-326, https://doi.org/10.2308/accr.2007.82.2.301.

Sidhu BK and Roberts JH (2008) 'The marketing accounting interface – lessons and limitations', *Journal of Marketing Management*, 24(7-8), 669-686, https://doi.org/10.1362/026725708X345461.

Skinner DJ (2008) 'Accounting for intangibles – a critical review of policy recommendations', *Accounting and Business Research*, 38(3), 191-204, https://doi.org/10.1080/00014788.2008.9663332.

Tasker SC (1998) 'Bridging the information gap: Quarterly conference calls as a medium for voluntary disclosure', *Review of Accounting Studies*, 3(1/2), 137-167, https://doi.org/10.1023/A:1009684502135.

Van Der Spuy P (2015) 'Non-recognition of internally generated brands: implications for the usefulness of financial statements', *Journal of Economic and Financial Sciences*, 8(3), 808-822, https://doi.org/10.4102/jef.v8i3.123.

Verrecchia RE (2001) 'Essays on disclosure' *Journal of Accounting and Economics*, 32(1–3), https://doi.org/10.1016/S0165-4101(01)00025-8

Visible Alpha, Visible Alpha, accessed 6 December 2021.

Wallman SMH (1995) 'The future of accounting and disclosure in an evolving world: The need for dramatic change', *American Accounting Association*, 9(3), 81-81.

Wu H, Thomas AM and Wright S (2020) 'Using the R&D capitalisation choice to explain the scale benefits of R&D investment', *Australian Journal of Management*, 45(4), 579-606, https://doi.org/10.1177/0312896219897749.

Wyatt A (2005) 'Accounting Recognition of Intangible Assets: Theory and Evidence on Economic Determinants', *The Accounting Review*, 80(3), 967-1003, https://doi.org/10.2308/accr.2005.80.3.967.

Wyatt A (2008) 'What financial and non-financial information on intangibles is value-relevant? A review of the evidence' *Accounting and Business Research*, 38(3), 217-256, https://doi.org/10.1080/00014788.2008.9663336.

Wyatt A, Matolcsy Z and Stokes D (2001) 'Capitalisation of Intangibles - A Review of Current Practice and the Regulatory Framework', *Australian Accounting Review*, 11(24), 22-38, https://doi.org/10.1111/j.1835-2561.2001.tb00185.x.

Zambon S, Marzo G, Girella L, Abela M and D'Albore N (2020) 'A Literature review on the reporting of intangibles', EFRAG.