



Project:	Intangible Assets	Meeting:	AASB April 2021 (M180)
Topic:	Review of Intangible Assets Accounting Requirements – Update on Draft Staff Report	Agenda Item:	6.0
		Date of Agenda Paper:	1 April 2021
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		Decision-Making:	Low
		Project Status:	Draft Staff Report/ Thought Leadership Paper

Objective

1. The objective of this agenda item is to provide a **progress report** on the development of AASB Staff Report/Thought Leadership Paper No. XX *Intangible Assets: Analysis of the financial statements information gap*. The progress report includes a presentation from an academic on some empirical findings pertinent to the Report.

Background and reasons for bringing this agenda item to the Board

2. At its [November 2019 meeting](#) the AASB approved an Intangible Assets [Project Plan](#) for staff to identify the information needs of users of financial statements, and to assess particularly whether the information currently required to be provided in respect of unrecognised internally generated intangible assets is sufficient. The project was delayed due to the COVID-19 pandemic and not re-commenced until January 2021. The original intention was to work collaboratively with the Accounting Standards Board of Japan. However, they can no longer collaborate with us on this project due to their resource constraints caused by the pandemic.
3. The Working Draft attached is provided as a convenient vehicle for updating the Board on our progress to date.
4. In due course, it is intended the Report will:
 - in the short term, provide, depending on progress, in its draft form, input to the Board's deliberations on its submission to the IASB Third Agenda Consultation (due by 27 September 2021); and
 - in the longer term, provide in its final form either a significant contribution to the international debate on the issues it addresses or, ideally, useful input to any intangible assets project the IASB might agree to add to its active agenda.

Attachments

- Agenda paper 6.1 [WORKING DRAFT, with a working title of] AASB Staff Report/Thought Leadership Paper XX: *Intangible Assets: Analysis of the financial statements information gap*. [Board Only]
- Agenda paper 6.2 A draft of an academic research paper *The impact of disallowing the recognition of internally generated intangibles on Australian firms upon the implementation of AASB 138* by Shawn Ho, Baljit K Sidhu and Fan Yang of the University of Sydney Business School (21 December 2020) [Board Only]

Overview of Agenda Papers

5. Agenda paper 6.2 provides background information supporting the presentation to be made by Professor Baljit Sidhu (University of Sydney Business School) at the Board meeting.
6. Agenda paper 6.1 reflects the expected direction, style, structure and broad content of the Report. It does not yet provide fully considered and refined analyses, findings and recommendations. Those sections that have been drafted will be further developed, and indeed might be affected by the yet to be drafted sections. For the purpose of this Board meeting, we have inserted some:
 - yellow highlighted [To do:] comments, principally as memory joggers for staff, but also for the Board information, to point out the areas staff have identified so far that still need to be addressed (both relatively minor and major); and
 - green highlighted and sequentially numbered [Note to Board: X of 13] comments, designed to inform the Board of the direction staff expect to head in relation to particular aspects pertinent to the Report.
7. Consistent with the approved [Project Plan](#) at the [November 2019 meeting](#), the scope of the draft Report encompasses the accounting for unrecognised internally generated intangible assets and the revaluation of recognised intangible assets. It particularly focuses on, or at least leads to, addressing the questions of whether and if so what disclosures about those intangible assets should be mandated. It therefore excludes consideration of goodwill, whether acquired or internally generated.
8. For completeness and to provide context:
 - draft Appendix 1 includes a summary of current requirements and their IASB and AASB history;
 - draft Section 1 explains the background, motivation, objective, scope, research methodology and structure of the Report;
 - placeholder Section 2 will include consideration of conceptual issues (including recognition and measurement issues and disclosure vs recognition issues);
 - parts of draft Section 3 and Appendix 2 include an academic and standard-setter literature review; and
 - parts of placeholder Section 4 will include an analysis of some of the pertinent issues, including a brief discussion of whether market capitalisation/book value differences or asymmetries in accounting requirements justify reform of the existing recognition and measurement (and disclosure) requirements.
9. This contextual material will provide the backdrop for the crux of the Report, being

- the parts of Section 3 and Appendix 3 that will include our analysis of the results of our own empirical research (whether obtained through survey/interviews/Focus Group(s)) into perceived user needs, and preparer reaction to those needs; and
 - the parts of Section 4 that will discuss what evidence we find from our own and others' research for supporting mandatory disclosure principles about unrecognised (and unvalued) intangible assets, and suggested disclosures (perhaps in the form of a table identifying possible useful disclosures, cost considerations of each [taking into account preparer perspective], and how each would be useful).
10. Given the document is at a very early stage we do not expect it to be discussed in detail at the meeting. However, if Board members have any detailed comments, we would appreciate receiving them out of session.
 11. We are currently at the stage of gathering data from users. To that end, in March 2021 we developed and distributed an online survey consisting of multiple-choice and open-ended questions addressed to users of financial statements. We are promoting the survey through the AASB Weekly Newsletter, and further advertisement at the AASB website and its social media platforms will be undertaken to receive more responses from users.
 12. Prior to sending out the survey, a pilot test was conducted with a UAC panel member to help increase confidence that the instrument was appropriate. (An MS Word version of the survey questions is provided for your information in Appendix 3 of Agenda Paper 6.1.) The survey was then amended in response to comments received from the pilot test and sent to some 84 users of financial statements of for-profit and not-for-profit entities. These users were selected primarily from the AASB's User Advisory Committee and the related contacts of the Committee members as well as selected other participants such as banks as lenders, rating agencies, academic users, regulators and superannuation funds. The survey was also promoted through the AASB website. It is intended the online survey will be supplemented with virtual face-to-face interviews. These will be with respondents who express a preference for that mode of communicating their views to us or, if staff resources permit, with respondents who agree to follow-up interviews in their response to question 35 of the survey. In relation to the latter, it might be possible to gather a group of interested users and to conduct a Focus Group(s). Staff are expecting responses from the survey in early April 2021 and as of 26 March 2021, we have received 6. We intend sending out reminders on 6 April, encouraging those who have not yet responded. We will provide a verbal update on developments since 1 April at the forthcoming Board meeting.
 13. In addition, a Focus Group scheduled for 14 April 2021 will be hosted by Deakin University (Department of Accounting). It will be held via video conferencing and will be attended by AASB staff as observers.
 14. In due course, for the purpose of a balanced Report and to assess the practicality of possible user-desired disclosures, as implied in paragraph 9 above, we plan to develop and issue a Preparer Survey. The types of questions we ask will be informed by the results of the User Survey, within the context of paragraphs 1.6 and OB6 of the respective for-profit and not-for-profit Conceptual Frameworks, which state: "general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need."

Question for Board members:

Question 1: Do Board members have any comments on the overall direction, approach, structure, scope, pitch, style or other aspects the draft Report has adopted to date?

Project timeline and next steps

April-May 2021	Staff continue to undertake outreach to users in the form of surveys and analyse responses. If required, staff conduct further outreach, perhaps through interviews and/or Focus Group(s) within the time and resource constraints. Staff analyse research undertaken by academics specifically for this project and incorporate it into the draft Report. Staff continue drafting the Report focusing on the user perspective.
May-June 2021	Staff draft and distribute Preparer Survey (and perhaps conduct interviews and/or Focus Group(s) within the time and resource constraints). Staff analyse responses to Preparer Survey and any other input from preparers and incorporate it into the draft Report.
June 2021	Board deliberate on the draft Report (in session).
June – September 2021	Staff finalise the draft Report having regard to Board comments made at the June meeting.
September 2021	Board deliberate on the final Report. Board deliberate on IASB Third Agenda Consultation.
Beyond September 2021	Finalise and publish the Report and offer to provide it to the IASB. Undertake further research and draft any supplementary material that could assist the IASB in progressing the project if it is added to the IASB's active agenda. Take any opportunities to participate in international debates on the issues.

Questions for Board members:

Question 2: Do Board members agree with the above project timeline and next steps?

Question 3: In addition to any input individual Board members might provide in response to the invitation in paragraph 10 above, what level of involvement with the Report do Board members want to have between Board meetings eg individual Board members act as sounding boards for staff on an ad hoc basis, or as reviewers of a near final draft of the Report?