



Project:	Intangible Assets	Meeting:	AASB November 2021 (M184)
Topic:	Review of Intangible Assets Accounting Requirements – Revised Draft Staff Paper	Agenda Item:	6.1
		Date of Agenda Paper:	25 October 2021
Contact(s):	Robert Keys rkeys@asb.gov.au Rabin Jogarajan rjogarajan@asb.gov.au Eric Lee elee@asb.gov.au	Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Draft Staff Paper

Objective

1. The objective of this agenda item is to:
 - (a) **note** progress made by staff in updating the draft AASB Staff Paper on Intangible Assets since the September meeting and note the remaining work to be undertaken; and
 - (b) **decide** the process and timing for finalising the Paper for publication.

Attachments

Agenda paper 6.2 [WORKING DRAFT, with a working title of] AASB Staff Paper *Intangible Assets: Reducing the Financial Statements Information Gap Through Improved Disclosures* [Board Only]¹

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 disclosed in respect of unrecognised internally generated intangible assets is sufficient and if not how disclosures could be improved. The project was delayed due to the COVID-19 global pandemic and re-commenced in January 2021. Progress updates were provided to the Board during the April and September meetings.
3. Of particular note, since the September Board meeting, staff presented on the topic of Intangible Assets at the September meeting of the International Forum of Accounting Standard

1 If Board members would like a copy of a merge and compare version in MS Word between the September version of the Paper and the current version, staff can provide one upon request, although it will be quite cluttered given the amount of formatting, restructuring and other changes that have been processed.

Setters (IFASS). The IASB Chair had acknowledged that a review of IAS 38 is long overdue, noting that the IASB might undertake a project on the topic, the scope of which will be finalised once the IASB completes the process of digesting the feedback from its recently concluded agenda consultation. A summary of the IFASS discussion ([Standard setters discuss intangibles \(iasplus.com\)](http://iasplus.com)) notes the general feeling was that the IASB should approach the problem in stages, beginning with disclosures.

4. Also, since the September Board meeting, staff have amended the draft Staff Paper (Agenda paper 6.2) in response to Board members' comments made during that meeting and subsequently out of session. The key changes to the Staff Paper since the September meeting are identified in paragraphs 5 and 6 below.

Key changes to the draft Staff Paper since the September Board meeting

5. In response to the main comments made at the [September Board meeting](#), the draft Staff Paper now:
 - (a) is reframed to identify and present alternative and/or complementary possible disclosure approaches that have regard to the trade-off between the fundamental qualitative characteristics of relevance and faithful representation. The disclosure approaches referred to and analysed are: non-financial non-quantitative disclosures, non-financial narrative (qualitative) disclosures, non-financial quantitative disclosures, and/or financial disclosures (cost or fair value). A single preferred approach is not identified. Consistent with that reframing, the Paper makes it clear that its purpose is to facilitate debate and not present a concrete/definitive proposal;
 - (b) strengthens the justification for the need for reviewing IAS 38 by referring to evidence of market failures arising from the current requirements and their effects on entity cost of capital. This is done by expanding the literature review in Appendix 2, particularly as it relates to disclosures, with consequential changes to the summary of that review in section 3 of the body of the Paper; and
 - (c) identifies public-sector-specific issues, noting that those issues are beyond the scope of the Paper and would need further consideration.
6. In response to out-of-session comments received from Board members and further internal staff reviews, other significant changes to the Paper include that:
 - (a) the focus is primarily on disclosing unrecognised internally generated intangible assets (that meet the definition of 'intangible asset' and fall within the scope of AASB 138/IAS 38). Therefore, references to the issue of unvalued recognised intangible assets have been deemphasised and relegated to Appendix 9;
 - (b) a new Appendix 8 now includes a comprehensive comparative example of the types of possible disclosures contemplated in the Paper of a hypothetical significant unrecognised internally generated intangible asset (a brand). At the time of writing, staff have yet to receive feedback regarding the example. The example will be shared with members of the AASB's Disclosure Initiative Panel after the mail-out of Board papers and staff will provide a verbal update regarding any feedback at the forthcoming Board meeting; and
 - (c) it strikes a better balance between the acknowledgement of costs and benefits, by making more prominent the identification of the potential costs to preparers (and auditors) of making additional disclosures.

Further work required on the Staff Paper

7. Other work staff are aware of that needs to be completed before publication of the Paper include:
 - (a) gaining better insight into the views of preparers, auditors and valuers. In particular, the analysis of the responses to the preparer/auditor survey, which affects the completion of sections 3.3.2, 4.2 and Appendix 4 in the Paper, is not yet finalised. This is due to the low volume of responses (eleven to date, which is only three more when compared with the position at the September mail out). As a result, the relevant sections have not been updated since the preliminary analysis, which was based on eight responses. The survey continues to be advertised weekly via the AASB's newsletter, and staff would again encourage Board members to share the survey link in [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?](#) with your respective preparer/auditor contacts. In addition, the UK Endorsement Board has now shared the survey with subscribers to their newsletter. If the response rate continues to remain low, staff intend supplementing the survey responses with input from a focus group and/or discussions with individual preparers/auditors/valuers; and
 - (b) a thorough editorial review and a tidy up of the Reference List.

Some of these and other aspects of the Paper that require further work are acknowledged in yellow highlighted text in Agenda paper 6.2.

8. Similar to the September meeting, the Executive Summary (in Agenda paper 6.2) provides an overview of the Paper and is expected to be sufficient to focus the discussion for this Board meeting. However, Appendix 8 might also be applicable as it lists and illustrates the contemplated disclosures.
9. The full Paper is provided in Agenda Paper 6.2 if Board members wish to understand better the basis of the Executive Summary. If Board members have specific or editorial comments beyond the body of the Paper, staff would appreciate receiving those comments out of session.

Question 1 for Board members:

Do Board members have any comments on:

- (a) the revised draft AASB Staff Paper;
- (b) the suggested disclosure principle, guiding objective, and associated guidance (including possible disclosures), as set out in italics towards the end of the Executive Summary of Agenda paper 6.2 and as illustrated in Appendix 8?

Project timeline and next steps

- | | |
|--------------|---|
| Nov-Dec 2021 | Staff finalise the draft Paper having regard to Board comments made at the November meeting.

Staff continue to collate and analyse responses to the preparer/auditor survey. If required, staff conduct further outreach to preparers, auditors and valuers, perhaps through individual interviews and/or Focus Group(s) within the time and resource constraints. |
|--------------|---|

Staff collate feedback on the disclosure example (in Appendix 8 of the Paper) from members of the AASB's Disclosure Initiative panel and other interested parties and consider what implications that has for the discussion in the Paper.

Jan-Feb 2022

Ask the Board subcommittee (a sounding-board for Staff as they refine the Paper) to provide comments on the penultimate draft before finalising and publishing the Paper.

Offer to provide the published Paper to the IASB.

Undertake further research and draft any supplementary material that could assist the IASB in progressing any Intangible Assets project the IASB might add to its active agenda.

Continue to take any opportunities to participate in domestic and international debates on the issues.

Question 2 for Board members:

Do Board members agree with the above processes, timeline and next steps, including that a Board subcommittee assist staff out of session including by providing review comments on the penultimate draft of the Paper?