

## **Business Reporting of Intangibles: Realistic proposals - A Discussion Paper prepared by staff of the UK Financial Reporting Council (February 2019)**

### **Wellcome Trust response – 30 April 2019**

As an organisation that manages a substantial investment portfolio, we welcome this Discussion paper as the reporting of intangibles is a controversial area.

Wellcome Trust does not itself hold any material intangibles, is unlikely to do so in the future and reports under FRS 102. Consequently, we do not consider it appropriate to respond to the questions in detail however, we support the approach outlined in section 4 “Narrative reporting.” A narrative report should provide sufficient information to help investors assess the contribution of intangibles to the performance and prospects of a business and should focus on those intangibles that play a key role in the operational and strategic model.

Our additional comments on some of the questions in the consultation are:

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

We do agree that the reporting should be improved and there should be more transparency. As recognised by the FRC, it is unrealistic to expect the value of a business to be fully represented in its balance sheet. However, in a knowledge-based economy intangibles are generally considered in the purchase of a business even when they are not valued on the balance sheet.

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

We do agree that, where there has been material expenditure on ‘future-oriented intangibles’ that are incurred with a view to generating benefit in subsequent accounting periods there is a case for specific disclosure requirements of the amount and nature of investments. These should be clearly differentiated from expenses that unambiguously relate to the period and the amount of cumulative expenditure should be disclosed. However, there would also need to be a clear explanation of why the expenditure has not been capitalised and transparent disclosure in future reporting periods if it became apparent that there would be no benefit in future period.

It is also not clear whether any cumulative expenditure should be capitalised when and if an asset is recognised on the Balance Sheet. If it was capitalised, it might lead to a more accurate valuation on the balance sheet but could have an adverse impact on the results for the current year and any KPIs and ratios. This would need well considered disclosure.

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

We believe that metrics should be included to explain the true value of any significant intangibles to the business as this is generally not well represented by the balance sheet value.