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FRC DP Business Reporting of Intangibles: Realistic proposals

Thank you for the opportunity to comment on the proposals in the discussion paper Business Reporting of Intangibles. The Swedish Enterprise Accounting Group (SEAG) is a preparer organization and thus our views and comments below primarily represent the perspective of the reporting entity.

Question 1

Do you agree that it is important to improve the business reporting of intangibles?

We can understand the aim of the DP but we are not convinced that it's possible to find a reporting model that would provide the sufficient comparability and relevance. RD-activities are not an ordinary production process and investments in RD are not always correlated with performance.

In our experience, there is little demand from analysts and investors for accounting change in this area and we suspect that most Swedish entities are able to provide the market with sufficient information under current standards. Therefore, we don't see the need for further standardization of the reporting of intangibles.

Question 2

Do you agree that an intangible should be recognised at cost under the two conditions set out above in (i)?

We can't see how recognizing intangibles under these conditions would result in more relevant information. And if so, why would the conditions only apply to intangibles? They could be equally relevant for development of tangible assets.

Question 3

Do you agree with the assumptions the paper makes regarding measurement uncertainty of intangibles?

We agree that there is measurement uncertainty when recognizing intangibles at cost. Measuring the fair value of intangibles is even more uncertain.

Question 4

Do you agree that existing accounting standards should be revisited with the aim of improving the accounting for intangibles?

Referring to our comments under Question 1, we don't believe that the existing standards should be revisited with this aim.

Question 5

Do you agree with the above proposals relating to expenditure on intangibles?

We suspect that it would be difficult to differentiate between the different types of expenditure. We also doubt that it would be possible to agree on common criteria that would make the disclosures comparable.

Question 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 the proposals are somewhat self-explanatory. In our experience, entities with large expenditures on R&D tend to provide a lot of information on this topic in the narrative parts of the business reports, both qualitative and quantitative.¹

Question 7

What are your views about how the various participants involved in business reporting could or should contribute to the implementation of the proposals made in the paper?

We welcome that there is an open discussion within the business reporting community. We are particularly interested in the views of investors.

Question 8

Do you use additional information other than the financial statements when assessing and valuing intangibles? If so, can you please specify what additional information you use.

Additional information and measurement models are often used for internal managerial purposes. Such information may be sensitive, it is not evident that it would be fit for external reporting.

¹ See for example the annual report 2018 of one of our member companies Ericsson. R&D/ technological leadership is commented upon on pages 2,4,9,10,11, 33, 35 and 45. <https://www.ericsson.com/assets/local/investors/documents/2018/ericsson-annual-report-2018-en.pdf>

Question 9

Do you have any suggestions, other than those put forward in this paper, as to how improving the business reporting of intangibles might be achieved?

With the risk of answering somewhat off target, SEAG believes that one of the more crucial problems within business reporting is the lack of comparability between entities that grow organically and entities that grow with M&A. A pragmatic solution to this would be to consider reintroducing amortization of goodwill. This in turn would make it possible to lighten up the requirements regarding identification and recognition of intangible assets when establishing a PPA, which is currently often an artificial exercise that is of little value for users and reporting entities.

Best regards

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Secretary of the Swedish Enterprise Accounting Group