



Andrew Lennard
Financial Reporting Council
8th Floor
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30th April 2019

Re: Business Reporting of Intangibles: Realistic proposals

Dear Andrew,

Thank you for giving us the opportunity to comment on your discussion paper on Business Reporting of Intangibles: Realistic proposals.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community. The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two-way communication with the markets and to create a level playing field for all investors. It has over 850 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

We have reviewed your questions within the discussion paper and can summarise our response to these questions and provide a few key areas of importance to our membership as outlined below.

The IR Society acknowledges the FRC's efforts to shape further debate, gather views and influence the IASB in the area of reporting intangibles. While many will view this from an accountancy perspective, the subject of reporting intangibles does have implications for IR, if investor relations officers are to be asked to justify large valuations for brands.

Overall, the IR Society is supportive of the FRC's discussions around proposals for reporting intangibles, but in practice there may be the potential for misleading reporting without clear and strict guidelines as to what the reporting principles are trying to achieve. The reporting of intangibles is very subjective and diverse. Intangibles can represent quite a significant value for some sectors, for example technology and pharma, however, understanding the full potential valuation of a company through the reporting of intangibles could be quite complex, and inherently difficult to value. For example, companies may make mention of marketing and training as an intangible but won't explicitly disclose a cost in their reporting. What one company might deem to be a future-oriented intangible another company might not. From an audit perspective, particularly at a time where we are seeing increased scrutiny, it may prove difficult to agree standards to value something that is so difficult to attribute a value to and to verify. Furthermore, regarding materiality, some of these high growth sectors and companies may deem reporting on intangibles as competitive information and therefore may not wish to disclose more specific information.

Regarding the discussion paper's reference to proposals aimed at improving the quality of information around intangibles in narrative reporting, we also recognise the current project by the FRC around the 'Future of corporate reporting', which will be addressing these broader issues in narrative reporting and disclosure, including the purpose of the annual report and what should be in there. The Society believes this current initiative and other projects conducted by the FRC around non-financial KPIs, and business model reporting etc. will more clearly identify what factors and metrics investors and the end users are considering when looking at the annual report. Furthermore, we also recognise there is increasingly more consideration for ESG factors and broader strategy within narrative reporting. Management commentary and strategic report will over time need to be improved to give investors that insight into some of the softer, qualitative issues.

As a Society we are also interested to understand which audience is asking for this additional disclosure on intangible assets. To date we are not aware that investors are calling for this reporting proposal, and whether these proposals are of enough benefit to the end user of a report and accounts.

Overall, the IR Society is supportive of proposed enhancements for corporate reporting, and initiatives to find a better way to report intangibles. However, there also needs to be a clear and concise approach to this in a way that doesn't confuse current reporting requirements.

We hope you find these comments useful and please do not hesitate to contact me if you require any further clarification.

Kind regards,

Emma Burdett
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