



Response to FRC Discussion Paper
Business Reporting of Intangibles: realistic proposals

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INTRODUCTION

The ICAS Corporate and Financial Reporting Panel welcomes the opportunity to comment on the FRC's staff discussion paper: Business Reporting of Intangibles – Realistic Proposals.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to Amy Hutchinson, Head of Corporate and Financial Reporting and Secretary to the Corporate and Financial Reporting Panel, ahutchinson@icas.com

CONSULTATION QUESTIONS

Question 1

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

Response

We agree that the reporting of intangibles is an important issue – as the paper points out, it is a topic that has been much debated in recent years, and businesses increasingly rely on intangible factors to create value. However, we are unsure what impact this paper will have. Whilst we acknowledge that the focus of the discussion paper is on 'realistic' proposals, we find that the recommendations do not go much beyond what is already included within existing reporting frameworks, such as the FRC Guidance on the Strategic Report. We support the definition of 'intangibles' proposed in the paper, but think that it potentially encompasses a broader range of factors than are discussed in the paper.

There are many initiatives currently addressing various aspects of reporting of intangibles, but it will take some time for consensus and best practice to emerge, particularly as one of the limiting factors is the quality of internal management information. The FRC's Financial Reporting Lab can have a key role in working with different stakeholders to develop best practice, therefore we believe this would be a positive avenue for the FRC to pursue in influencing the intangibles debate going forward.

Question 2

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

Response

The two conditions set out are that the costs to be incurred on development of an intangible can be estimated at the time when a project is undertaken, and that the economic benefits can be specified when the costs are first incurred. We are concerned that these conditions would not be operational. Whilst we agree that cost is an appropriate measurement base for intangible assets, the approach here seems to require that the total costs and expected benefits can be estimated reliably at the project inception, and not subsequently adjusted. This is impractical, given that in very many cases the total costs and expected benefits of a project will be impossible to estimate at the outset. Therefore, our concern is that this approach could result in information being reported that lacks relevance and accuracy.

Question 3

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

Response

We broadly agree with the assumption the paper makes about measurement uncertainty of intangibles and agree that in most cases, the level of management estimation required means that fair value will not be a reliable measurement base for intangibles.

Question 4

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

Response

As we have reservations about the paper's proposals on the measurement of intangibles at cost, we do not support existing accounting standards being revisited with this specific purpose.

Question 5

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

Response

We believe there is merit in considering additional disclosures relating to recognised and unrecognised intangibles, however our view is that there is further work to be done if such disclosures are to be included as notes to the financial statements. In the example given in paragraph 3.10, there appears to be a high degree of judgement involved which could lead to a lack of comparability and issues of auditability. We believe greater disclosure around development costs capitalised and expensed may be useful, e.g. for development costs that are expensed, which of the criteria for capitalisation were not met.

Question 6

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

Response

We agree in principle with the proposals aimed at improving the information on intangibles provided in narrative reporting, although these do not necessarily go much beyond what is currently recommended in the Guidance on the Strategic Report. We agree that the development of standardised metrics within industries is desirable, although these may take some time to come to fruition.

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?

Response

Debate and dialogue between preparers, investors and other stakeholders could be an effective means of developing good practice in this area. The FRC Financial Reporting Lab is the ideal forum to bring together different stakeholders.

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.

Response

We understand that investors and other stakeholders are likely to use a range of sources in addition to the financial statements when assessing intangibles, including narrative information and third party sources.

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?

Response

We believe that a key element in improving the business reporting of intangibles is the co-operation and collaboration of the major standard-setters and reporting initiatives to develop a consistent approach.