



## **ABI response to DP – Business Reporting of Intangibles: Realistic proposals**

### **The ABI**

The Association of British Insurers (ABI) is the leading trade association for insurers and providers of long-term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.6 trillion.

### **ABI comments**

1. We welcome the opportunity to comment on the Financial Reporting Council's Discussion Paper *Business Reporting of Intangibles: Realistic proposals*.
2. We welcome the FRC stimulating stakeholder discussion on ways in which the business reporting of intangibles may be improved, as intangibles are significant drivers of the value of a business. It is sensible to revisit the accounting difficulties, eg contrasting acquired and internally-generated, however well-known. However, we are not convinced that the discussion paper's proposals for measurement and disclosure provide a basis for changes in IAS 38's requirements.
3. A more productive area is narrative reporting. Whilst we are not supportive of prescription or undue standardisation, eg for performance metrics, we do see value in the scope for improvement in practice being explored through initiatives like the FRC's Financial Reporting Lab and through the FRC's reviews of corporate reports.
4. We set out our detailed responses to the FRC's consultation questions in the appendix to this letter.

Association of British Insurers  
May 2019

## **ABI response to FRC DP – Business Reporting of Intangibles: Realistic proposals**

**Appendix**

### **Consultation questions**

#### **Question 1**

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

#### **ABI response**

1. We agree that there is scope for improvements in the reporting of intangibles, as being highly significant to the understanding of a company's business performance and yet variable in practice.

#### **Question 2**

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

#### **ABI response**

2. We do not agree with the proposal to limit the costs to the initial total estimate. It is not uncommon for the estimated costs of building an intangible (or tangible) asset to differ from the actual costs. However, under IAS 38 the intangible asset must be expected to result in a flow of sufficient future economic benefits to the entity. Therefore, the additional expenditure can only be capitalised to the extent that this requirement still holds true.
3. In relation to the second proposal, we agree that economic benefits need to be specifiable at the outset. However, we consider that this need is already in effect met by IAS 38.

#### **Question 3**

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

#### **ABI response**

4. We agree that the measurement uncertainty is too great for most intangibles to be measured at fair value.

#### **Question 4**

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

#### **ABI response**

5. We think that cost is the most reliable basis of measurement given the measurement uncertainty, and that the current impairment requirements in IAS 36 are sufficient to deal with uncertainties relating to future economic benefits.

### **Question 5**

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

#### **ABI response**

6. We are not supportive of the proposed additional detailed disclosure prescription proposed, as the level of judgement in identifying this expenditure will be extensive and there could be significant divergence in practice – eg in distinguishing intangible expenditure that is expected to benefit future periods from that which is recurrent, and in determining which those future periods will be.

### **Question 6**

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

#### **ABI response**

7. We think there is scope for improvements in the narrative reporting of intangibles. However, we agree that metrics will vary significantly between different companies due to a high degree of subjectivity, and this would likely result in a lack of comparability. Hence, we are not supportive of industry wide agreed definitions and calculations of metrics. Even within the same industry, different strategic objectives would influence the relevance of particular metrics, and we believe that it will be too cumbersome to implement an effective framework of metrics. We suggest instead that the FRC's initiatives like the its Financial Reporting Lab and its reviews of corporate reports can help improvement in this reporting.

### **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?*

#### **ABI response**

8. We support the Financial Reporting Council taking a lead in facilitating dialogue amongst stakeholders about improvements in the reporting of intangibles.

### **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.*

#### **ABI response**

9. N/A.

### **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?*

**ABI response**

10. As above, we suggest that FRC's initiatives like its Financial Reporting Lab and its reviews of corporate reports can help improvement in the reporting of intangibles.