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Intangibles and the IASB's Management Commentary Practice Statement Project

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IASB and WICI Frameworks Compared

Many similarities:

- ✓ WICI and IASB focus is on the reporting **entity**
- ✓ Both focus on **decision useful** information – the IASB for primary users and WICI for both internal and external stakeholders
- ✓ Recognition of **information gaps** between internal and external users
- ✓ Many **shared qualitative reporting characteristics**: materiality, comparability, conciseness, etc.

... and important differences:

- ✓ IASB focus is on historical reporting of events and transactions which qualify for recognition and measurement and/or disclosure; WICI focus is on value creation mechanisms and the role of intangibles.
- ✓ IASB reporting is almost 100% monetary; WICI reporting contemplates KPIs and various non monetary measures.
- ✓ IASB standards are subject to various endorsement mechanisms and entity reporting is subject to verification via audit.

Accounting for Intangibles

Generally internally generated intangibles are not recognized because:

- ✓ IASB reporting focus is on historical transaction and events
- ✓ Lack of objective and verifiable measurement standards
- ✓ At time of 'creation' unclear of recoverability – value proposition is often not evident until many years into the future ... if ever

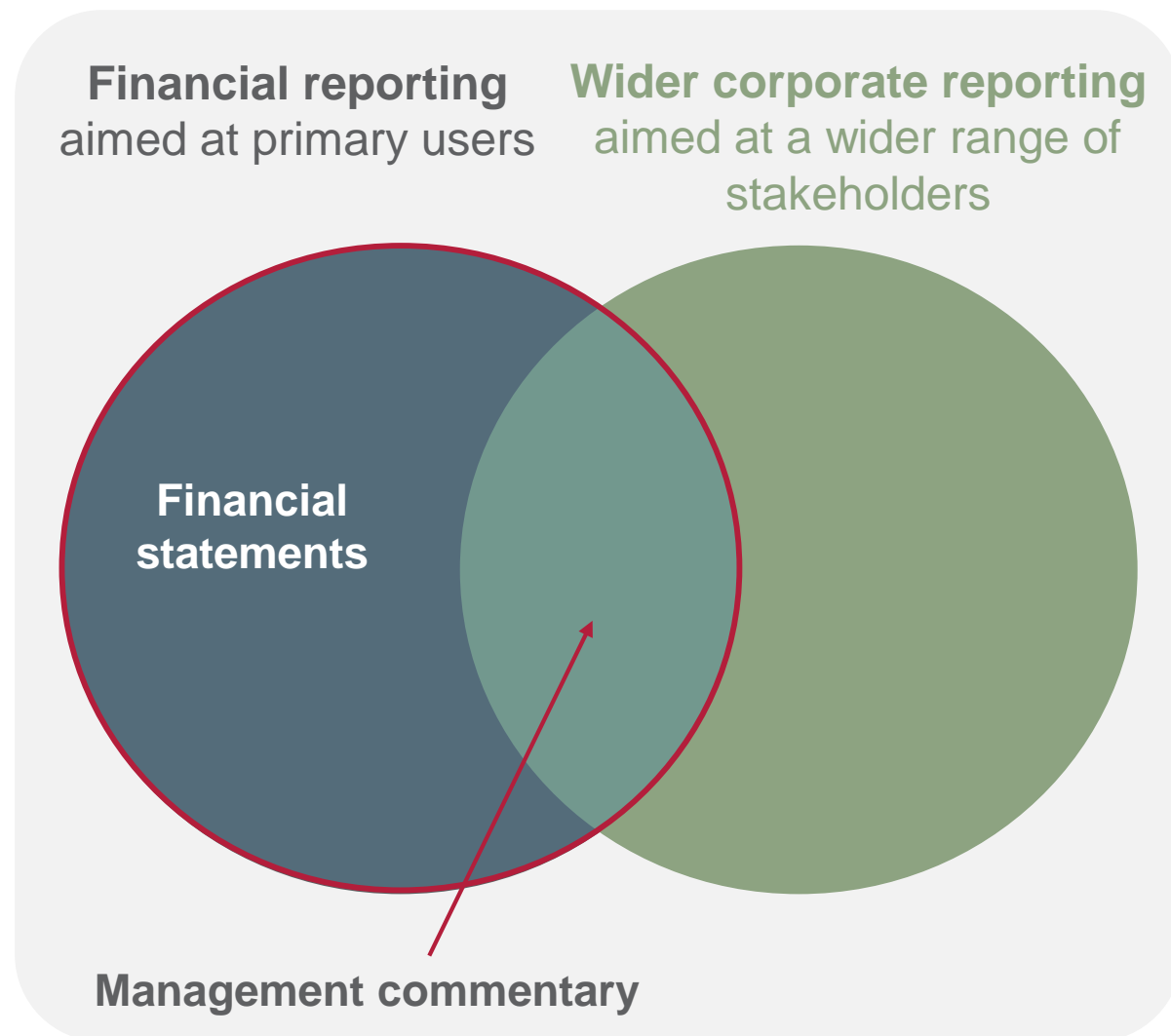
All this said, our current project updating our Management commentary Practice Statement (PS1) will provide a vehicle for intangibles reporting

What is management commentary?

Management commentary:

- is a narrative report that gives context for the financial statements and additional insight into the entity's long-term prospects
- sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters are discussed in management commentary if they could affect the entity's future cash flows or are otherwise necessary for primary users to make economic decisions



Proposed structure of management commentary

The staff expect that guidance on management commentary will be organised in broad sections ('content elements'):

- The guidance for each content element provides a basis for determining **what** to include. Management decides **how** best to structure this information.
- Providing information 'through eyes of management' means that information on each content element is derived from the information used to manage the business.



Intangibles are rarely managed in isolation from the rest of the business. The staff expect that information about those items will need to be provided across the content of management commentary.

The staff are proposing a principles-based approach to providing information about intangibles and do not expect to propose a list of intangibles to be addressed in management commentary because:

- The range of intangibles that may need to be addressed is very wide.
- Users need information on the specific intangibles that the entity depends on, rather than on broad categories of intangibles.
- Information users need about an intangible also depends on the entity's strategy for managing it.

Examples of intangibles that might feature in management commentary:

know-how

customer base

reputation

The key features of the staff's proposed approach are summarised on the following four pages.

Key features of the staff's approach (1 of 4)

Overarching requirements

- Set overarching requirements for management commentary to support a long-term perspective:
 - Require management to address the intangible resources and relationships in the entity's business model
 - Emphasise that intangibles should be addressed irrespective of whether they are recognised in the financial statements
 - Emphasise that information is material if it could reasonably be expected to influence decisions that primary users make as a result of their assessment of an entity's cash flows, whether short or long term

Business model

- Require qualitative and quantitative information about intangible resources and relationships that the business depends on, including information that helps users understand the nature, importance to the entity, and durability of that resource or relationship
- Provide examples of the resources and relationships that may need to be addressed in management commentary

Key features of the staff's approach (2 of 4)

Operating environment & risks

- Require an entity to consider risks arising from its dependence on intangible resources and relationships when determining which risks to address in management commentary

Strategy

- Require information on the entity's strategy for developing and maintaining its intangible resources and relationships, addressing:
 - Plans for developing intangible resources and relationships to pursue the entity's purpose and to respond to risks and opportunities
 - The potential positive and negative impacts on the entity's intangible resources and relationships arising from planned changes to the entity's strategy or business model

Performance,
position and
progress

*Investment in
intangibles*

- Require information on the entity's investment in and depletion of intangibles, addressing:
 - Information about capex *and* opex investment in intangibles to help users understand whether current levels of investment are sufficient to support the stated business model and strategy, including analysis of investment between maintaining and enhancing expenditure
 - Explanations of the extent to which current expenditure is consistent with what is needed to support the entity's stated business model and strategy
 - Information on current and planned replenishment relative to the rate of depletion of the resource (where applicable)

Key features of the staff's approach (4 of 4)

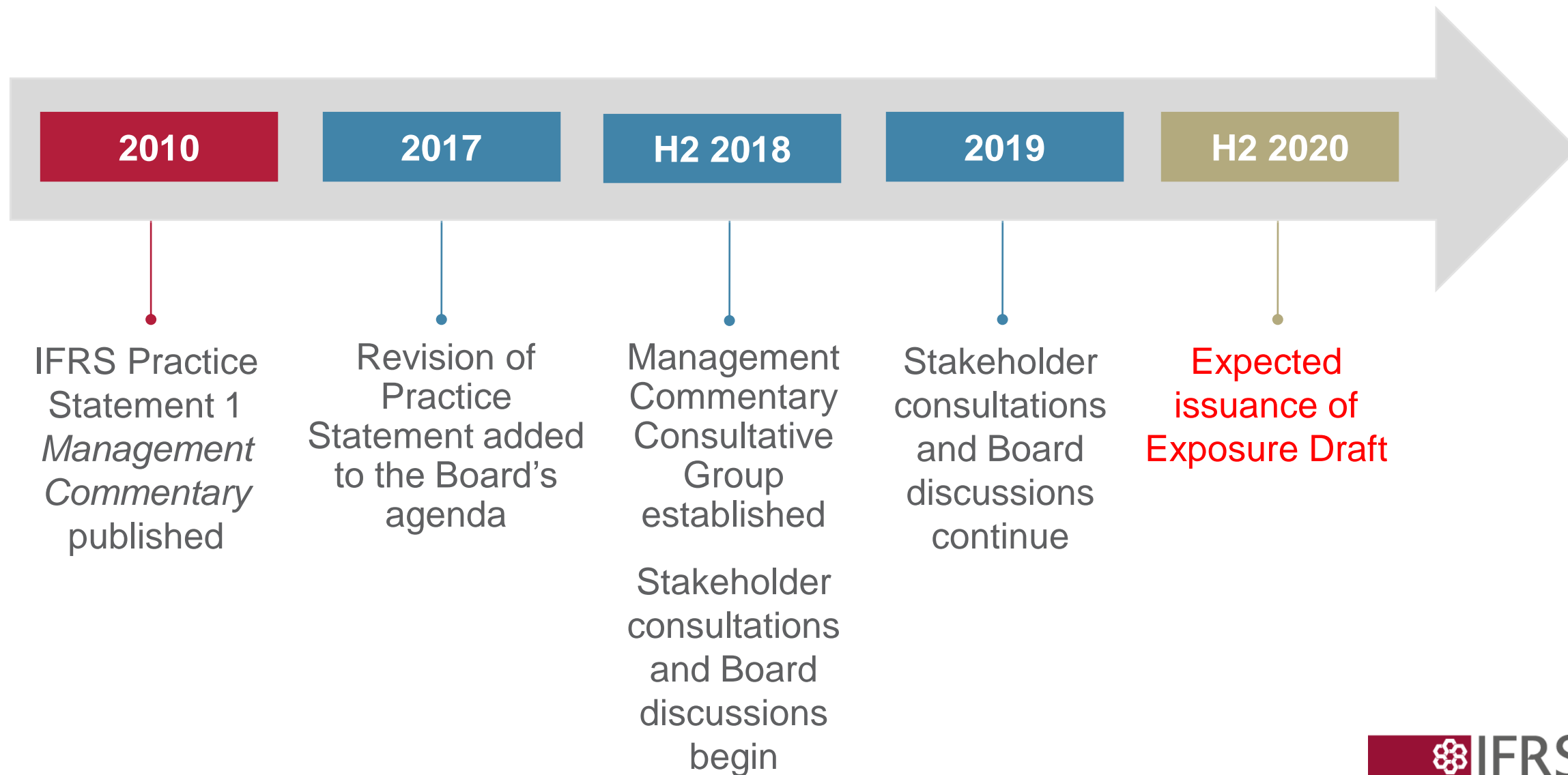
Performance,
position and
progress

*Management of
intangibles*

- Require information to help users understand the entity's progress in managing its intangibles and the resulting implications, including information about:
 - Progress in managing resources and relationships that are important for the entity's strategy, including its purpose
 - The entity's impact on its resources and relationships where those impacts could affect the entity's ability to operate

Management Commentary project

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