CAPITAL MARKETS

Investor Perspectives: Intangible Assets

Before Recognition, Improved Disclosures and Disaggregation Are Needed

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EXECUTIVE SUMMARY

The Debate and Our Objective: Providing Investor Input

Accounting for intangible assets is, and has been, one of the most debated topics in financial reporting.

The Debate

The debate over the accounting for intangible assets is largely a result of the fact that many of the largest listed companies today have few tangible assets relative to their market capitalizations. Furthermore, their research and development (R&D) expenses and other expenditures related to intangibles far exceed their investments in tangible assets. The same is true to an even greater extent for new issuers in the capital markets. These observations reflect broader trends in developed economies, which have largely shifted from manufacturing to services and have become more technology and R&D intensive since the 1980s. In Section I, The Great and Growing Importance of Intangibles, we provide an analysis of various economic and financial data that demonstrate this trend. The substance of the debate is whether the existing accounting model appropriately recognizes the existence of intangible assets. The stakes in the debate have only grown with the increasing prominence of intangibles in the modern economy.

Extension of Previous Work

In 2021, we issued our publication, *Goodwill: Investor Perspectives*, which addressed one of the largest recognized intangible assets—goodwill.[1] Our work was spurred by the Financial Accounting Standards Board's (FASB) contemplation of bringing back amortization of goodwill. We sought to gather our investor member views on the topic to advocate for their preferences.[2] Our work, and the advocacy that followed from it, demonstrated that investors' preference was to retain the impairment-only model (i.e., not reintroduce amortization) but also to improve impairment testing and disclosures. In mid-2022, the FASB abandoned their project on goodwill given that the transition to amortization would result in a significant problem, as we highlighted in our publication: How do you handle the transition to writing off USD3.5 trillion of goodwill—representing 42.2% of the equity, and 9.34% of the assets—of the S&P 500 (as of 2019)? The International Accounting Standards Board (IASB) took

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[1]*Goodwill: Investor Perspectives*, CFA Institute Research and Policy Center, 6 December 2021, https://rpc.cfainstitute.org/en/research/surveys/goodwill-investor-perspectives.

[2]See also comment letters to the FASB and IASB on this topic: Sandra Peters, Comment Letter on Identifiable Intangible Assets and Subsequent Accounting for Goodwill (Invitation to Comment), 13 January 2020, https://rpc.cfainstitute.org/policy/comment-letters/2020-2024/comment-letter-identifiable-intangible-assets-and-subsequent-accounting-for-goodwill. Sandra Peters, Comment Letter on Discussion Paper: Business Combinations—Disclosures, Goodwill and Impairment, 31 December 2020, https://rpc.cfainstitute.org/policy/comment-letters/2020-2024/cfa-institute-comment-letter-discussion-paper-business-combinations.

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a different tack—although at one point they debated reintroducing amortization as well—which was to improve the disclosures associated with business combinations, such that investors could better assess the performance of acquisitions and, more broadly, management's effectiveness at allocating capital. An exposure draft was released in early 2024, to which we responded.[3]

The IASB and FASB Consideration of Intangibles

Currently, the IASB and the FASB are engaged in research projects related to the accounting of and disclosures for intangible assets—other than goodwill.[4,5] The FASB started with narrower projects on software development costs, an important type of intangible, and crypto assets.[6,7]

These projects—and most of the debate over the accounting for intangibles—are primarily concerned with the accounting for internally generated intangible assets, which result from companies' expenditures on R&D, software, advertising and brand development, human capital, customer acquisition, and similar activities.

Today, expenditures that may result in internally generated intangibles are, for the most part, expensed as incurred on the income statement, not capitalized as assets on balance sheets, and few disclosures about them are required in the notes to the financial statements.

In contrast, a broad range of intangible assets—including goodwill—acquired in business combinations or asset purchase transactions are capitalized on the acquirers' balance sheet as assets, even if they were not recognized as such on sellers' balance sheets. After the acquisition, acquired intangible assets are tested for impairment and, if they have a definite useful life, amortized systematically.

The Existing Accounting for Intangibles

Because it is important to understand the current state of the accounting for intangible assets under US generally accepted accounting principles (US GAAP) and International Financial Reporting Standards (IFRS)—and convergence thereof—we describe the accounting for and disclosure of intangibles in more detail in Section II, Overview of the Accounting for and Disclosures of Intangibles.

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[3]Matthew Winters and Sandra Peters, Comment Letter to the IASB on Business Combinations, 23 July 2024, https://rpc.cfainstitute.org/policy/comment-letters/2020-2024/iasb-on-business-combinations.

[4]FASB, Objectives Research Project, Accounting for and Disclosure of Intangibles, accessed 17 May 2024, https://www.fasb.org/projects/current-projects/objective-research#press5.

[5]IFRS, IFRS Foundation Work Plan, Research Project: Intangible Assets., Aaccessed 17 May 2024, https://www.ifrs.org/projects/work-plan/intangible-assets/#about.

[6]FASB, Accounting for and Disclosure of Software Costs, accessed 20 May 2024, https://www.fasb.org/projects/current-projects/accounting-for-and-disclosure-of-software-costs-401660.

[7]FASB has recently issued a standard for the accounting of certain crypto assets; see FASB, Accounting Standards Update 2023-08—Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets, accessed 16 September 2024, https://www.fasb.org/page/PageContent?pageId=/projects/recentlycompleted/accounting-for-and-disclosure-of-crypto-assets.html.

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Academic Literature: Proponents and Opponents of Greater Recognition

Before gathering investor input, we reviewed the academic literature on the topic and considered the arguments in favor and against greater recognition of intangibles assets on the balance sheet, which we summarize in the following table and describe more extensively in Section III, Perspectives from the Research Literature.

Proponents	Opponents
• Support broader capitalization of intangibles and see several problems with the current model.	• Concede that important sources of value are omitted from balance sheets, but do not see an economic problem, and believe that changing capitalization rules could do more harm than good.
• A large and growing source of value for many companies—particularly services and R&D-oriented companies—is omitted from their balance sheets. This results in an accounting model and balance sheets that reflect the "old economy" rather than the "new economy."	• Issuers' investments in intangibles have grown significantly and investors value intangibles-intensive companies, like those in the information technology sector, richly. Although there may not be consensus on what specific intangibles are being valued (because disclosure is limited), it is not evident that intangibles broadly are undervalued by issuers or investors.
• Expensing internally generated intangibles "front loads" the costs of investments on the income statement, while the benefits of those investments may not be earned for several years. Poor matching of costs with benefits distorts profitability and valuation measures and decreases the predictability of earnings.	• The value of a company's intangibles is evident or will become evident—if real—in income statements and statements of cash flows over time. Ex ante, the value of intangibles is too subjective and often inseparable from the business as a whole.
• The current accounting model has led issuers to report adjusted financial measures with greater frequency, and investors to rely less and less on financial statements in making decisions.[8]	• The costs of generating intangibles have little relation to their present value of future cash flows, such that capitalized costs on the balance sheet will not provide investors with decision-useful information.
• Many stakeholders take issue with the inconsistent accounting across internally generated and acquired intangibles, arguing that it makes little conceptual sense and unfairly punishes internal investments over acquisitions.	• Greater flexibility in capitalization could be abused to manage earnings.

[8] These measures, such as adjusted earnings, are not defined by International Financial Reporting Standards (IFRS) or generally accepted accounting principles (GAAP) in the United States and are referred to as non-IFRS or non-GAAP financial measures.

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The Investor Perspective

Gathering Investor Perspectives: The Survey

To add investors' voice to the debate and to ensure that any changes contemplated by standard setters and regulators meet the needs of investors, CFA Institute fielded a survey of our members in portfolio management and investment analyst roles to gain their perspectives on intangibles broadly and on the accounting for and disclosures of intangibles more specifically. We asked respondents for their views on the usefulness of the existing accounting model, the initial recognition and subsequent measurement of internally generated and acquired intangibles, and the relevant disclosures.

Specifics regarding the survey may be found in Section IV(A), Investor Perspectives: Introduction to Our Survey, and Appendix A, About the Survey.

Key Findings from Investor Survey

The detailed findings from the approximately 30 survey questions are included in Section IV(C), Investor Perspectives: Overall Perspectives on Intangibles,[9] and in Section IV(D), Investor Perspectives: Views on the Accounting for and Disclosures of Intangibles.[10]

Select respondent comments have been included in the body of this report to emphasize key takeaways, but we include all respondent comments in Appendix B because we find the comments from our members to be a rich source of insight. For synthesis and ease of review and understanding of key messages, we grouped the comments into themes.[11]

A summary of key findings from the survey are included in Section IV(B), Investor Perspectives, Key Findings, and are summarized as follows:

- **Intangibles Are Valuable but Not Recognized:** Investors view intangibles as among the most valuable assets for many companies, but the existing accounting model does not recognize them. More than 70% of respondents agreed that for many companies, the most valuable assets (i.e., intangibles) do not appear on the balance sheet and that unrecognized intangible assets are a significant driver of the difference observed between the book and market values of equity for many listed companies.

[9]Exhibits 16–31.

[10]Exhibits 32–47.

[11]Not all questions within the survey were followed by an open-ended remarks section to provide comments. Comments were provided by only a subset of respondents. For example, approximately 20% of the respondents to the first 16 questions in Sections IV(C), Overall Perspectives on Intangibles, provided comments. Note also that comments can be made by those with a majority or minority perspective and must be contextualized and analyzed relative to the overall response to the questions as displayed in the exhibits. For example, in certain circumstances, the majority of comments may reflect the minority response to the question—and vice versa.

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- **Unequivocal Support for Greater Disclosures and Better Disaggregation:** The greatest level of agreement—more than 80% of respondents—in our survey was for better disclosures and for more disaggregation of intangibles. Greater disaggregation is needed for both the flow of investments in intangibles on the income statement and statement of cash flows and the stock of intangible investments on the balance sheet. Some examples of disclosures that received very high levels of support include information on the types and amounts of internally generated intangible assets and key performance metrics that management uses to monitor the performance and value of intangibles.
- **Support Existing Accounting for Acquired Intangibles, Improvements Needed to Impairment Testing:** Investors support the recognition, initial measurement, and subsequent measurement of acquired intangibles in the current accounting standards, but improvements to impairment testing are needed. More than 70% of respondents agree with continuing to separately recognize identifiable intangibles from goodwill in an acquisition. Although 58% of respondents agreed that impairment provides more useful information than amortization, 73% agreed that impairments "lack transparency as to when and how much should be recognized" and 67% agreed that impairments "are not recognized by companies in a timely manner."
- **Support for Recognizing Internally Generated Intangibles, but Caution as Well:** Many survey respondents want internally generated, identifiable intangibles to be recognized on the balance sheet, supporting a single model for internally generated and acquired intangibles. A significant plurality disagrees, however, seeing the potential for earnings management and because deferred recognition and amortization may not provide any more useful information than immediate expensing.
- **No Clear Consensus on Recognition of Internally Generated Intangibles Using Costs Incurred or Fair Value:** Investors did not show a clear preference for whether, if recognized, internally generated intangibles should be measured using costs incurred or fair value. Nearly equal numbers of respondents supported cost and fair value models and for measuring internally generated intangible assets, if they were to be recognized on the balance sheet. A cost model would potentially be less subject to management manipulation, therefore providing a more faithful representation, but other respondents prefer a fair value model as the costs incurred to develop an asset are often irrelevant to the asset's future cash flows. The downside of a fair value model is that the valuation may be highly subjective for certain assets that are not marketable.
- **Financial Statements Risk Losing Relevance without Action, but Little Appetite for Radical Change:** Investors see the financial statements as at risk of losing their relevance without action by the FASB and IASB on intangibles, but they do not have a strong appetite for radical change. In contrast to the broad agreement among respondents about the economic importance of intangibles and for improved disclosures, they showed less support for bigger changes, such as a new balance sheet that shows the value of or created by intangibles.

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Concluding Thoughts and Recommendations for Standard Setters and Regulators

Section V, Concluding Thoughts and Recommendations for Standard Setters and Regulators, provides our discrete findings and recommendations as they relate to the current accounting for acquired intangibles, internally generated intangibles, and disclosure.

The comments to the survey reinforce the perspectives of the opponents and proponents of recognition of internally generated intangibles as set forth in the academic literature mentioned previously. The survey results overall affirm the existence, importance, and relevance of such intangibles to investors and verify their view that financial statements are missing many of these important assets. They also demonstrate that consistency in recognition between acquired and internally generated intangibles is something investors strongly support. The principal challenge for investors is that they worry that management may have too much discretion, and the manipulation of financial results may ensue—without greater transparency.

As we discuss in detail in Section V, we believe that the lack of existing disclosures impedes transparency, results in a lack of mutual understanding of stakeholder perspectives, constrains the ability to see a need to shift perspectives and the problem to be solved, and obstructs the ability of standard setters to perform outreach and make informed decisions.

As the subtitle of this paper suggests, **the central message emerging from our work to standard setters and regulators is that improved disclosures and better disaggregation are needed *before* recognition.**

Progress on the accounting for internally generated intangibles project likely needs to be phased, as was the case with projects such as stock-based compensation, fair value accounting, and pension measurement, whereby disclosure led the way to more productive conversations and finally to recognition on the financial statements.

Without more information, investors do not have insight into the valuation of specific intangibles that they know exist based on their business valuations, and standard setters also lack insight on how to best approach changes to recognition and measurement. Just as investors knew that their interests were diluted by stock-based compensation, that financial instruments were worth amounts different than those reflected on balance sheets, and that pensions were a very large but unrecognized liability, they did not have the information necessary to measure them as precisely as the accounting would require at the outset; improved disclosures led the way. We think the same phased approach is necessary for internally generated intangibles.

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I. THE GREAT AND GROWING IMPORTANCE OF INTANGIBLES

The Financial Accounting Standards Board (FASB) and International Accounting Standards Committee (IASC), the predecessor to the International Accounting Standards Board (IASB), were both formed in 1973 and adopted accounting standards on intangible assets in 1974[12] and 1978,[13] respectively. Those standards continue to form the basis of the financial reporting of intangible assets, although intangibles played a much smaller role in economies and capital markets in the 1970s than they do today.

Largest Listed Companies Move from Tangible to Intangible Asset Focused

Exhibit 1 shows the largest listed companies globally by market capitalization in 1979 and at year end 2023.[14] For 2023, we show the 10 largest companies in and outside the United States separately, to give a broader perspective by geography as a single global list would be dominated by US companies. In 1979 the list is mostly energy companies, but there is just one energy company among the 2023 list. The ranks of the largest issuers today are dominated by technology, health care, and consumer products companies that are more driven by investments in intangible assets (i.e., intellectual property) than by tangible assets. This is broadly true across equity markets.

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[12]FASB, Statement No. 2, *Accounting for Research and Development Costs*, was issued October 1974 and required the expensing of all research and development costs. In 2001, the FASB issued FASB Statement No. 142, *Goodwill and Other Intangible Assets*, which required the costs of internally developing, maintaining, or restoring intangible assets to be recognized as expenses.

[13]The IASB adopted IAS 38, *Intangible Assets*, in April 2001, which had originally been issued by the International Accounting Standards Committee (IASC) in September 1998. That standard replaced IAS 9, *Research and Development Costs*, which had been issued in 1993, which itself replaced an earlier version entitled *Accounting for Research and Development Activities*, issued in July 1978.

[14]Float adjusted; the value of non-floating equity (i.e., family, state ownership stakes) is subtracted.

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Exhibit 1. 10 Largest Listed Companies Globally, by Market Capitalization

1979: Global	
IBM (Technology)	
Exxon (Energy)	
AT&T (Communication Services)	
Shell Oil (Energy)	
General Electric (Industrials)	
Chevron (Energy)	
Schlumberger (Energy)	
Amoco (Energy)	
Mobil (Energy)	
Atlantic Richfield (Energy)	
2023: United States	**2023: Outside the United States**
Microsoft (Technology)	TSMC (Technology)
Apple (Technology)	Novo Nordisk (Health Care)
Alphabet (Communication Services)	Nestle (Consumer Staples)
Amazon.com (Consumer Discretionary)	Tencent (Communication Services)
NVIDIA (Technology)	ASML (Technology)
Meta Platforms (Technology)	Samsung Electronics (Technology)
Berkshire Hathaway (Financials)	Shell (Energy)
Tesla (Consumer Discretionary)	LVMH Moet Hennessy (Consumer Discretionary)
Eli Lilly (Health Care)	AstraZeneca (Health Care)
Visa (Financials)	Novartis (Health Care)

Note: As of 31 December, of indicated year.

Source: Refinitiv.

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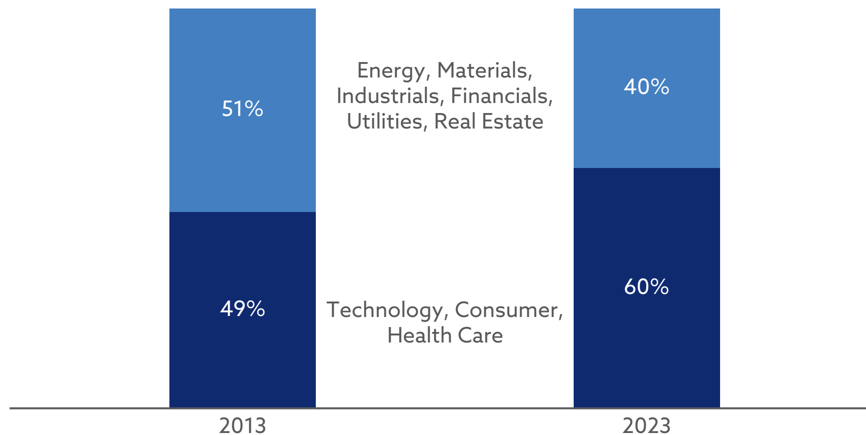
Sector Weights Highlight Shift toward Companies with Greater Intangibles

Exhibit 2 shows the sector composition of the MSCI World Index, which covers approximately 85% of the investable equity market capitalization across developed markets. Over the past 10 years, the weight of intangibles-intensive sectors in broad equity market indexes has increased by more than 10 percentage points.

Exhibit 2. MSCI World Index Sector Weights, October 2013 versus October 2023



Source: MSCI, and authors' analysis.

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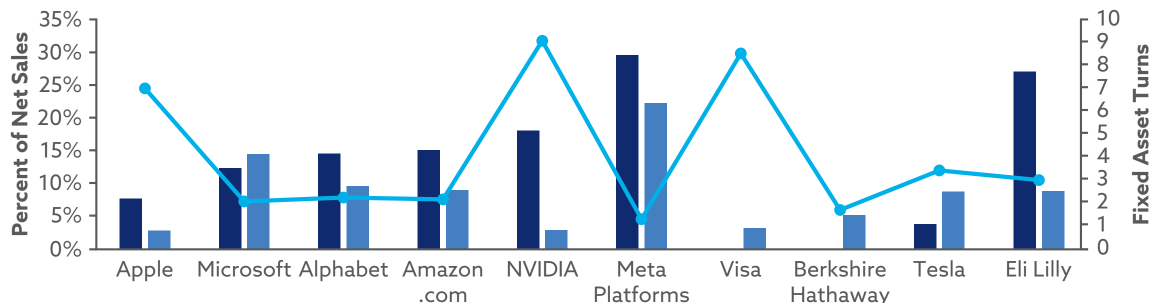
Largest Issuers Are Light on Capital Expenditures, High in Fixed Asset Turnover

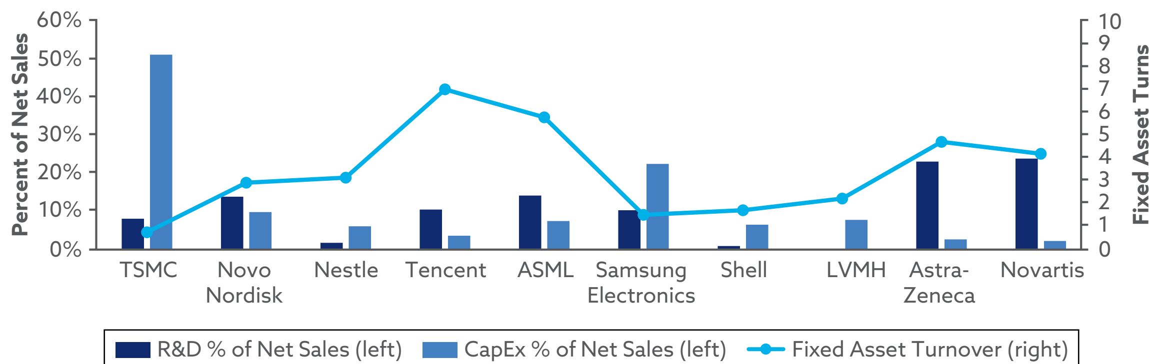
Exhibit 3 shows how many of the largest issuers today are “capital light,” with relatively low capital expenditures as percentages of sales and high fixed asset turnover. Rather than investing in tangible assets through capital expenditures, these companies invest greater sums through income statement expenses like research and development (R&D)—with some exceptions, like Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung that have capital-intensive business models. For many of the companies, R&D expense alone is at least as high as capital expenditures, and R&D and sales and marketing expenses together are multiples of capital expenditures.

Exhibit 3. Investment and Fixed Asset Turnover for Largest US and Non-US-Listed Companies, 2023

Panel A: US Companies



Panel B: Non-US Companies



Notes: Visa, Berkshire Hathaway, and LVMH did not report R&D expenses. Fixed asset turnover is ratio of total revenue to property, plant, and equipment and leased assets.

Sources: Securities filings and annual reports.

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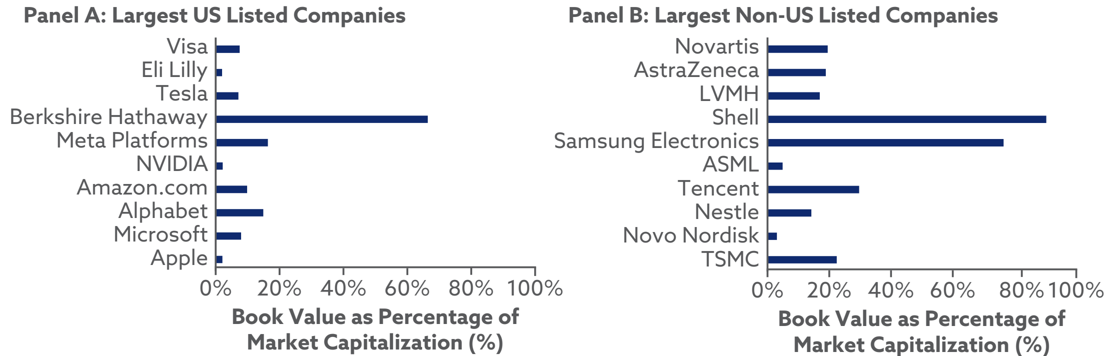
Book Value Explains a Very Small Percentage of the Largest Issuers' Market Value

Based on these companies' market capitalizations, it is clear that investors find significant sources of value beyond what is reported on balance sheets, as shown in **Exhibit 4**.

Exhibit 4. Largest Listed Companies, Book Value of Equity as Percentage of Market Capitalization, 31 December 2023



Sources: Securities filings, annual reports, and authors' analysis.

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In the following example, we consider the divergence of book and market value for one the largest listed companies noted in preceding exhibits.

Example of Market Value and Book Value Divergence: ASML

ASML Holding N.V. (ASML, 1 of the 10 largest non-US-listed company by market capitalization; shown in Exhibits 1, 3, and 4) is a technology company based in Veldhoven, the Netherlands. ASML designs, makes, and sells equipment and software for the semiconductor industry. The company's ordinary shares are listed on the Amsterdam and NASDAQ exchanges.

ASML is valued highly by investors. The company's price-to-book and price-to-earnings ratios are more than 20 and 40 times, respectively, because of its technological leadership that is enabled by its R&D investments and skilled workforce.

From 2021 to 2023, ASML reported R&D investments of more than EUR2.5 billion annually, virtually all of which was expensed on its income statement. Because its investments are largely *not* capitalized to the balance sheet (identifiable intangible assets were only EUR741 million at 31 December 2023), ASML's balance sheet is especially "light" compared with its market value:

Total assets	EUR40 billion
Total liabilities	EUR27 billion
Total shareholders' equity	EUR13 billion

Market value of equity (at 31 March 2024) = EUR355 billion.

Book value as a percentage of market value of equity = EUR13/EUR355 = 3.7%

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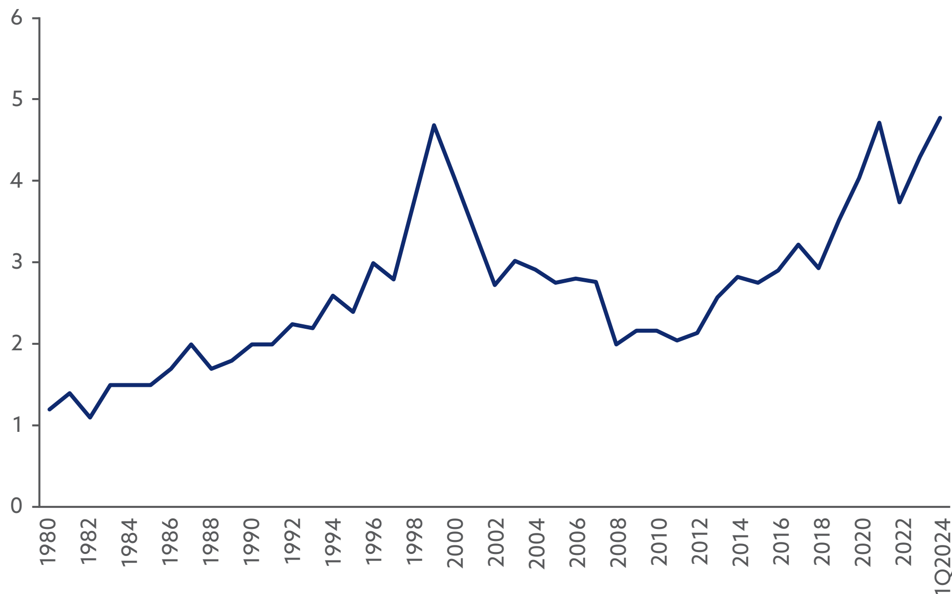
Price-to-Book Ratio Has Increased Globally

The divergence between accounting book and market values is not isolated to the 10 largest listed companies nor is it a new phenomenon. Since the 1980s, the price-to-book ratio of the MSCI World Index has increased from around 1.0 to 2.50 as of 2024, a trend that has been most significant in the United States. The price-to-book ratio of the S&P 500 Index has increased as shown in **Exhibit 5** from less than 1.5 in the 1980s to more than 4 times today, as the index has come to be dominated by more "capital light" companies. The current price to book implies that reported equity on balance sheets accounts for less than a quarter of the S&P 500's valuation by investors. We would also note that our prior work on goodwill[15] showed that goodwill—an acquired intangible asset—represented approximately 40% of the book value of the S&P 500's equity. This means that the ratio of price to "tangible book" is substantially higher than that illustrated in the exhibit.

Although the price-to-book ratio fluctuates with cyclical factors—increasing in bull markets and declining in bear markets—it has exhibited a secular increase; even in the depths of the Global Financial Crisis in March 2009, the S&P 500 was still trading at an 100% premium to book value.

Exhibit 5. Price-to-Book Ratio for S&P 500 Index, 1980 to 1Q 2024



Sources: Topdown Charts, Refinitiv, and Standard & Poor's.

[15] In 2021, we issued our publication, *Goodwill: Investor Perspectives*, which addressed one of the largest recognized intangible assets—goodwill. As we report in that publication, there was USD3.5 trillion of goodwill—representing 42.2% of the equity, and 9.34% of the assets—on the books of the S&P 500 as of 2019. See *Goodwill: Investor Perspectives*, CFA Institute Research and Policy Center, 6 December 2021, https://rpc.cfainstitute.org/en/research/surveys/goodwill-investor-perspectives.

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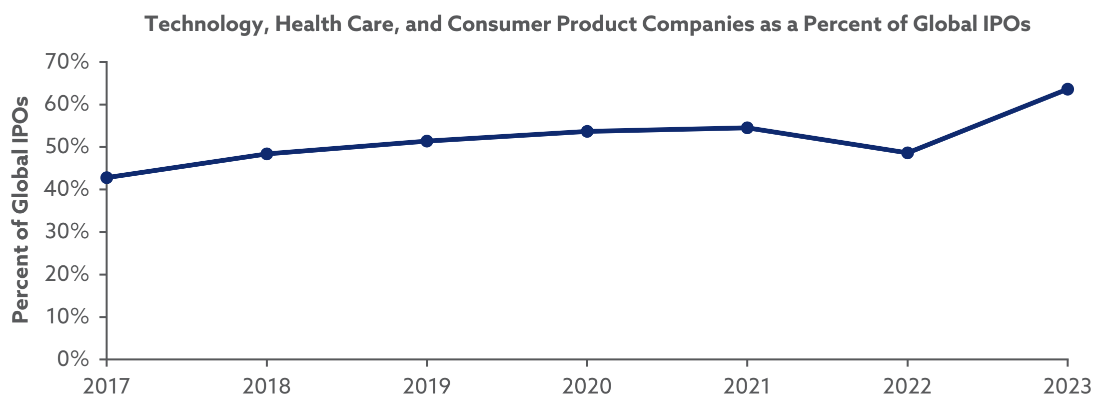
Intangibles-Intensive Companies Are a Significant Portion of Global Initial Public Offerings

The ratio of market to book values of listed companies is likely to continue increasing. Over the past seven years, companies in the intangibles-intensive technology, health care, and consumer products sectors have accounted for half of global initial public offerings (IPOs), as shown in **Exhibit 6**, and 75–78% of global venture capital financing deals, as shown in **Exhibit 7**.

Exhibit 6. Sector Composition of Global IPOs, 2017–2023



Sources: EY Global IPO Trends 2023, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/ipo/ey-global-ipo-trends-2023-q4.pdf; and authors' analysis.

Venture capital (VC) financing can provide insight into the future of public equity markets as more than half of companies going public in recent years have been VC-backed. Companies in technology, health care, and consumer products sectors accounted for 75% of the number of venture capital deals and 80% of venture capital deals proceeds since 2015.

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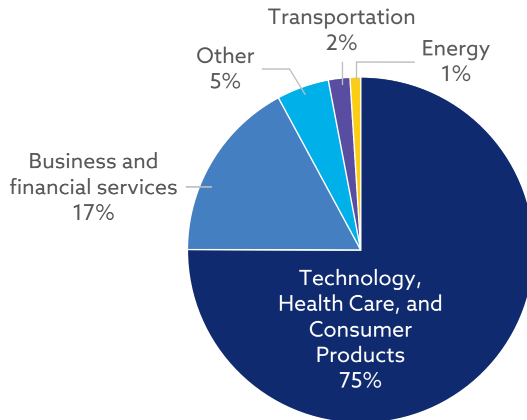
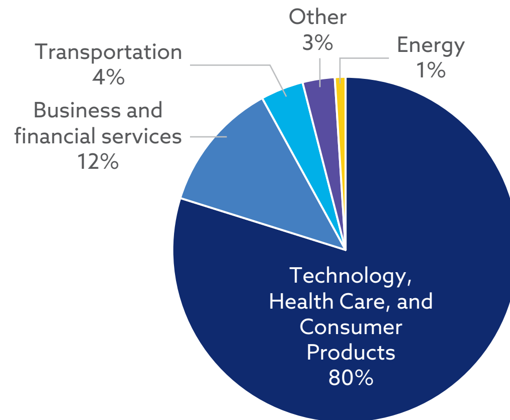
Exhibit 7. Sector Composition of Global Venture Capital Financing Deals, 2015–2023

Panel A: Sector Composition of Global Venture Capital Deals 2015–2023



Panel B: Sector Composition of Global Venture Capital Deal Proceeds (US Dollars) 2015–2023



Note: IPOs exclude special purpose acquisition companies, investment funds, and other nonoperating company offerings.

Sources: KPMG Private Enterprise Venture Pulse Report, https://kpmg.com/xx/en/our-insights.html; and authors' analysis.

Intangible Investments Are Increasingly Important Contributor to Gross Domestic Product

The increasing importance of intangibles is not only a characteristic of listed and VC-backed companies but a hallmark of major advanced economies.[16] In contrast with financial accounting standards that treat most intangible expenditures as expenses, national income accounting rules used to calculate gross domestic product (GDP) treats firms' expenditures on R&D, software, and artistic originals as investments, analogous to the other components of capital investment included in GDP, such as residential structures and buildings, nonresidential structures and buildings, and machinery and equipment.[17]

Over the past 20 years, intangible investments have increased from 3% to 5% of GDP across the major advanced economies, whereas other types of capital investment have generally declined in importance as illustrated in **Exhibit 8**.

The trend is most pronounced in the United States, where investments in intangibles eclipsed machinery and equipment to become the single largest category of capital investment in 2020 and accounted for 5.5% of GDP in 2022, as shown in **Exhibit 9**.

[16]We use the International Monetary Fund's classification of major advanced economy, which includes Canada, France, Germany, Italy, Japan, United Kingdom, and the United States (collectively, the G-7). World Economic Outlook Database, Groups and Aggregates Information, International Monetary Fund last updated April 2023, https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates.

[17]Business and government spending on software was not considered an investment until the United Nations System of National Accounts (SNA) 1993 update, which was implemented by most countries in the late 1990s or early 2000s. The subsequent SNA update in 2008 further reclassified expenditures on R&D and artistic originals from intermediate expenses to investment, which was adopted in most countries' national accounts in the mid-2010s. Historical values have been restated to conform to the current rules.

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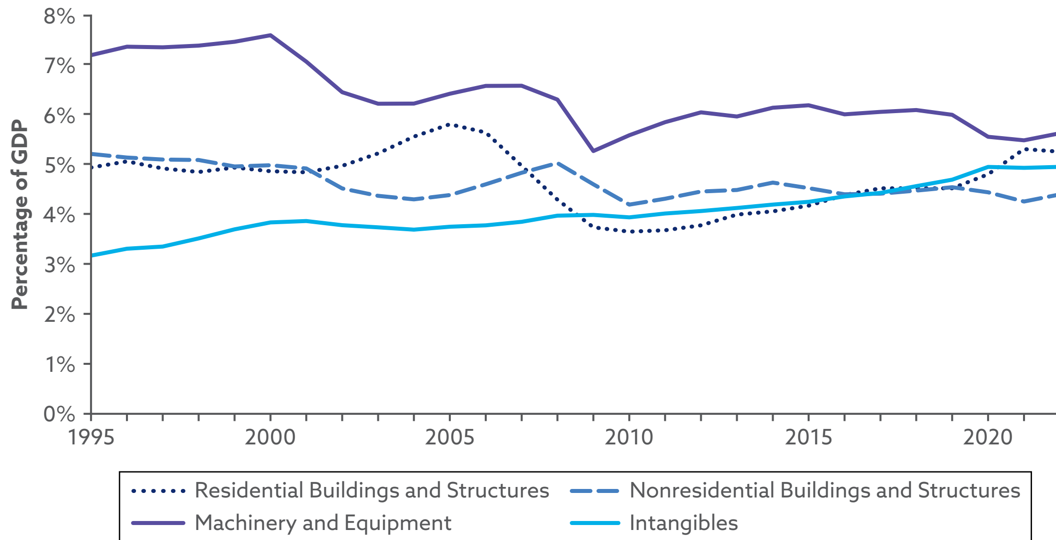
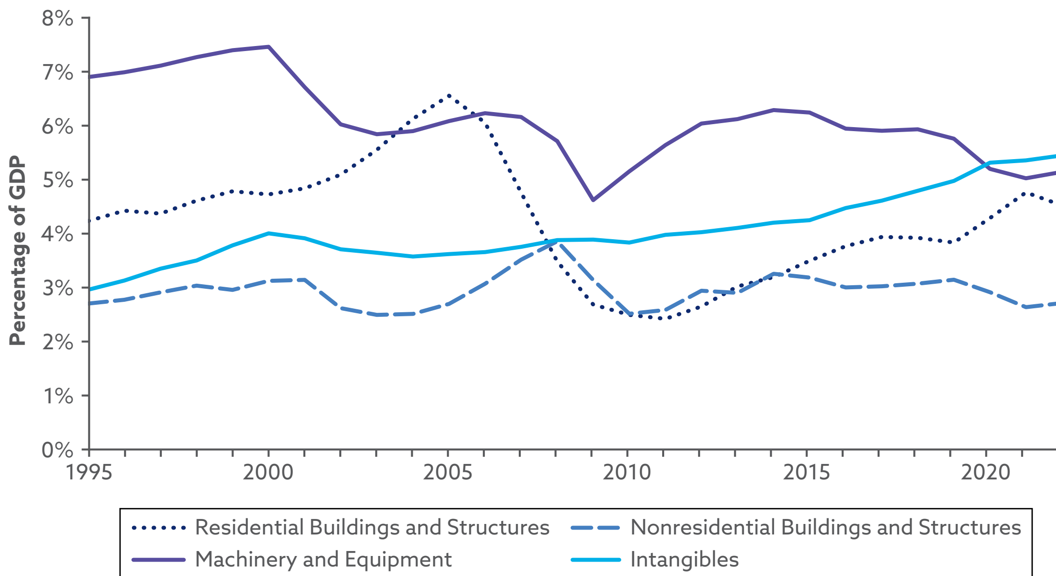
Exhibit 8. Capital Investment Components of GDP: G–7 Countries, 1995–2022



Note: GDP (at purchasing power parity) weighted average of G–7 countries.

Sources: OECD Data Explorer, Stat Gross Domestic Product series, https://data-explorer.oecd.org/; and authors' analysis.

Exhibit 9. Capital Investment Components of GDP: United States, 1995–2022



Sources: US Bureau of Economic Analysis, National GDP & Personal Income, Interactive Data Tables, https://www.bea.gov/itable/national-gdp-and-personal-income; and authors' analysis.

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II. OVERVIEW OF THE ACCOUNTING FOR AND DISCLOSURES OF INTANGIBLES

The accounting for intangible assets is similar, although not identical, across International Financial Reporting Standards (IFRS) and generally accepted accounting principles in the United States (US GAAP). We first provide an overview of the accounting under IFRS, followed by key differences under US GAAP.

A. Accounting for and Disclosures of Intangibles under IFRS

Accounting for Intangible Assets Depends on Originating Transaction and Useful Life

The accounting for intangible assets under IFRS is primarily contained in International Accounting Standard (IAS) 38, *Intangible Assets*, summarized in **Exhibit 10**.

IFRS prescribes industry- or transaction-specific accounting for intangibles in only a few cases like natural resource extractive activities and deferred acquisition costs by insurers. IAS 38 represents the general-use standard applied to most intangible assets.

Exhibit 10. Overview of Accounting for Intangible Assets under IAS 38

Expense all other internally generated intangibles
e.g. research, customer acquisition, brands, etc.

	Internally Generated Intangibles	Acquired Intangibles
Recognize as an Asset:	Development Costs (if certain conditions are met)	Identifiable Intangibles
Initial Measurement:	Cost	If acquired in ... Asset purchase transaction: Cost Business combination: Fair Value
Subsequent Measurement*:	Determine if useful life is definite or indefinite	
	Definite life - Determine length of useful life (i.e., years). - Amortize systematically over the useful life. - Test for impairment if indicative circumstances arise.	**Indefinite life** - Do not amortize. - Test for impairment annually *and* if indicative circumstances arise.

*Entities can alternatively use the revaluation (fair value) model for measuring the asset, but this is rare in practice.

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An intangible asset is defined in IAS 38 as an "identifiable non-monetary asset without physical substance."

- An asset is *identifiable* if it is either separable from the company or arises from contractual or other legal rights, often referred to as the separability criterion and the contractual-legal criterion.
- *Monetary* assets are money held and assets to be received in fixed or determinable amounts of money. Under this definition in IFRS, crypto assets, including bitcoin, are intangible assets.

Exhibit 10 provides a brief overview of the accounting for intangible assets under IAS 38. The first step, recognition, depends on the originating transaction: internal investments (e.g., research, customer acquisition, brand development costs) or an acquisition.

Internal investments in intangibles are expensed as incurred unless stringent conditions are met. Intangibles acquired in asset purchase transactions or business combinations are recognized as assets on the buyer's balance sheet if the assets meet the separability or contractual-legal criteria.

Generally, once recognized, the accounting for intangible assets is similar to that for tangible assets, like property, plant, and equipment (PP&E) or land.

Recognition of Internally Generated Intangible Assets Is Strictly Limited

Internal expenditures to create, develop, and maintain intangibles are expensed as incurred—not recognized as assets—unless the entity can prove all the following criteria for *development costs*. If the criteria are met, the expenditures are capitalized.

- ***Technical Feasibility:*** The intangible asset is technically feasible to complete, and the entity has both the intention and ability of either using or selling it.
- ***Probable Future Economic Benefits:*** The asset has probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or for the intangible asset or, if it is to be used internally, for the usefulness of the intangible asset.
- ***Adequate Resources to Complete:*** The entity has adequate technical, financial, and other resources available to complete the development and to use or sell the intangible asset.
- ***Reliably Measure Expenditures:*** The entity can reliably measure the expenditure attributable to the intangible asset during its development.[18]

[18]IAS 38, paragraph 57.

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Additionally, **IAS 38 explicitly disallows capitalizing expenditures related to brands and customer-related intangibles** from consideration as development costs, requiring their expensing as follows: "internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets."[19] Therefore, the scope of development costs is limited to other types of intangibles, such artistic-based, contract-based, and technology-based assets (see **Exhibit 11** for examples).

Exhibit 11. Types of Identifiable Intangible Assets Recognized in Acquisitions

Type	Examples
Marketing-related	Trademarks, trade names, service marks, collective marks, newspaper mastheads, internet domain names, and noncompetition agreements.
Customer-related	Customer lists, order or production backlogs, customer contracts and related customer relationships, certain noncontractual customer relationships.
Artistic-related	Artistic-related assets protected by copyright or similar legal rights, including films, series, books, music, and song lyrics.
Contract-based	Licensing agreements, supply contracts, franchise agreements, operating permits, employment contracts, service agreements, usage rights.
Technology-based	Patented technology, computer software, databases, trade secrets, including formulas and processes, and certain unpatented technology.

Source: IFRS 3, Illustrative Examples, paragraphs IE16–IE44.

Among German companies reporting under IFRS that disclose R&D expenditures, Dinh and Schultze (2022) found that only 50% of those companies capitalized any R&D as development costs and, among capitalizers, around 20% of R&D expenditures on average were capitalized as development costs.[20]

Anecdotally, we find development cost capitalization is rare, because of the stringent requirements. We examined the financial statements of the 30 largest IFRS reporters in the technology and health care sectors and found that less than 10% of R&D costs were capitalized as from 2018–2022.

[19]IAS 38, paragraph 63.

[20]Tami Dinh and Wolfgang Schultze, "Accounting for R&D on the Income Statement? Evidence on Non-discretionary vs. Discretionary R&D Capitalization under IFRS in Germany," *Journal of International Accounting, Auditing and Taxation* vol. 36C (2022), https://ideas.repec.org/a/eee/jiaata/v46y2022ics1061951822000015.html.

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Recognition of Acquired Intangibles Is More Expansive

The recognition criteria for acquired intangibles are more liberal than for internally generated intangibles. Conceptually, the arm's-length purchase transaction validates the existence of intangibles and establishes a basis for the measurement of their value.

IFRS 3, *Business Combinations*, requires the buyer to recognize all intangible assets that meet the separability or legal-contractual criteria and provides a list of types—see Exhibit 11—of identifiable intangible assets that might be recognized.[21] The recognition criteria are less stringent than those for internal expenditures on intangible assets, which disallows recognition of marketing- and customer-related intangibles and stipulates several criteria for capitalizing development costs.

The recognition of separately identifiable intangible assets in an acquisition provides greater transparency to investors about what was acquired. Stated differently, if the recognition criteria for acquired intangibles were narrowed or removed, the value of the intangibles would be embedded in goodwill (a catchall residual) instead.

Because of the different recognition criteria for internally generated versus acquired intangibles, acquisitions often result in the recognition of intangible assets on a buyer's balance sheet that were not recognized on the seller's balance sheet, as illustrated in the following example.

Acquired Intangibles Example

Novo Nordisk Acquires Dicerna Pharmaceuticals

In 2021, Novo Nordisk (Novo), the Danish biopharmaceuticals company, acquired Dicerna Pharmaceuticals (Dicerna), a US-listed biotechnology company for USD3.1 billion.

Dicerna Pharmaceuticals reported no intangible assets on its balance sheet, as it had expensed all R&D expenses related to drug development; the company reported an accumulated deficit of USD725 million on its 30 September 2021 balance sheet.

In Novo's accounting for the acquisition, it allocated USD2.7 billion (87% of the purchase price) to identifiable, technology-based intangible assets. Although those intangibles already existed, they were not recognized until the company was acquired.

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Subsequent Measurement

Cost Model Most Typical, Revaluation Model Permitted, but Rare

Under IAS 38, management chooses either the cost or revaluation model for measurement after recognition.

The cost model, which is the most common in practice, requires entities to carry intangible assets at cost less accumulated amortization and impairment losses.

The revaluation model, in contrast, requires entities to revalue the asset to fair value, with reference to an active market, at the end of each reporting period. Decreases in the carrying amount from revaluations are recognized in earnings, while increases in the carrying amount from revaluation are recognized in earnings only to the extent they reverse a revaluation decrease. "Net" revaluation increases (i.e., those in excess of any prior revaluation decreases for the same asset) in the carrying value are recognized in other comprehensive income.

Useful Life Is a Matter of Significant Judgment, Determines Whether or Not Asset Is Amortized

After choosing between the cost and revaluation models, the entity must determine whether the asset has a definite or indefinite useful life and, if definite, whether to estimate its useful life in years or in another relevant unit. Definite-lived intangible assets are amortized over their useful life, whereas indefinite-lived intangible assets are not.

IAS 38 does not prescribe a specific test or procedure to determine useful life, but rather provides a non-exhaustive list of factors and issues to consider in making that determination, which includes:[22]

- the expected usage of the asset;
- typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- technical, technological, commercial, or other types of obsolescence;
- the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- expected actions by competitors or potential competitors;
- the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;

[22] IAS 38, paragraph 90.

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- the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- whether the useful life of the asset is dependent on the useful life of other assets of the entity.

The useful life of an intangible asset that arises from contractual or other legal rights (i.e., service contracts, patented technology, copyrights) are limited to the length of the contract or duration of legal protection.

IAS 38 does suggest that the useful life of many intangibles is short, because of the "history of rapid changes in technology," which makes many types of intangible assets susceptible to technological obsolescence.

Impairment Testing: Same as Other Assets, but Indefinite-Lived Intangibles Tested Annually

IAS 36, *Impairment of Assets*, is the general standard in IFRS that governs impairments, including impairment of intangible assets.[23] IAS 36 requires entities to:

- Assess, at the end of each reporting period, whether there is any indication that an asset may be impaired.
  - An indication of impairment can be either internal or external to an entity and includes events and conditions such as damage or obsolescence, a significant increase in interest rates, cash flows falling well short of expectations, and significant adverse changes or expected changes in technology or the market, economic, or legal environments.
- Test the asset for impairment quantitatively if there is indication of impairment. The quantitative test involves estimating the asset's recoverable amount and comparing it to the carrying amount.
  - The recoverable amount is the greater of the asset's fair value less costs of disposal and its value in use. Value in use is the present value of future cash flows.
- Reduce the carrying amount of the asset to its recoverable amount, if the recoverable amount is found to be less than the carrying amount by taking an impairment charge.

Intangible assets with an indefinite useful life are tested for impairment quantitatively at least annually, regardless of whether there is an indication of impairment.[24]

[23]There are scope exceptions to IAS 36 for certain types of assets, including inventories and financial assets, for which specific impairment guidance is provided in a different standard; see IAS 36, paragraphs 2–5. IAS 36 applies to all intangible assets.

[24]Cash-generating units containing goodwill are also tested for impairment quantitatively at least annually regardless of whether there is an indication of impairment.

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Disclosure Requirements for Unrecognized Intangibles Are Thin

The disclosure requirements for intangible assets recognized under IAS 38 are similar to those for tangible assets: by type of asset, the entity discloses roll-forwards of gross and net asset balances, useful lives, amortization methods, the results of and assumptions used in impairment tests, and where on the financial statements relevant amounts are presented.

For unrecognized, internally generated intangible assets (e.g., R&D), disclosure requirements are more limited. Entities are required to disclose the aggregate amount of R&D recognized as an expense. Entities are encouraged but *not* required to additionally disclose: "a brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard."[25] These disclosures are *not* required under US GAAP, entities merely must disclose the total amount of R&D costs recognized as expenses on the income statement—disclosures related to unrecognized intangibles, the location of R&D expenses on the income statement, or a description of what R&D costs were incurred for are not required.

Following is an illustrative example of internally intangible disclosures.

Intangibles Accounting and Disclosure Example:

Novo Nordisk

Like other biopharmaceutical companies, Novo spends a significant amount on R&D. In 2023, R&D amounted to 14% of net sales. R&D supports the company's pipeline of new drugs and new indications for currently marketed drugs. A small portion of R&D expenses represents maintenance expenditures for currently marketed drugs (e.g., collecting safety data after a drug is launched). Novo's accounting policies for R&D are described in its notes to financial statements, as follows.

Accounting Policies: R&D Projects

Internal and subcontracted research costs are fully charged to the consolidated income statement in the period in which they are incurred. Consistent with industry practice, development costs are also expensed until regulatory approval is obtained or is probable; refer to note 2.3.

[25] IAS 38, paragraph 128.

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Payments to third parties under collaboration and license agreements are assessed for the substance of their nature. Payments which represent subcontracted research and development work are expensed as the services are received. Payments which represent rights to the transfer of intellectual property, developed at risk by the third party, are capitalized.

For acquired research and development projects, and intellectual property rights, the likelihood of obtaining future commercial sales is reflected in the cost of the asset, and thus the probability recognition criteria is always considered to be satisfied. As the cost of acquired research and development projects can often be measured reliably, these projects fulfil the capitalization criteria as intangible assets on acquisition. Subsequent milestone payments payable on achievement of a contingent event (e.g., commencement of phase 3 trials) are accrued and capitalized into the cost of the intangible asset when the achievement of the event is probable. Development costs incurred subsequent to acquisition are treated consistently with internal project development costs.

Source: Novo Nordisk, *Annual Report 2023*, https://www.novonordisk.com/content/dam/nncorp/global/en/investors/irmaterial/annual_report/2024/novo-nordisk-annual-report-2023.pdf, 62.

As a result of making few acquisitions and expensing R&D, Novo's balance sheet shows a relatively minimal amount of intangible assets relative to what might be expected by a nonaccountant for a technology-centric company: DKK60,406 million, or 19% of total assets in 2023.

Investors value biopharmaceutical companies like Novo by discounting their expected future cash flows derived from currently marketed drugs and its development pipeline. The accounting rules are more backward looking; the value of internally generated intangibles does not get recorded directly, only indirectly in retained earnings after commercialization.

At year-end 2023, Novo's share price was more than 33 times its book value per share.

Source: Novo Nordisk, *Annual Report 2023*, https://www.novonordisk.com/content/dam/nncorp/global/en/investors/irmaterial/annual_report/2024/novo-nordisk-annual-report-2023.pdf; and authors' analysis.

Some Industry and Transaction Specific Rules in Addition to General IAS 38 Standard

Two significant intangible assets outside the scope of IAS 38 are exploration and evaluation assets under IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and deferred acquisition costs under IFRS 17, *Insurance Contracts*.

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Under IFRS 6, entities can capitalize the costs of acquiring exploration rights, scientific and technical studies, exploratory drilling, trenching, sampling, and other activities related to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Once technical feasibility and commercial viability are established, IAS 38 rules for development costs apply to subsequent costs. Capitalized costs are subsequently amortized or impaired. Essentially, IFRS 6 is an exception to the required expensing of research costs under IAS 38.

Under IFRS 17, insurers can capitalize costs that vary with and directly relate to the acquisition and renewal of insurance contracts, such as direct selling costs. The deferred acquisition cost asset is subsequently amortized in proportion to premium revenue recognized. IFRS 17 is an exception to the required expensing of internally generated customer lists.

B. US GAAP Similarities and Differences

The accounting for and disclosures of intangible assets under US GAAP is primarily contained in Accounting Standards Codification (ASC), Topic 350, *Intangibles—Goodwill and Other*, and is broadly similar to IFRS except for the following that apply to US GAAP:

1. ***Development Costs Are Not Capitalized:*** Does not permit the recognition of development costs as intangible assets. This is the most significant difference. All R&D costs are expensed under US GAAP.[26]
2. ***Revaluation of Intangibles Is Not Permitted:*** Does not permit the revaluation model; the cost model is required for subsequent measurement.
3. ***Fewer Disclosures Requirements Regarding Internally Generated Intangibles:*** The disclosures requirements under IFRS as related to R&D are more useful; US GAAP simply requires disclosure of total R&D recognized on the income statement.
4. ***There Are More Industry and Transaction Specific Standards:*** US GAAP has several more industry- and transaction-specific accounting rules related to intangibles (in addition to those similar to IFRS, such as natural resource extractive activities under ASC 930 and 932 and deferred acquisition costs by insurers under ASC topic 944), including the following:
    a. software to be sold, leased, or marketed (ASC 985);
    b. internal-use software and website development costs (ASC 350-40 and 50);
    c. crypto assets (ASC 350-60);
    d. entertainment (ASC 920, 922, 926, and 928);
    e. title plants (ASC 950); and
    f. airline takeoff and landing slots (ASC 908).

[26]ASC Topic 730, *Research and Development*, paragraph 730-10-25-1.

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Although most of these industry- and transaction-specific accounting rules create only minor differences with IFRS, we briefly discuss software costs under US GAAP given that it affects many companies and is the subject of recent FASB standard setting.

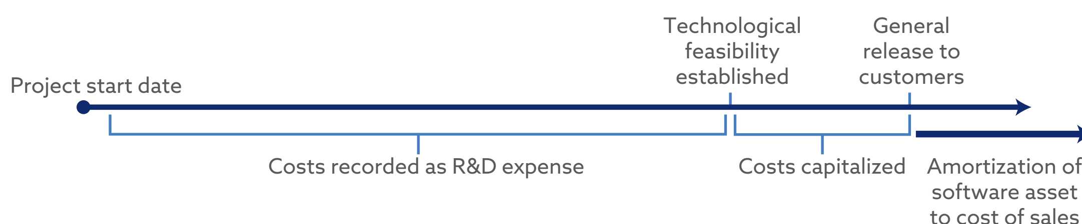
Accounting for and Disclosures of Software Costs under US GAAP

The accounting for and disclosure of software costs depends on the software's intended use:

1. ***Sold, Leased, or Marketed:*** Software that is to be sold, leased, or marketed as a "product" that a customer takes ownership of is accounted for under ASC topic 985, *Software*.
2. ***Internal Use or Software-as-a-Service (SaaS):*** Software that is to be used internally (e.g., a retailer purchasing an enterprise resource planning system) or sold externally under a software-as-a-service or cloud computing arrangement in which customers purchase access to the software but not ownership is accounted for under ASC subtopic 350-40, *Internal Use Software*.

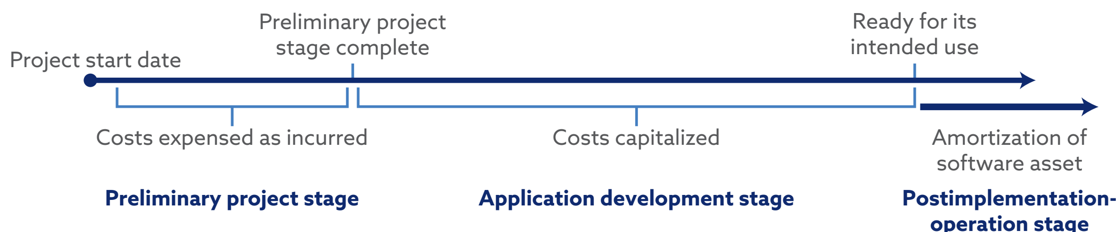
Exhibits 12 and **13** illustrate the accounting for costs to develop software under these two approaches.

Exhibit 12. Software Cost Accounting for Software to Be Sold, Leased, or Marketed under ASC 985



Source: PwC Software Costs Guide, 31 December 2021, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/software/software/about_this_guide.html.

Exhibit 13. Software Cost Accounting for Internal Use Software and SaaS under ASC 350-40



Source: PwC Software Costs Guide, 31 December 2021, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/software/software/about_this_guide.html.

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Essentially, the difference is that ASC 350-40, *Internal Use Software*, permits more time for capitalization of costs as intangible assets, because the time between the establishment of technological feasibility and general release to customers under ASC 985, *Software*, is often very short. Capitalized software intangible assets, under either guidance, are accounted for as definite-lived intangibles and are amortized over their useful life.

Practical Observations on Software Costs Accounting

In practice, we observe the following:[27]

- SaaS and cloud computing have become dominant business models in the software industry, resulting in a shift from ASC 985 to ASC 350-40 as the dominant accounting model.
- Most software development costs by software development companies are expensed as incurred as R&D expenses on the income statement. This is the case for all the largest software and website/app developers, including Microsoft, Apple, Amazon, Oracle, Meta Platforms, Adobe, and Salesforce, which all reported minimal or no capitalized software development costs in their recent annual reports.
- Costs of purchased software and related customization, such as a retailer purchasing enterprise resource planning software and hiring consultants to deploy and customize it, are often capitalized as intangible assets during the application development stage.

[27]Our observations largely match those made by the FASB and its staff in its Accounting for and Disclosure of Software Costs, last updated 15 July 2024, https://www.fasb.org/projects/current-projects/accounting-for-and-disclosure-of-software-costs-401660.

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III. PERSPECTIVES FROM THE RESEARCH LITERATURE

Vast Literature Stretching Back over a Century

The published academic research literature on the accounting for intangible assets is vast. It is a topic that has been debated for more than a century.[28]

Unlike natural sciences and some social sciences, however, trial-and-error or experimentation is rare in accounting standards.[29] There have not been any "natural experiments," such as a jurisdiction adopting a new standard on intangibles that is significantly different from IFRS and US GAAP (which are similar with respect to intangibles and have been for decades), after which researchers could compare reporting and real outcomes to other jurisdictions. Voluntary disclosures are not a reliable basis for drawing these types of conclusions because they presumably are made only when the benefits exceed the costs and are not comparable to other companies. Therefore, the research literature on the accounting for intangible assets is primarily confined to theoretical perspectives rather than to archival findings.

We have organized the most influential perspectives on intangibles from the literature on opposing sides: proponents and opponents of broader capitalization and disclosures of intangibles.

Proponents of Broader Capitalization and Disclosures of Intangibles

Baruch Lev is probably the most well-known researcher for critiquing the current accounting model in numerous papers and the memorably titled book *The End of Accounting and the Path Forward for Investors and Managers* coauthored with Feng Gu.[30] Lev's diagnosis of the problem, a view shared by many others, is that the financial statements under US GAAP and IFRS have been losing their usefulness and relevance for many years, evidenced by the following:[31]

- ***Most Valuable Assets Missing from Balance Sheets:*** Companies' most valuable assets are missing from balance sheets. This is evidenced by a significant decline in the relevance of accounting book value, based on the substantial increase in the price-to-book ratio of stocks from around 1.0 until the mid-1980s to greater than 4.0 by the 2020s (as shown in

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[28]Lawrence Robert Dicksee, *Goodwill and Its Treatment in Accounts* (London: Gee, 1897).

[29]Baruch Itamar Lev, *Intangibles* (July 23, 2018), http://dx.doi.org/10.2139/ssrn.3218586.

[30]Baruch Lev and Feng Gu, *The End of Accounting and the Path Forward for Investors and Managers* (Hoboken, NY: Wiley, 2016).

[31]Baruch Lev, "The Deteriorating Usefulness of Financial Report Information and How to Reverse It," *Accounting and Business Research* 48, no. 5 (2018): 465–493.

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Exhibits 4 and 5) and an increase in the intensity of R&D and selling, general, and administrative (SG&A) expenses to revenues and a decline in tangible investment intensity (shown in Exhibit 3 for the largest global issuers).

- ***Increase in Earnings Volatility:*** Lev cites to findings from Dichev and Tang (2008),[32] which show that earnings volatility has nearly doubled since the 1970s. Dichev and Tang found that the increase in volatility is not from an increase in the volatilities of revenues and costs individually, but rather is due to the fact that the matching of revenues with costs has deteriorated because of the increase in intangible investments that are immediately expensed in advance of any revenue benefits.
- ***Underperformance of Value Equity Investment Strategies:*** Value equity investment strategies (i.e., those involving taking long positions in stocks with low valuation multiples or shorting those with high valuation multiples) have underperformed for decades. This is in large part because accounting rules systematically ignore the value of intangibles, reducing book values and reported earnings for many companies, which has rendered valuation multiples based on them lose their relevance.[33] In other words, the accounting rules have obscured value as the economy shifted to greater intangibles. Arnott et al. (2020) finds, in agreement with Lev (2019), that capitalizing intangibles, which increases book value for certain companies, improves back-tested performance of value strategies significantly.[34]
- ***Decrease in Decision-Useful Information Originating from Financial Statements:*** The proportion of decision-useful information investors receive from the required financial statements has fallen substantially. Issuers and investors have partially compensated by reporting and using non-GAAP measures, respectively.

In response to these problems, primarily the problem of poor matching on the income statement, Lev (2018) advocates for the capitalization of costs for, and subsequent amortization of, all internally generated intangibles that fit the following recognition criteria:[35]

- ***Legal Ownership:*** The entity has legal ownership of the asset developed by the expenditures through patents, copyrights, and trade secrets, or by restricting access to the asset.
- ***Asset Scarcity:*** The asset created is scarce (i.e., in limited supply), like a brand, and competitors cannot easily imitate it.

[32]Ilia D. Dichev, John R. Graham, Campbell R. Harvey, and Shiva Rajgopal, "Earnings Quality: Evidence from the Field," *Journal of Accounting and Economics* 56, no. 2–3, Suppl. 1 (2013): 1–33.

[33]Baruch Itamar Lev and Anup Srivastava, *Explaining the Recent Failure of Value Investing* (NYU Stern School of Business, 25 October 2019).

[34]Robert D. Arnott, Campbell R. Harvey, Vitali Kalesnik, and Juhani T. Linnainmaa, "Reports of Value's Death May Be Greatly Exaggerated," *Financial Analysts Journal* 77, no. 1 (2023).

[35]Lev, *Intangibles*.

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- ***Capable of Generating Future Benefits:*** The asset is capable of and expected to generate benefits.
- ***Expenditures Measurable:*** The entity can measure the expenditures on the asset.
- ***Means to Complete:*** The entity has the means to complete the asset's development.

Although these criteria are broader than the current recognition criteria under both IFRS and US GAAP, they are not so broad as to include all expenditures related to human capital, brand awareness, startup losses, intellectual or knowledge capital, processes and routines, workforce effectiveness, or customer satisfaction forth. In addition, Lev supports cost, not fair value, measurement.

Enache and Srivastava (2017) advocate for a change in presentation on the income statement, disaggregating R&D and SG&A into (1) expenditures related to current period revenue and (2) investments (i.e., expenditures intended to generate future revenue). This would solve investors' difficulties of assessing profitability and predicting earnings by disentangling return on investment from investment.[36]

Opponents of Broader Capitalization and Disclosures of Intangibles

Influential academic opponents of broader capitalization and disclosures of intangibles include Skinner (2008)[37] and to lesser but still significant extent, Penman (2009)[38] and also Barker et al. (2022).[39]

Skinner argues that the case for reform is weak for several reasons:

- ***Intangible Intensive Firms Do Not Struggle to Obtain Capital Markets Financing:*** First, there is no evidence that intangible-intensive firms and activities struggle to obtain financing in capital markets. In fact, technology, biotechnology, and other intangible-intensive industries generally enjoy very high valuations in public and private equity markets. There is no evidence that the accounting or disclosure treatment of intangibles in and of itself results in systematic underinvestment in intangibles by issuers or in intangible-intensive firms by investors.

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[36]Luminita Enache and Anup Srivastava, "Should Intangible Investments Be Reported Separately or Commingled with Operating Expenses? New Evidence" (Management Science, Tuck School of Business Working Paper No. 2715722, 17 January 2017).

[37]Douglas J. Skinner "Accounting for Intangibles: A Critical Review of Policy Recommendations," *Accounting and Business Research* 38, no. 3 (2008): 191–204.

[38]S. H. Penman, "Accounting for Intangible Assets: There Is Also an Income Statement" (Occasional Paper Series, Center for Excellence in Accounting and Security Analysis, Columbia Business School, 2009).

[39]Richard Barker, Andrew Lennard, Stephen Penman, and Alan Teixeira, "Accounting for Intangible Assets: Suggested Solutions," *Accounting and Business Research* 52, no. 6 (2022): 601–630, doi:10.1080/00014788.2021.1938963.

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- ***Investors Do Not Naively Respond to the Accounting Treatment for Expenditures:*** Second, proponents assume that investors naively respond to the accounting treatment of expenditures, failing to understand that R&D expenses may well result in future benefits. This is contradicted by the fact that many technology companies trade at a large premium to their book values, showing that investors do not seem to struggle with attributing value to unrecognized intangibles.
- ***US GAAP Will Never Be Sufficiently Tailored:*** Finally, Skinner doubts that an approach to intangibles that involves more extensive disclosure will prove successful because it will have to be tailored by industry and perhaps even by individual issuer, because intangibles tend to be idiosyncratic and difficult to separately identify and value. Skinner favors the current "non-GAAP," management reporting approach, seeing it as an instance of market forces working positively toward a mutually beneficial outcome for issuers and investors.

Penman, in the memorably titled article "Accounting for Intangible Assets: There Is Also an Income Statement,"[40] argues that the value of intangibles can be ascertained from the income statement and that the income statement more broadly corrects for deficiencies in the balance sheet. An underlying assumption of balance sheet accounting is separability, in that individual accounts are separately identified, presented, and measured. Firms, however, operate assets and other resources *jointly* to produce cash flows. The value of a firm is therefore impossible to allocate completely and accurately to individual value contributors because of the interaction effects between assets and other resources.

The income statement and the statement of cash flows, however, take a more aggregate view: revenues, expenses, gains, and losses are reported for the company as a whole (or, in segment disclosures, for reportable segments as a whole). Those items are not allocated or attributed to individual assets and liabilities. Investors' valuation tools, such as discounted cash flow analysis, are also not troubled by the lack of intangible assets because they primarily use income statement and statement of cash flows measures as inputs.

Comparison to Our Survey of Investors

In our survey of investors, covered in detail in the next section, we found that many investors support broader recognition of intangibles (Lev's perspective), but a plurality—in some cases, a significant plurality—were opposed, agreeing with Skinner and Penman. Although we did not find unanimous agreement on any question, unanimity was nearly achieved on the need for improved disclosures.

[40]Penman, "Accounting for Intangible Assets."

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IV. INVESTOR PERSPECTIVES

A. Introduction to Our Survey

To understand investors' perspectives on the importance of intangibles and their views on financial accounting and disclosures of intangibles, we fielded a survey of CFA Institute members serving in portfolio management and investment analyst roles.[41] The survey complemented our survey on goodwill, which was the subject of our December 2021 publication *Goodwill: Investor Perspectives* and was instrumental in our comment letters to the FASB and IASB on this topic.[42] We expect this survey to be similarly useful to standard setters' current research projects on intangible assets other than goodwill.

The survey was conducted digitally, but the breadth and depth of the questions that were answered by several hundred respondents, plus several opportunities for open-ended comments, resulted in an experience more akin to a large focus group than a poll. The respondents are highly experienced: 59% have worked in the investment management industry for more than 10 years; and, based on the comments in particular, respondents demonstrated a high degree of familiarity with the accounting for and disclosures of intangible assets.

Our objective was to assess respondents' high-level *and* detailed views on the accounting for and disclosures of intangibles. The survey started with a series of wide-ranging questions to understand respondents' views on the economic importance of intangibles and sufficiency of the current accounting and reporting model. We then asked more detailed questions on accounting and disclosures to gauge respondents' opinions on what changes, if any, could provide more decision-useful information related to acquired and internally generated intangibles.

In the sections that follow, we first present seven key findings from the survey (Section IV(B)). We then discuss the findings in more detail in the following topic groups:

- Overall views on intangibles (Section IV(C)).
- In-depth views on the accounting for intangibles, specifically:
  - Initial recognition and measurement of acquired and internally generated intangible assets (Section IV(D)(1) and (D)(2));

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[41]See our website (https://www.cfainstitute.org/en/membership) for information about CFA Institute members. Of the more than 190,000 CFA Institute members globally, 96% are CFA® charterholders.

[42]*Goodwill: Investor Perspectives*, CFA Institute Research and Policy Center, 6 December 2021, https://rpc.cfainstitute.org/en/research/surveys/goodwill-investor-perspectives; Sandra Peters, Comment Letter on Identifiable Intangible Assets and Subsequent Accounting for Goodwill (Invitation to Comment), 13 January 2020, https://rpc.cfainstitute.org/policy/comment-letters/2020-2024/comment-letter-identifiable-intangible-assets-and-subsequent-accounting-for-goodwill; Sandra Peters, Comment Letter on Discussion Paper: Business Combinations—Disclosures, Goodwill and Impairment, 31 December 2020, https://rpc.cfainstitute.org/policy/comment-letters/2020-2024/cfa-institute-comment-letter-discussion-paper-business-combinations.

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  - Subsequent measurement of intangible assets (Section IV(D)(3)); and
  - Disclosures associated with intangibles in the notes to the financial statements (Section IV(D)(4)).
- Overall view on improving intangible asset disclosures, recognition, and measurement (Section IV(D)(5)).

We include the survey questions within the charts of survey responses as well as select comments provided to open-ended questions for additional color. Demographics and other information about the survey are presented in **Appendix A, About the Survey**. All comments received from respondents are presented in **Appendix B, Survey Respondent Comments**.

B. Key Findings

Following are the seven key findings from the survey.[43]

Finding 1. Intangibles Are Valuable; the Existing Accounting Model Does Not Recognize that Value

Investors view intangibles as among the most valuable assets for many companies, but the existing accounting model does not recognize them. This aligns with our discussion in the previous section about modern economies that have shifted from manufacturing-based and extractive industries to services and technology-based industries with greater reliance on intangibles.

More than 70% of respondents strongly agreed or agreed with each of the following statements:[44]

- For many companies, the most valuable assets (i.e., intangibles) do not appear on the balance sheet.[45]
- The existing accounting model does not, but should, recognize many important intangibles.[46]

[43]Section IV(B), Key Findings, summarizes the key findings from the survey results set forth in the exhibits in Section IV(C), Overall Perspectives on Intangibles, and Section IV(D), Views on Accounting for and Disclosures of Intangibles.

Comments were provided by only a subset of respondents. For example, approximately 20% of the respondents to the first 16 questions in Section IV(C), Overall Perspectives on Intangibles, which are summarized in Exhibits 14 and 15 and presented separately in Exhibits 16–31, provided responses to the open-ended comments.

Note also that comments can be made by those with a majority or minority perspective and must be contextualized and analyzed relative to the overall response to the questions as displayed in the exhibits. For example, in certain circumstances the majority of comments may reflect the minority response to the question—and vice versa.

[44]See Exhibits 14 and 15 for a visual summary of respondents' overall views on intangibles.

[45]Exhibit 16.

[46]Exhibit 17.

- Unrecognized intangible assets are a significant driver of the difference observed between the book and market values of equity for many listed companies.[47]

One commenter summarized it well:

> *As the world economy continues to move on from the industrial age, efforts should be made to bring the valuations of non-physical assets to the balance sheet to enable users to appreciate what is driving values in organizations. A key concern is manipulation of value attributed to these assets; however, this could be addressed by instilling greater disclosure requirements on the creation and valuation of the intangibles, so users can critique the values.*

See also Finding 7 with respect to the impact of failure to recognize intangibles on the relevance of financial statements.

Finding 2. Greatest Unmet Needs: Disclosures and Disaggregation

The greatest level of agreement—more than 80% of respondents—in our survey was that investors needed better disclosures of acquired and internally generated intangibles.[48] Only 39% of respondents found current intangibles disclosures useful.[49]

Additionally, respondents saw improving disclosures as a path toward achieving better valuation, measurement, and, ultimately, recognition of a greater number of intangibles.[50]

Greater disaggregation was also considered to be necessary for both the flow of investments in intangibles on the income statement and statement of cash flows and the stock of intangible investments on the balance sheet. Nearly 80% of respondents noted that they need greater disaggregation of intangible assets.[51] To that point, most respondents believe that disaggregating indefinite-lived intangibles assets from goodwill in a business combination provides decision-useful information and encourages better analysis; they disagreed with the notion that acquired intangibles should aggregated with goodwill—a proposal previously contemplated by the FASB and IASB.[52]

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[47]Exhibit 18.

[48]Exhibits 14 and 15 overall and Exhibits 28 and 29 more specifically.

[49]Exhibit 45.

[50]Exhibits 21, 22, and 45.

[51]Exhibit 26.

[52]Exhibits 27, 33, and 34.

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Finding 3. Investors Strongly Support a Variety of Specific Disclosure Improvements

Investors broadly agreed with a menu of disclosure options for intangibles in the notes to the financial statements that we tested, with most options garnering more than 80% support.[53] Following are some examples of disclosures with a very high level of support:

- Information on the type and amount of internally generated intangible assets;
- Information regarding the expected future cash flows of all intangible assets;
- Information about the valuation models, including significant and sensitive estimations and assumptions and factors that could affect recognition, measurement, and impairment, used to value intangible assets;
- Key performance metrics that management uses to monitor the performance of intangibles;
- Quantitative and qualitative information regarding how the intangible asset performs over time;
- Management's estimate of fair value for all intangibles;[54] and
- More information on the board's assessment of the performance of intangibles over time.

As noted with Finding 2, respondents also saw improving disclosures as a path toward achieving better valuation, measurement, and, ultimately, recognition of a greater number of intangibles.

Finding 4. Investors Support Existing Accounting Model for Acquired Intangibles, but Believe Improvements to Impairment Testing Are Needed

Investors support the recognition, initial measurement, and subsequent measurement of acquired intangibles in the current accounting standards.

- More than 70% of respondents agree with continuing to separately recognize identifiable intangibles from goodwill in an acquisition and virtually all respondents agreed with the separability and identifiability criteria for recognition described earlier in our review of the accounting.[55]
- Investors support improving the timeliness and relevance of impairment testing for indefinite-lived intangibles. Only 35% of respondents supported a switch to an amortization model for intangibles, whereas 58% of respondents agreed that impairment provides more useful information than amortization.[56]

[53]Exhibit 46.

[54]Exhibit 30.

[55]Exhibits 32 and 33.

[56]Exhibits 40 and 41.

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- Respondents agreed that the current impairment testing approach has significant shortcomings:
  - 73% agreed that impairments "lack transparency as to when and how much should be recognized," and
  - 67% agreed that impairments "are not recognized by companies in a timely manner."[57]

The FASB had considered switching to an amortization model for goodwill because preparers and practitioners find impairment testing to be costly and onerous. We authored comment letters to the FASB (and to the IASB related to a similar project) opposing the amortization of goodwill as our investor outreach and surveys indicate that amortization has no information content. Rather, amortization is simply a formulaic write-down of the carrying value that is typically ignored by investors. Our goodwill survey and more detailed views on goodwill are included in our December 2021 publication *Goodwill: Investor Perspectives*.[58]

We surveyed the same point—amortization versus impairment—related to all indefinite-lived intangibles as part of this survey to ascertain whether investors felt the same about intangibles other than goodwill. Overall, investor respondents were more focused on initial recognition and viewed questions regarding subsequent measurement to be secondary.[59] That said, our results suggest that they do feel the same: amortization has no information content, while impairment charges do, because they result from a difference in performance or conditions against expectations. Impairment charges only have information content, however, if they are taken in a timely manner (i.e., not well after investors already arrived at the conclusion) and in a transparent way so that investors can understand root causes and gauge the risks of further downward revisions.[60] If an intangible asset is amortized, the amortization period should be the period of expected cash flows rather than a generic fixed period determined by management.[61]

We responded to the IASB's Exposure Draft on new disclosure requirements for significant business combinations and changes to impairment testing, urging the Board to not weaken impairment testing by permitting more management discretion in valuation estimates.[62]

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[57]Exhibit 41.

[58]*Goodwill: Investor Perspectives*, CFA Institute Research and Policy Center, 6 December 2021, https://rpc.cfainstitute.org/en/research/surveys/goodwill-investor-perspectives.

[59]Exhibit 25.

[60]Exhibits 43 and 44.

[61]Exhibit 45.

[62]Exposure Draft and Comment Letters: Business Combinations—Disclosures, Goodwill, and Impairment, IFRS, accessed 16 September 2024, https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/exposure-draft-and-cl-bcdgi/#consultation.

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Finding 5. Majority Support for Recognizing Internally Generated Intangibles, but Caution as Well

Most survey respondents want internally generated, identifiable intangibles to be recognized on the balance sheet, supporting a single accounting model for internally generated and acquired intangibles.

A significant plurality disagrees, however, seeing the potential for earnings management (i.e., capitalizing expenses to ensure an earnings per share target is met) and doubting that deferred recognition and amortization provides more useful information than immediate expensing.

- 80% of respondents agreed that the separate accounting models for acquired and internally generated intangibles—in which acquired intangibles are capitalized while internally generated intangible investments like R&D are expensed—creates a lack of comparability between entities that grow through acquisition versus those that grow organically.[63]
- 60% of respondents agree with going further to reduce this lack of comparability, supporting a single accounting model for all intangibles: acquired and internally generated.[64]
- 64% of respondents disagreed with the statement that the current accounting model (capitalization of acquired; no capitalization of internally generated) for intangibles does not need to change.[65]
- Virtually all respondents agreed that if internally generated intangibles are brought in scope of recognition, the recognition criteria for them should match the existing criteria for acquired intangible assets: separability and identifiability. Investors do not support broadly capitalizing all intangibles-related expenditures like brand development and customer acquisition costs.[66]

Finding 6. If Internally Generated Intangibles Are Recognized, No Clear Consensus on Initial Measurement: Cost versus Fair Value

Although most respondents favored recognizing internally generated intangibles as assets, there was not a clear consensus on their initial measurement. About equal numbers of respondents supported cost and fair value models.[67]

- ***Cost Model Preference:*** Some respondents prefer measuring internally generated intangibles at cost (i.e., capitalizing payroll and other costs incurred to develop the asset) because it would align the accounting

[63]Exhibits 23 and 35.

[64]Exhibit 36.

[65]Exhibit 37.

[66]Exhibit 38.

[67]Exhibit 39.

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for intangibles with physical assets (i.e., capitalizing payroll and other construction costs of a building) and would potentially be less susceptible to management manipulation, therefore providing a more faithful representation of value. Consider, for example, the following comments:

> *For the sake of conservative estimates, I believe cost should be the initial value, and then testing for impairment thereafter (amortization if definite useful life).*

> *Try to treat in as similar fashion to tangible assets as possible. You can build a factory and it too can be tough to value and turn out worthless.*

- ***Fair Value Model Preference:*** Other respondents prefer a fair value model because the costs incurred to develop an asset can be irrelevant to the asset's future cash flows. The downside of a fair value model is that the valuation may be highly subjective for certain assets that aren't marketable. As one respondent wrote:

> *Costs incurred may not correctly represent the value of the intangible and therefore fair value measurement should apply. Management should disclose fair value input and keep them constant unless there is a significant reason for those to change. Any changes should be explained by management in footnotes.*

As noted with Finding 2, respondents saw improving disclosures as a path toward achieving better valuation, measurement, and, ultimately, recognition of a greater number of intangibles.[68]

Finding 7. Risk to Relevance of Financial Statements from Failure to Recognize Internally Generated Intangibles, but No Strong Appetite for Entirely New Balance Sheet

Investors see the financial statements as at risk of losing their relevance without action by the FASB and IASB on intangibles, but they do not have a strong appetite for a complete overhaul like a new type of balance sheet. In contrast to the broad agreement among respondents about the economic importance of intangibles and for improved disclosures, less support was given for radical change.

- A majority of respondents (57%) strongly agreed or agreed with the statement that "financial statements are, and will become, increasingly less relevant without action by the FASB and IASB on the issue of intangibles."[69]
- Only 44% of respondents strongly agreed or agreed with the statement that "there should be a new balance sheet that shows the value created by intangibles."[70]

[68] See Exhibits 21, 22, and 45.

[69] Exhibit 20.

[70] Exhibit 31.

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The Bottom Line:

Standard setters' efforts should be aimed at improving disclosures, disaggregation of intangible assets and the costs incurred to develop them, and the timeliness and transparency of impairment testing, before tackling recognition of internally generated intangibles.

C. Overall Perspectives on Intangibles

To gauge investors' overall views on intangibles, we first asked survey respondents to provide their level of agreement, ranging from strongly disagree to strongly agree, on 16 high-level statements. These perspectives, summarized in **Exhibit 14**, covered the following categories and are analyzed in detail in the numbered sections that follow.

1. ***Importance of Intangibles to the Relevance of Financial Statements:*** Do respondents agree or disagree that intangibles are economically important, omitted from the financial statements, and that this omission puts the relevance of the financial statements at risk?[71]
2. ***Investors Strongly Support Improving Disclosure before Changing Recognition:*** Do respondents agree or disagree that more disclosures related to intangibles in the notes to the financial statements should precede recognition of more intangibles on the financial statements?[72]
3. ***Majority Support Recognition of Internally Generated Intangibles, But Subsequent Measurement Cannot Be Ignored:*** Do respondents agree or disagree that internally generated intangibles should be recognized on the financial statements in a similar way to acquired intangibles?[73]
4. ***Greater Disaggregation across the Financial Statements Is Needed:*** Do respondents agree or disagree that greater disaggregation of intangibles is needed across the financial statements and whether disaggregation of acquired intangibles from goodwill in an acquisition is useful?[74]
5. ***Clear Desire for Better Disclosure:*** Do respondents agree or disagree with greater disclosures related to intangibles in the notes to the financial statements or as part of a new balance sheet that shows the value created by intangibles?[75]

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[71]Addressed in Exhibits 16–20.

[72]Exhibits 21 and 22.

[73]Exhibits 23–25.

[74]Exhibits 26 and 27.

[75]Exhibits 28–31.

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Exhibit 14. Investors' Overall Views on Intangibles

IMPORTANCE OF INTANGIBLES TO THE RELEVANCE OF FINANCIAL STATEMENTS

For many companies, the most valuable assets (i.e., intangible assets) do not appear on the balance sheet. (Exhibit 16)
N = 807

The existing accounting model does not, but should, recognize many important intangible assets. (Exhibit 17)
N = 813

A significant difference in book value and market capitalization is explained by the lack of recognition of important intangibles. (Exhibit 18)
N = 813

The move to ESG disclosures on items such as human capital is an indication that the financial statements are missing important intangible assets (i.e., assembled workforce). (Exhibit 19)
N = 808

Financial statements are, and will become, increasing less relevant without action by the FASB and IASB on the issue of intangibles. (Exhibit 20)
N = 807

DISCLOSURE BEFORE RECOGNITION

The accounting and valuation for intangibles is challenging, but the accounting standard setters must work toward disclosures, and then recognition, of currently unrecognized intangibles for financial statements to remain relevant for many industries. (Exhibit 21)
N = 812

Recognition of intangibles must begin with better disclosures such that valuation and measurement may improve. (Exhibit 22)
N = 808

RECOGNITION

Both acquired and internally generated intangible assets should be recognized as assets on the balance sheet to enhance comparability. (Exhibit 23)
N = 811

Intangibles such as data should be disclosed and possibly recognized as balance sheet assets. (Exhibit 24)
N = 809

My primary concern at this moment is the identification, recognition and measurement of all intangibles, the subsequent accounting (impairment vs. amortization) is important, but secondary. (Exhibit 25)
N = 810

AGGREGATION & DISAGGREGATION

I need better disaggregation of intangibles. (Exhibit 26)
N = 808

I do not believe a move towards greater aggregation of acquired intangibles with goodwill, for administrative convenience, is useful to investors, because it will eliminate the rigor of deal valuation and I may lose value relevant information. (Exhibit 27)
N = 809

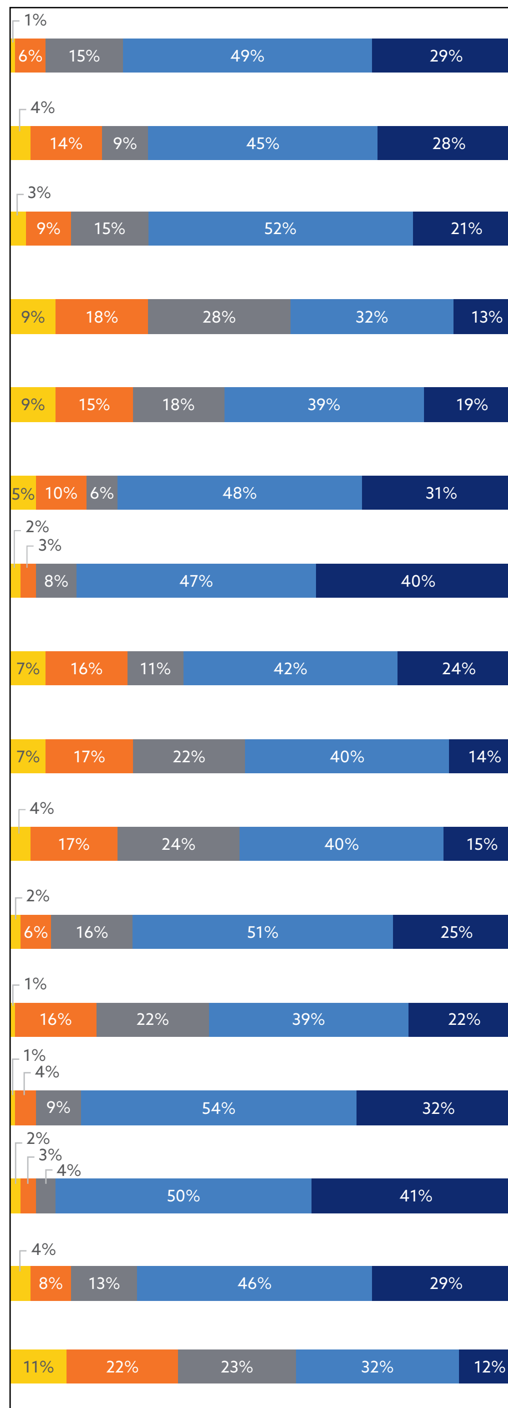
DISCLOSURE

I need better disclosures regarding intangibles (i.e., a more specific questions on what disclosures follows). (Exhibit 28)
N = 809

Improving disclosures of internally generated intangibles would be beneficial. (Exhibit 29)
N = 810

Requiring disclosure of management's estimate of fair value for all intangibles would be beneficial. (Exhibit 30)
N = 810

There should be a new balance sheet that shows the value created by intangibles. (Exhibit 31)
N = 810



Strongly Disagree | Disagree | Neither Agree Nor Disagree | Agree | Strongly Agree

Source: CFA Institute, 2024.

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Insight across Categories

Before we discuss the responses to the 16 questions individually, we analyze the responses across categories to discern the matters of greatest and least importance to investors. **Exhibit 15** presents the same questions as shown in Exhibit 14 but is organized by the areas of strongest agreement across categories. **Exhibit 15A** identifies the three areas of strongest agreement, strongest disagreement, and greatest neutrality or ambivalence across all the questions. **Exhibit 15B** presents the questions three-dimensionally, according to levels of agreement, highlighting in color those shown in Exhibit 15A.

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Exhibit 15. Investors' Overall Views on Intangibles: From Most to Least Agreement

BETTER DISCLOSURE OF INTERNALLY GENERATED INTANGIBLES
Improving disclosures of internally-generated intangibles would be beneficial. (Exhibit 29)
N = 810

RECOGNITION OF INTANGIBLES BEGINS WITH BETTER DISCLOSURE
Recognition of intangibles must begin with better disclosures such that valuation and measurement may improve. (Exhibit 22)
N = 808

NEED GREATER DISCLOSURE OF INTANGIBLES
I need better disclosures regarding intangibles (i.e., a more specific questions on what disclosures follows). (Exhibit 28)
N = 809

DISCLOSE INTANGIBLES, THEN RECOGNIZE
The accounting and valuation for intangibles is challenging, but the accounting standard setters must work toward disclosures, and then recognition, of currently unrecognized intangibles for financial statements to remain relevant for many industries. (Exhibit 21)
N = 812

MOST VALUABLE ASSETS NOT RECOGNIZED
For many companies, the most valuable assets (i.e., intangible assets) do not appear on the balance sheet. (Exhibit 16)
N = 807

DISCLOSE FAIR VALUE OF INTANGIBLES
Requiring disclosure of management's estimate of fair value for all intangibles would be beneficial. (Exhibit 30)
N = 810

NEED BETTER DISAGGREGATION OF INTANGIBLES
I need better disaggregation of intangibles. (Exhibit 26)
N = 808

ACCOUNTING MODEL FAILS TO RECOGNIZE IMPORTANT INTANGIBLES
The existing accounting model does not, but should, recognize many important intangible assets. (Exhibit 17)
N = 813

INTANGIBLES EXPLAIN DIFFERENCE IN BOOK AND MARKET VALUE
A significant difference in book value and market capitalization is explained by the lack of recognition of important intangibles. (Exhibit 18)
N = 813

RECOGNIZE ACQUIRED & INTERNALLY GENERATED INTANGIBLES
Both acquired and internally generated intangible assets should be recognized as assets on the balance sheet to enhance comparability. (Exhibit 23)
N = 811

GREATER AGGREGATION OF ACQUIRED INTANGIBLES WITH GOODWILL NOT USEFUL
I do not believe a move towards greater aggregation of acquired intangibles with goodwill, for administrative convenience, is a useful to investors, because it will eliminate the rigor of deal valuation and I may lose value relevant information. (Exhibit 27)
N = 809

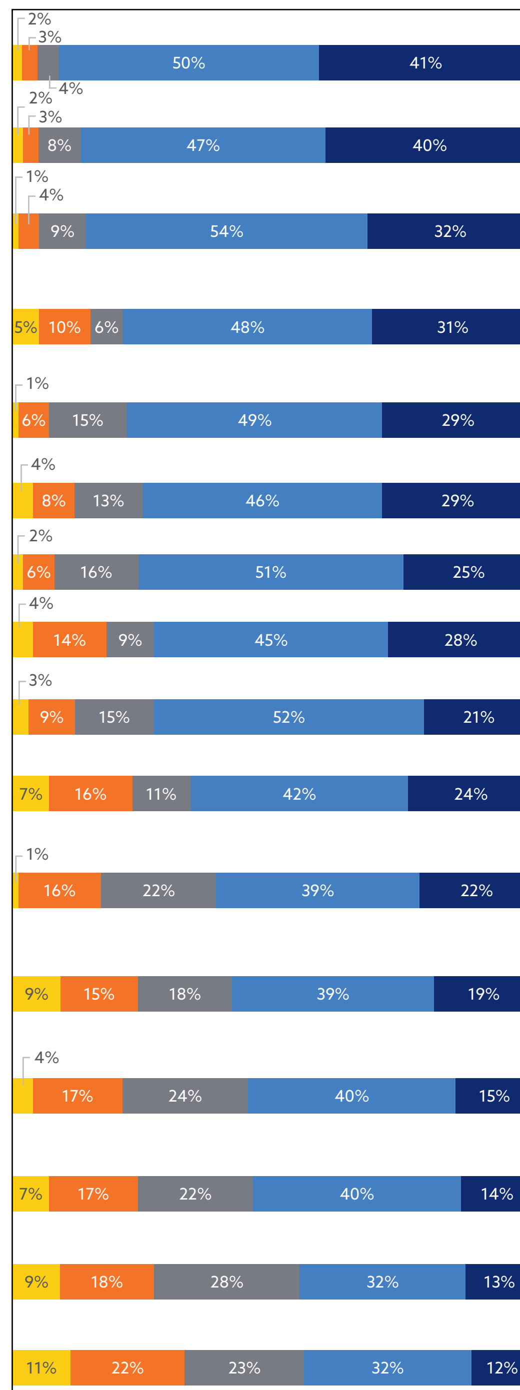
FINANCIALS BECOMING LESS RELEVANT BECAUSE OF LACK OF RECOGNITION OF INTANGIBLES
Financial statements are, and will become, increasing less relevant without action by the FASB and IASB on the issue of intangibles. (Exhibit 20)
N = 807

RECOGNITION MORE IMPORTANT THAN SUBSEQUENT MEASUREMENT OF INTANGIBLES
My primary concern at this moment is the identification, recognition and measurement of all intangibles, the subsequent accounting (impairment vs. amortization) is important, but secondary. (Exhibit 25)
N = 810

TYPES OF INTANGIBLES TO BE RECOGNIZED
Intangibles such as data should be disclosed and possibly recognized as balance sheet assets. (Exhibit 24)
N = 809

ESG INDICATION OF MISSING RECOGNITION OF INTANGIBLES
The move to ESG disclosures on items such as human capital is an indication that the financial statements are missing important intangible assets (i.e., assembled workforce). (Exhibit 19)
N = 808

BALANCE SHEET OF VALUE CREATED BY INTANGIBLES
There should be a new balance sheet that shows the value created by intangibles. (Exhibit 31)
N = 810



Strongly Disagree | Disagree | Neither Agree Nor Disagree | Agree | Strongly Agree

Source: CFA Institute, 2024.

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Exhibit 15A. Investors' Overall Views on Intangibles: Most and Least Agreement, Ambivalence, and Disagreement

Level of Agreement	Statements with Highest Percentage of Indicated Level of Agreement	Statements with Lowest Percentage of Indicated Level of Agreement
Strongly agree or agree	***Improve Disclosure of Internally Generated Intangibles.*** Improving disclosures of internally generated intangibles would be beneficial. (91%) (Exhibit 29) ***Begin with Disclosure before Recognition.*** Recognition of intangibles must begin with better disclosures, such that valuation and measurement may improve. (87%) (Exhibit 22) ***Need Better Disclosure of Intangibles.*** I need better disclosures regarding intangibles. (86%) (Exhibit 28)	***New Balance Sheet.*** There should be a new balance sheet that shows the value created by intangibles. (44%) (Exhibit 31) ***Environmental, Social, and Governance (ESG) and Intangibles.*** The move to ESG disclosures on items such as human capital is an indication that the financial statements are missing important intangible assets (i.e., assembled workforce). (45%) (Exhibit 19) ***Data.*** Intangibles such as data should be disclosed and possibly recognized as balance sheet assets. (54%) (Exhibit 24)
Neither agree nor disagree	***ESG and Intangibles.*** The move to ESG disclosures on items, such as human capital is an indication that the financial statements are missing important intangible assets (i.e., assembled workforce). (28%) (Exhibit 19) ***Subsequent Measurement Is Secondary to Initial Recognition.*** My primary concern at this moment is the identification, recognition and measurement of all intangibles, the subsequent accounting (impairment versus amortization) is important but secondary. (24%) (Exhibit 25) ***New Balance Sheet.*** There should be a new balance sheet that shows the value created by intangibles. (23%) (Exhibit 31)	***Improve Disclosure of Internally Generated Intangibles.*** Improving disclosures of internally generated intangibles would be beneficial. (4%) (Exhibit 29) ***Begin with Disclosure before Recognition.*** The accounting and valuation for intangibles is challenging, but the accounting standard setters must work toward disclosures, and then recognition, of currently unrecognized intangibles for financial statements to remain relevant for many industries. (6%) (Exhibit 21) ***Begin with Disclosure before Recognition.*** Recognition of intangibles must begin with better disclosures such that valuation and measurement may improve. (8%) (Exhibit 22)

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Exhibit 15A. Investors' Overall Views on Intangibles: Most and Least Agreement, Ambivalence, and Disagreement (*Continued*)

Level of Agreement	Statements with Highest Percentage of Indicated Level of Agreement	Statements with Lowest Percentage of Indicated Level of Agreement
Strongly disagree or disagree	***New Balance Sheet.*** There should be a new balance sheet that shows the value created by intangibles. (33%) (Exhibit 31) ***ESG and Intangibles.*** The move to ESG disclosures on items such as human capital is an indication that the financial statements are missing important intangible assets (i.e., assembled workforce). (27%) (Exhibit 19) ***Financial Statement Relevance and Data.*** Financial statements are, and will become, increasingly less relevant without action by the FASB and IASB on the issue of intangibles. Intangibles, such as data, should be disclosed and possibly recognized as balance sheet assets. (tied 24%) (Exhibits 20 and 24)	***Improve Disclosure of Internally Generated Intangibles.*** Improving disclosures of internally generated intangibles would be beneficial. (5%) (Exhibit 29) ***Begin with Disclosure before Recognition.*** Recognition of intangibles must begin with better disclosures such that valuation and measurement may improve. (5%) (Exhibit 22) ***Need Better Disclosure of Intangibles.*** I need better disclosures regarding intangibles. (5%) (Exhibit 28)

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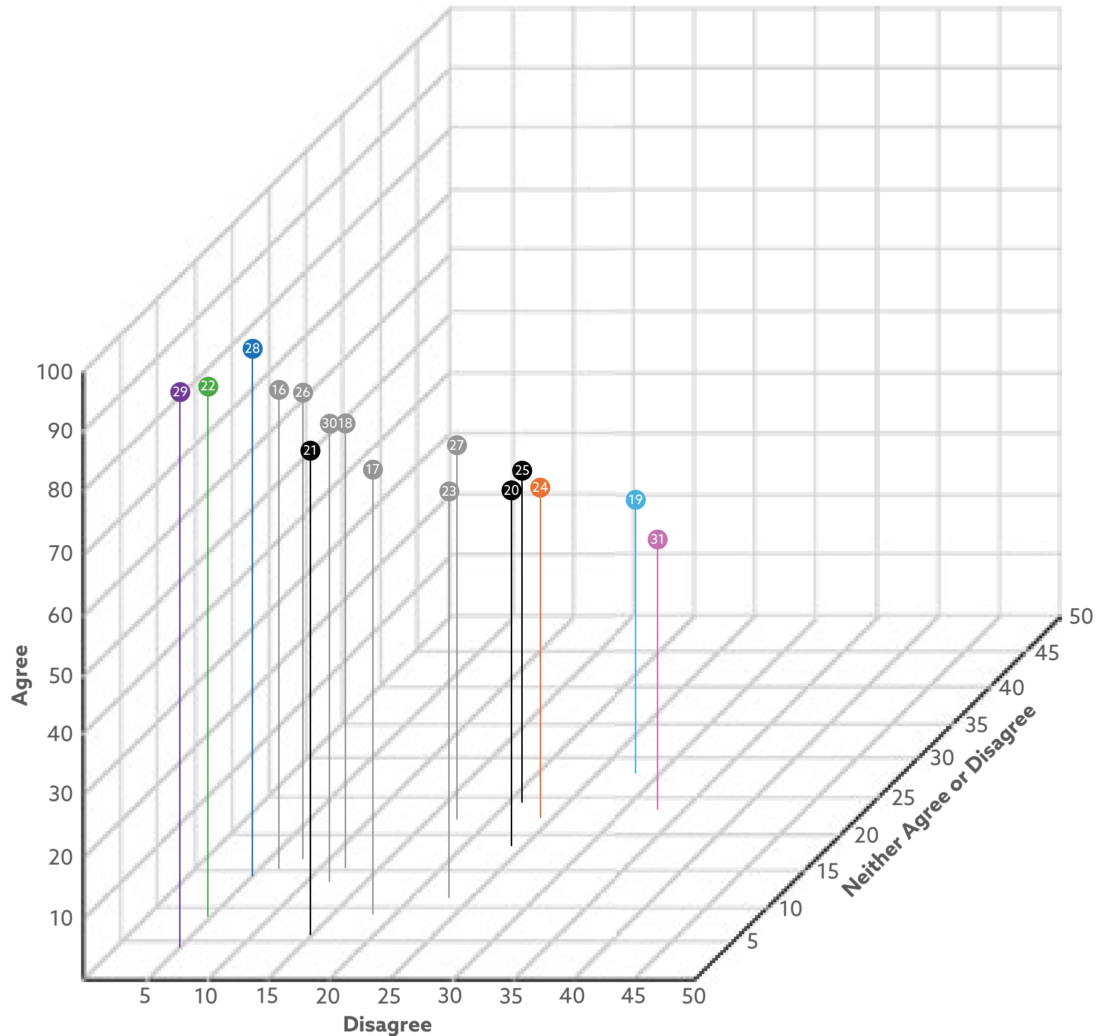
Exhibit 15B. Investors' Overall Views on Intangibles: Visual Representation



Note: The numbers in the chart reflect the exhibit numbers to which the question relates.

Source: CFA Institute, 2024.

From these exhibits, we can draw the following conclusions:

- ***Strongest Agreement: Improve Disclosures and Improved Disclosures before Recognition***
  - There was both the broadest overall and strongest agreement for improving disclosures of internally generated intangibles, that recognition should begin with better disclosure, and for better disclosures of intangibles broadly. More than 85% of respondents strongly agreed or agreed with these statements, with more than 30% strongly agreeing.
  - As expected, respondents disagreed the least and least strongly (only 5%, with only 1–2% strongly disagreeing) on the same statements they agreed with the most: improving disclosures of internally generated

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intangibles, that recognition should begin with better disclosure, and for better disclosures of intangibles broadly.

- ***Weakest Agreement: New Balance Sheet Is Necessary, Demands for Environmental, Social, and Governance (ESG) Information Speak to Unrecognized Intangibles and Data Should Be Recognized as Intangible***
  - There was both the least agreement overall and least strong agreement for the disclosure of a new type of balance sheet (44% and 33%, respectively), that calls for ESG disclosures were related to unrecognized intangibles (45% and 27%, respectively), and, surprisingly, with the statement that "intangibles such as data should be disclosed and possibly recognized as balance sheet assets" (54% and 27%, respectively). Although respondents favor significant changes to the accounting and disclosures of intangibles, they do not have a strong appetite for revolutionary changes.
  - The low level of agreement of disclosing and possibly recognizing intangibles such as data is at odds with the statements that garnered most support (i.e., disclosure before recognition). It may be that respondents specifically disagree with recognizing *data* as an intangible asset.
  - As expected, respondents disagreed the most (44–54%) and most strongly (17–22%) on the same statements they agreed with the least.
  - They also demonstrated among the highest ambivalence (22–28%) about these statements.
- ***Ambivalence: Lowest on Items with Strongest Agreement (Disclosures) and Highest on Items with Weakest Agreement (Significant Changes Preceding Disclosure Improvements)***
  - Responses of "neither agree nor disagree" were lowest (4–10%) for the statements that also received the most agreement—improving disclosures and disclosure. These same statements also had the lowest levels of disagreement. This highlights that respondent's conviction with respect to improving disclosures and improving disclosures before recognition was very high.
  - With one exception, responses of "neither agree nor disagree" were generally highest (22–28%) for the statements that received the least or weakest agreement, like the presentation of a new type of balance sheet or that calls for ESG disclosures reflect unrecognized intangibles.
  - The exception was that although investors agreed or strongly agreed (55%) that initial recognition and measurement was of principal concern, they were not willing to disregard subsequent measurement, with 21% disagreeing that subsequent measurement was secondary to initial recognition and 24% neither agreeing nor disagreeing. Said differently, their level of agreement was lower, showing less conviction that subsequent measurement was secondary to initial recognition. Additionally, they showed stronger conviction on the importance of disclosure.

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- ***Internally Generated Intangibles: Strongest Support Was for Better Disclosures on Internally Generated Intangibles***
  - Many of the 16 statements dealt with respondents' views on intangibles generally, but two directly addressed internally generated intangibles:
    - "Both acquired and internally generated intangible assets should be recognized as assets on the balance sheet to enhance comparability."[76]
    - "Improving disclosures of internally generated intangibles would be beneficial."[77]
  - The strongest level of agreement across the entire survey (91% strongly agree or agree) was that improving disclosures for internally generated intangibles would be beneficial.
  - The majority also showed support (67% strongly agree or agree) for recognizing internally generated intangibles in a similar manner to acquired intangibles, but the level of agreement was significantly less than that for greater disclosures on internally generated intangibles.
  - This response aligns with respondents' general view that disclosures should be improved, and that disclosure should precede recognition.

Overall, we observed clear differentiation and conviction across the spectrum of questions. Improving disclosures, especially for internally generated intangibles, was the most significant message. Making radical changes (e.g., a new balance sheet) without first improving disclosures was viewed with the greatest disagreement.

[76] Exhibit 23.

[77] Exhibit 29.

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Discussion of Key Questions by Category

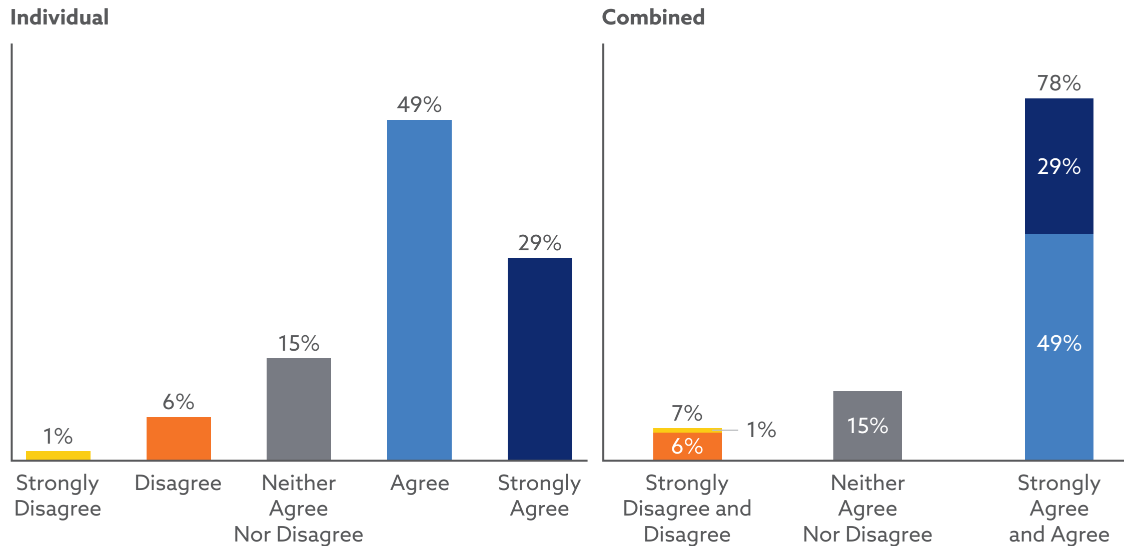
We now discuss individually the findings from the overall perspective questions according to the previously identified categories.

1. Importance of Intangibles to the Relevance of Financial Statements: Overall, Investors Believe Financial Statements Are Missing Important Information

Most Valuable Assets Do Not, but Should, Appear on Balance Sheet

As shown in **Exhibit 16**, respondents strongly agreed (29%) or agreed (49%)—collectively 78%—that the most valuable assets do not appear on many companies' balance sheets.

Exhibit 16. Most Valuable Assets Are Not Recognized



Source: CFA Institute, 2024.

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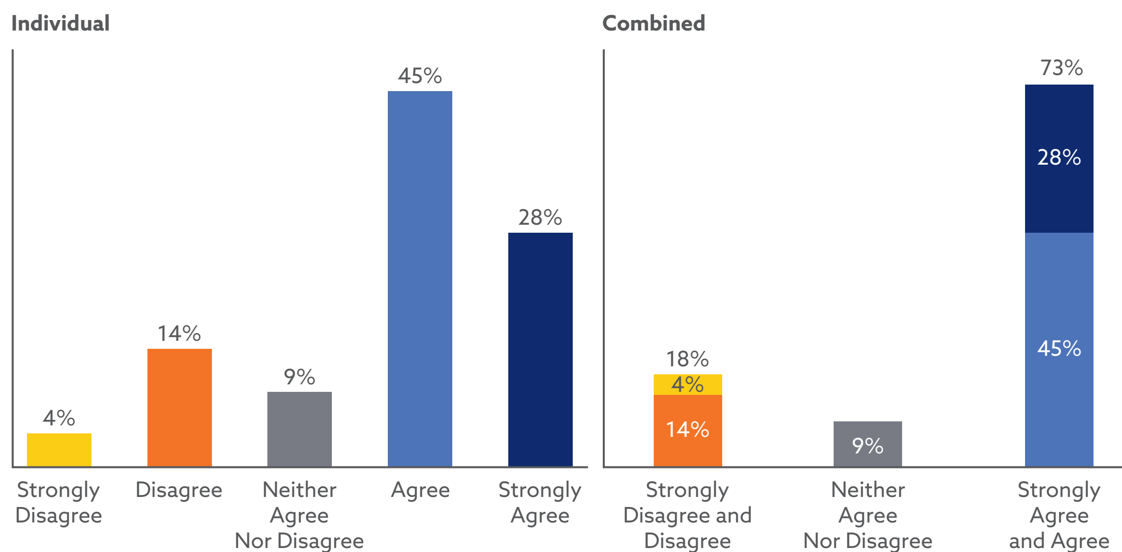
A similarly high percentage (73%) of respondents strongly agreed (28%) or agreed (45%), as shown in **Exhibit 17**, that the accounting model should recognize many of the important intangible assets that it does not today.

Overall, these respondents' views align with our discussion in the prior section that modern economies have shifted from manufacturing-based and extractive industries to services and technology-based industries with more reliance on intangibles and that financial statements do not, but should, reflect such changes.

Exhibit 17. Accounting Model Fails to Recognize Important Intangibles



Source: CFA Institute, 2024.

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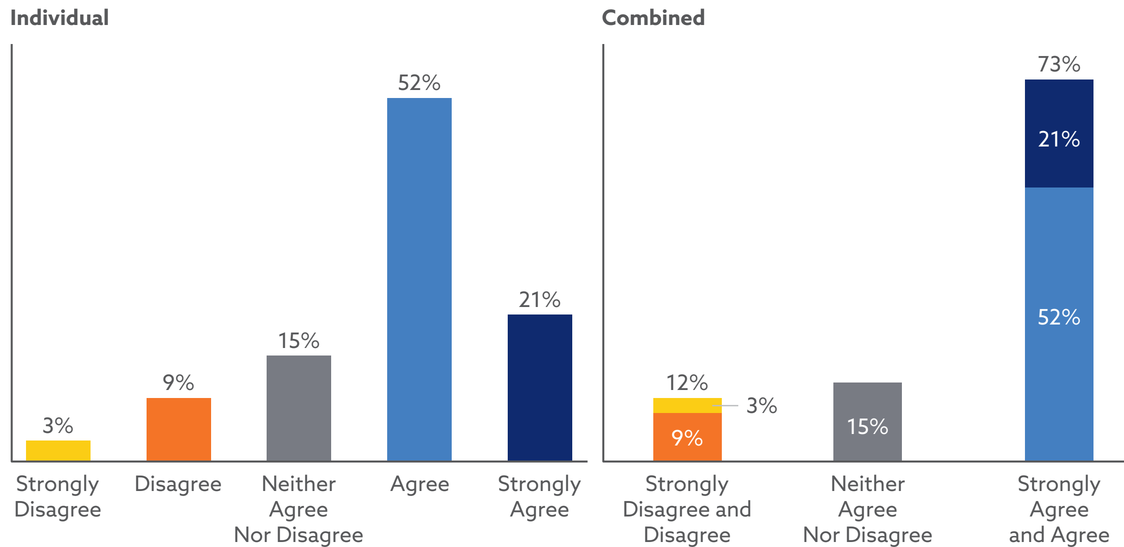
Intangibles Explain the Significant Difference between Book and Market Value

As shown in **Exhibit 18**, when asked whether the failure to recognize intangible assets on the balance sheet contributed to explaining the significant difference between book and market value, a similar percentage of respondents (73%) strongly agreed (21%) or agreed (52%) that the omission of intangibles contributed to explaining that difference. This emphasizes a point illustrated earlier with several examples like Apple, which trades at 40 times its book value.

Exhibit 18. Intangibles Explain the Difference between Book and Market Value



Source: CFA Institute, 2024.

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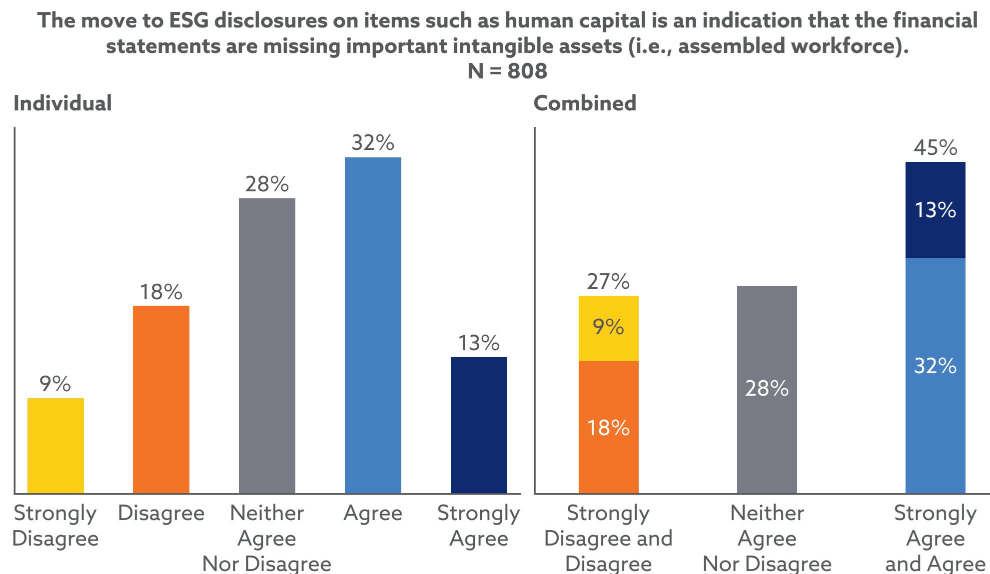
Calls for ESG Disclosures Is Not an Indication of the Failure to Recognize Intangibles

Investors agreed that significant differences in book values and market capitalizations were explained by the omission of intangibles from the financial statements. As shown in **Exhibit 19**, however, they did not broadly agree (45%), with only 13% strongly agreeing and 32% agreeing, that calls for greater ESG disclosures, such as human capital disclosures (i.e., assembled workforce), were driven by the financial statements missing important intangible assets.

We asked this question because some investors had previously indicated that the call for ESG disclosures stem from financial statements that lack decision-useful information related to risks involving intangibles such as reputation and workforce engagement.

Although a plurality (45%) agrees with this statement, we observed higher uncertainty (28%) than disagreement (27%) with this perspective. This may be because ESG disclosures are in their nascent stages and, in most cases, have little connection to the financial statements through the disclosure of financial effects.

Exhibit 19. ESG Disclosure Is an Indication of Missing Recognition of Intangibles



Source: CFA Institute, 2024.

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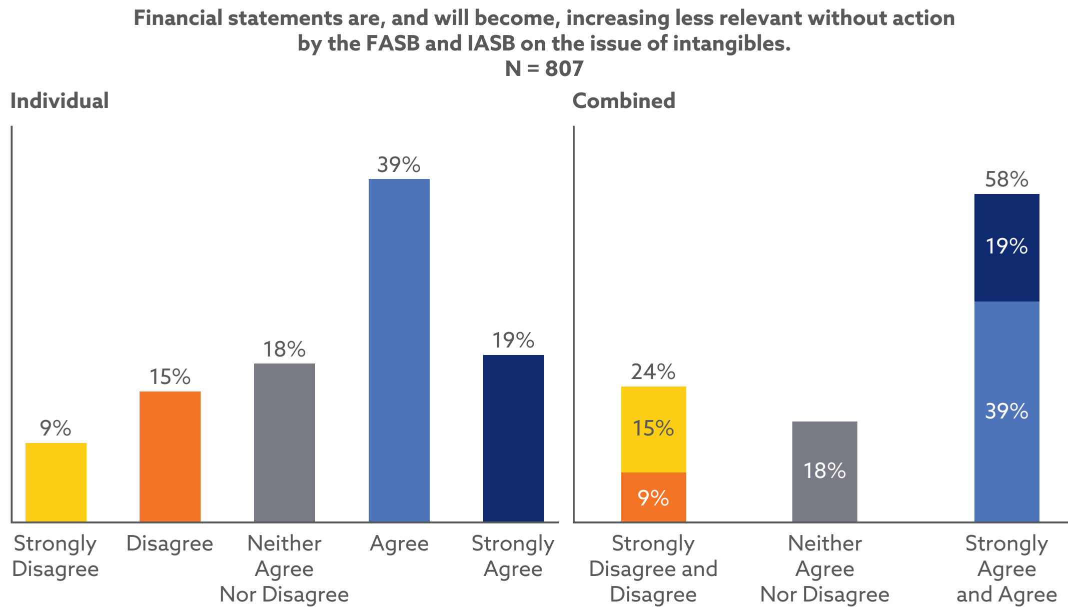
Financial Statements Are Becoming Less Relevant Because of the Lack of Recognition of Intangibles

As shown in **Exhibit 20**, a majority (58%) of investors—albeit not an overwhelming majority, with 19% strongly agreeing and 39% agreeing—agreed that financial statements overall are, and will become, increasingly less relevant without action by the FASB and IASB on intangibles. Only 24% disagreed with this perspective, with 18% being unsure, highlighting that standard setters should act on this issue.

Exhibit 20. Financials Are Becoming Less Relevant Because of the Lack of Recognition of Intangibles



Source: CFA Institute, 2024.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following is a selection of representative comments related to whether the relevance of financials statements is affected by the lack of recognition of intangible assets. The appendix provides a more detailed analysis of these comments.

Investor and Analyst Comments

Acknowledging Lack of Recognition of Intangible Assets in Financial Statements and the Impact on Relevance of Financial Statements

- As the world economy continues to move from industrial to economic age, efforts should be made to bring the valuations of these non-physical assets on the balance sheet to enable users to appreciate what is driving values in organizations.

A key concern is manipulation of value attributed to these assets; however, these would be addressed by greater disclosure requirements on the creation and valuation of the intangibles to enable users to critique the values.

- **I do believe that value is missing from the balance sheet by not reflecting intangibles. . . .** However, allowing fair valuation at the discretion of management will create an even greater information gap between investors and executives. **If intangibles are to be included, disclosure will have to be transparent and objective as the two key attributes.**
- In general, financial statements are becoming less relevant because of capital light (or non-tangible investment) business models. However, attempting to value intangibles and out them on balance sheet is only likely to add limited value in my view (given difficulty assessing the value of these assets).
- Disclosure of the presence of an internally generated asset (data, brand, customer relationships) is very important, but valuing it is difficult and open to manipulation. Perhaps a system where a percentage of sales and marketing can be capitalized to create these intangibles may be less easy to manipulate?

Opposing Intangible Asset Recognition to Maintain Relevance of Financial Statements

- If the current rules of accounting for intangibles change, I think management teams would have too much discretion in what expenses to capitalize therefore further distorting financial statements. Furthermore, I believe it may be impossible to come up with a universally acceptable way of measuring what constitutes internally generated intangible assets and any associated amortization expenses.
- I do not see a big problem with the current expensing accounting model as it is straightforward. **The capitalization model would create a lot more management assumptions and heterogeneity among issuers.** I don't think that management has a good estimate of the value of these things as they're uncertain, illiquid (no secondary market/way to dispose of them) and would often just be a capitalization of payroll expenses. Eventually, the amortization of the intangible would converge with the expensing anyway. I value companies on cash flows; the non-current asset side of the balance sheet is virtually useless. I don't think more management assumptions/FV accounting models would make it more useful, it would just be biased (it's [the] analyst['s] job to come up with PV of future cash flows, we can't trust management to make that calculation). I don't care about making book value or P/B multiples closer to market values. **I am fine with more disclosures/disaggregated disclosures in the notes or MD&A.** By the way, I think the definition of intangible assets would need to be substantially revised to make what you're implying work.
- **I think ESG has its own dynamics/force at the moment and wouldn't take that into consideration as an argument**—there are many (most, in fact) things not captured in financial statements. That doesn't reduce the significance of the financial statements.

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Overall, Financial Statements Do Not Recognize Assets Valued by Investors: Is Considering Capitalization of Costs Sufficient? Or Do We Need a New Accounting Model?

Collectively, the responses (shown in Exhibits 16–20) and comments highlight the existence and relevance of intangibles and the fact that financial statements are missing these important assets, but they also highlight the challenges with measurement and valuation of such intangible assets. Investors worry that management may have too much discretion and manipulation of results may ensue.

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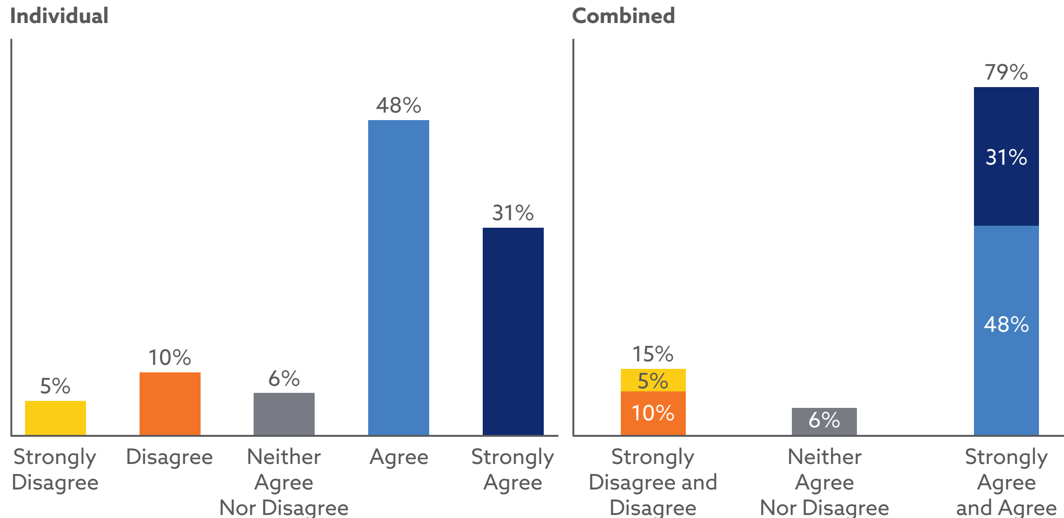
2. Investors Strongly Support Improving Disclosure before Changing Recognition

In Section IV(C)(5), Clear Desire for Better Disclosures, we highlight the results from our questions seeking overall perspectives about disclosures.[78] In Section IV(D)(4), Disclosures, we present more specific findings related to the usefulness and needed improvements related to intangible disclosures broadly.[79] We also queried the need for better disclosures of internally generated disclosures before their recognition on the balance sheet.[80] These questions are similar to those presented in **Exhibits 21** and **22**.

In Section IV(C)(3), Recognition, we summarize the results from our questions seeking overall perspectives about recognition of internally generated intangibles.[81] This topic is addressed in more detail in Section IV(D)(2), Initial Recognition: Internally Generated Intangibles.[82]

Our preliminary conversations with investors suggested that improving disclosures regarding intangibles before their recognition in the financial statements might improve the decision-usefulness of the financial statements.

Exhibit 21. Disclose Intangibles, Then Recognize



Source: CFA Institute, 2024.

[78] Exhibits 28–31.

[79] Exhibits 45–46.

[80] Exhibit 45.

[81] Exhibits 23–24.

[82] Exhibits 35–39.

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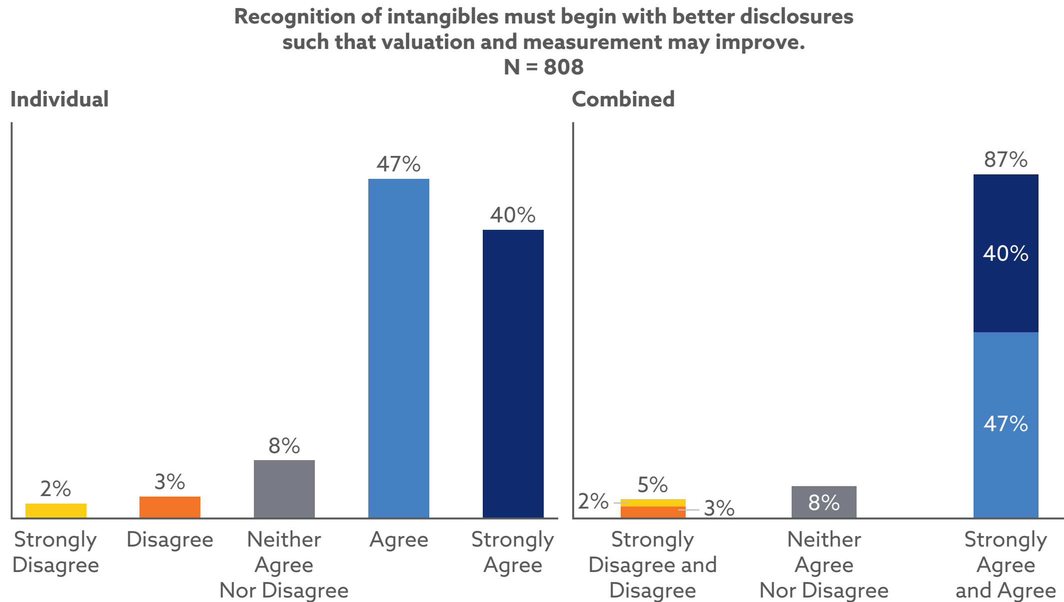
Exhibit 22. Recognition of Intangibles Begins with Better Disclosure



Source: CFA Institute, 2024.

Therefore, we queried respondents on two statements related to a disclosure-before-recognition approach to unrecognized intangibles. Respondents strongly supported both statements.

Acknowledging that the accounting and valuation of intangibles is challenging, we asked whether the accounting standards setters must work toward better disclosures regarding intangibles before their recognition for the financial statements to remain relevant for many industries. This approach received very strong support (79%), as shown in Exhibit 21, with 31% of respondents strongly agreeing and 48% agreeing with this statement.

We then queried the notion of whether disclosure before recognition was necessary because such disclosure would improve the valuation and measurement of intangibles. As shown in Exhibit 22, this view received even greater support (87%), with 40% of respondents strongly agreeing and 47% agreeing with this statement.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following are several representative comments related to disclosure before recognition.

Investor and Analyst Comments
Disclosure before Recognition
• I like the idea of disclosure that can help us work out whether this is an important area, and how best to analyze going forward. There should be a mechanism to allow for reflection in X years' time, with the possible outcome of: no, it turns out that wasn't useful, and we should go back.
• Measurement of internally generated intangibles is difficult and can end up being misleading. **Disclosure is a good first step with description of management recognized intangibles.**
• The recognition of internally generated assets as an asset on the balance sheet would be an ideal state. That said, in the real world recognition could lead to increased manipulation of financial statements, notably if allowing a fair value model. Further, even intangible assets that appear to be able to be sold separately, such as client lists, are regularly still dependent on the overall business in which they are embedded. **Disclosure instead of recognition as a first step would allow analysts to assess the value assigned to such assets over time while preventing management from manipulation. Full recognition could follow in a second step once valuation standards have been established.**
• If there is no reliable way of measuring an intangible, I would prefer disclosure in notes.
• Start slow.

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3. Majority Support Recognition of Internally Generated Intangibles, But Subsequent Measurement Cannot Be Ignored

We asked for respondents' views on three statements related to greater recognition and the subsequent measurement of intangibles.

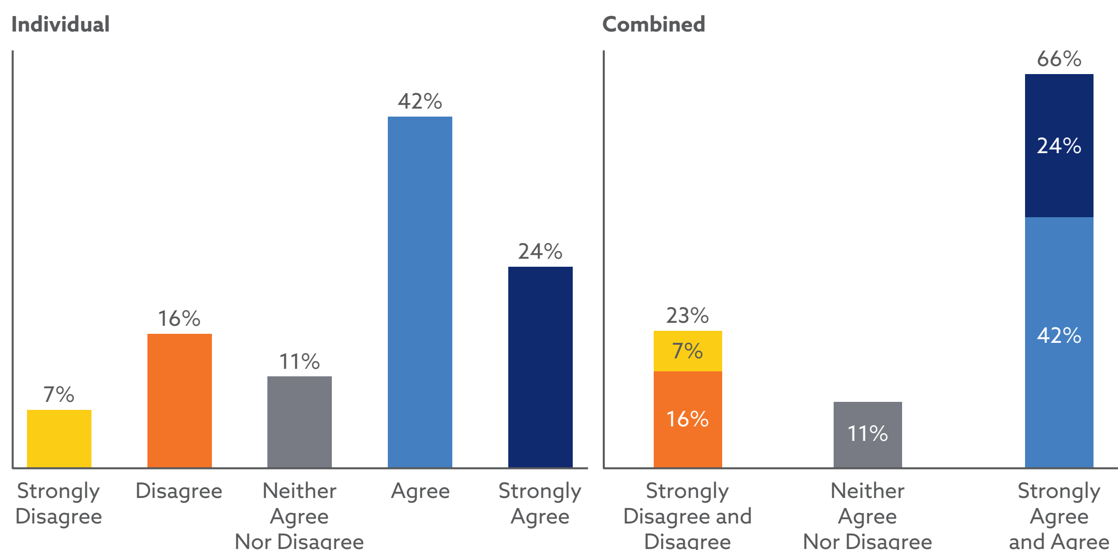
A Single Recognition Approach for Acquired and Internally Generated Intangibles Would Enhance Comparability

As shown in **Exhibit 23**, more than a majority (66%) of respondents agreed—with 24% strongly agreeing and 42% agreeing—that both acquired and internally generated intangibles assets should be recognized on the balance sheet to enhance comparability.

Types of Intangibles to Be Disclosed and Possibly Recognized

Many types of intangibles are generated by companies. Some, like software, are developed and incur costs directly in their creation. Intangibles also are created more indirectly or incidentally—for example, the collection of customer transaction and usage data. When accounting standard setters discuss the accounting for intangibles, their discussion—in our view—heavily focuses on the capitalization of costs incurred for direct creation and less on intangibles created indirectly. As such, we queried whether an indirect, internally generated asset such as data should be disclosed and possibly recognized.

Exhibit 23. Recognize Acquired and Internally Generated Intangibles



Source: CFA Institute, 2024.

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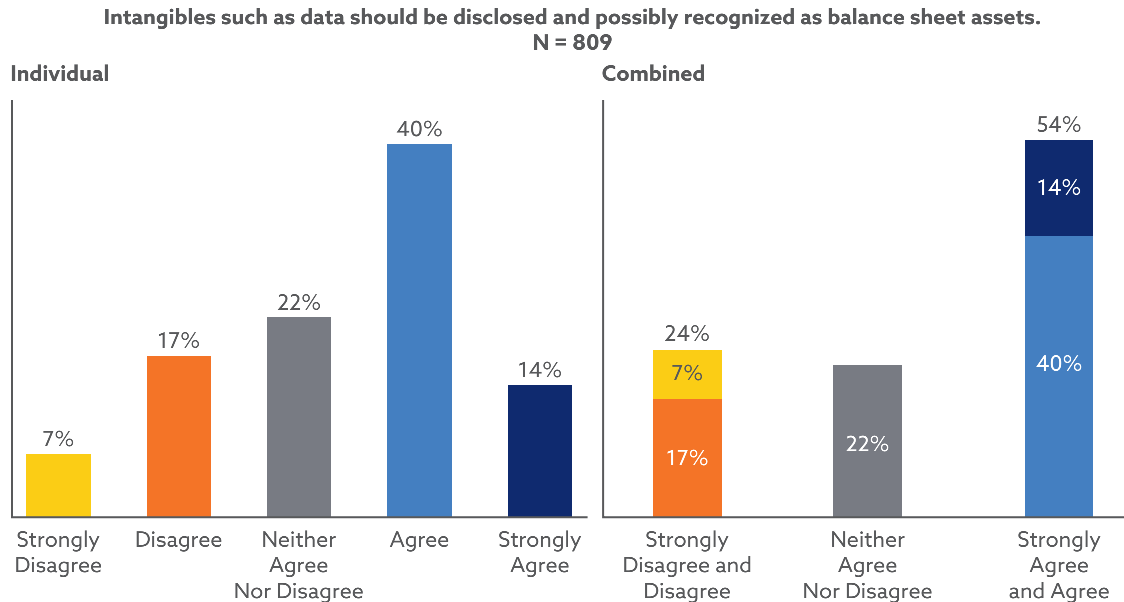
As noted in **Exhibit 24**, a majority supported (54%) disclosure with the possibility for recognition. We noted greater ambivalence (22%) with this question than with the preceding question (11%). This result is consistent with our findings shown in Exhibits 21–22, as presented in Section IV(C)(2), Investors Strongly Support Improving Disclosures before Changing Recognition; Section IV(D)(2), Initial Recognition: Internally Generated Intangibles;[83] and Section IV(D)(4), Disclosures.[84]

Exhibit 24. Types of Intangibles to Be Recognized



Source: CFA Institute, 2024.

[83]Exhibits 35–39.

[84]Exhibit 45.

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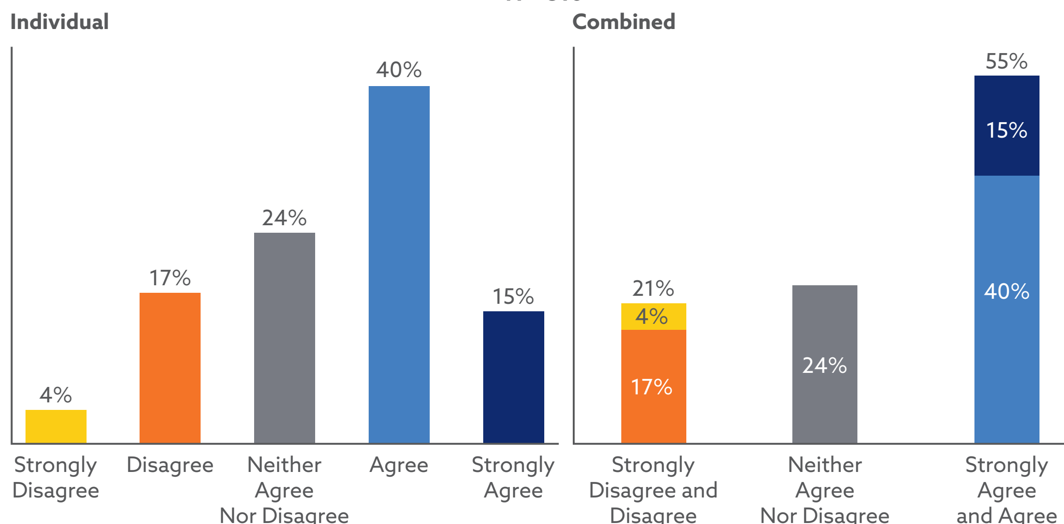
Recognition and Initial Measurement: Not Necessarily More Important Than Subsequent Measurement

In Section IV(D), Views on Accounting for and Disclosures of Intangibles, we queried respondents' views in more detail on not only the recognition of intangibles but also on how they should be accounted for or measured after they are initially recognized. We wanted to determine if investors and analysts preferred amortization of intangibles over impairment testing, specifically for indefinite-lived intangibles. In this section, we sought to determine whether investors were more interested or concerned with the initial recognition than with the subsequent accounting for intangibles.

As shown in **Exhibit 25**, respondents found recognition and initial measurement to be most important (55%), but there was a relatively higher degree of uncertainty (24%) and disagreement (21%) (collectively, 45%), which suggested they were not willing to disregard the importance of subsequent measurement.

We specifically queried investor views on subsequent measurement of intangibles in Section IV(D)(3), Subsequent Measurement: Impairment versus Amortization.[85] We found that investors favored retaining impairment over reverting to amortization despite the challenges with the timeliness of impairment recognition.

Exhibit 25. Recognition More Important Than Subsequent Measurement of Intangibles



Source: CFA Institute, 2024.

[85]Exhibits 40–44.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following is a selection of representative comments supporting and opposing the recognition of intangibles, which are more extensively analyzed in the appendix.

Investor and Analyst Comments
Supporting Recognition of Intangibles • For consistency, my preference is to see intangibles treated as similarly as reasonably possible to spending on tangible assets. • As a general matter, costs incurred that bring benefits in future periods should be capitalized and expensed over those future periods. This does not happen now with R&D, etc. Disclosures should be designed to prevent firms from capitalizing costs that have no identifiable future benefits or value to debt and equity holders upon sale or liquidation.
Opposing Recognition of Intangibles • When in doubt, expense instead of guessing at a demi-asset's (i.e., intangible's) value and then reevaluating it annually. If the intangibles have value, they'll result in higher revenue and operating cash flow. The balance sheet isn't the only place the value of intangibles shows up. And it's better to have market validation through real transactions.

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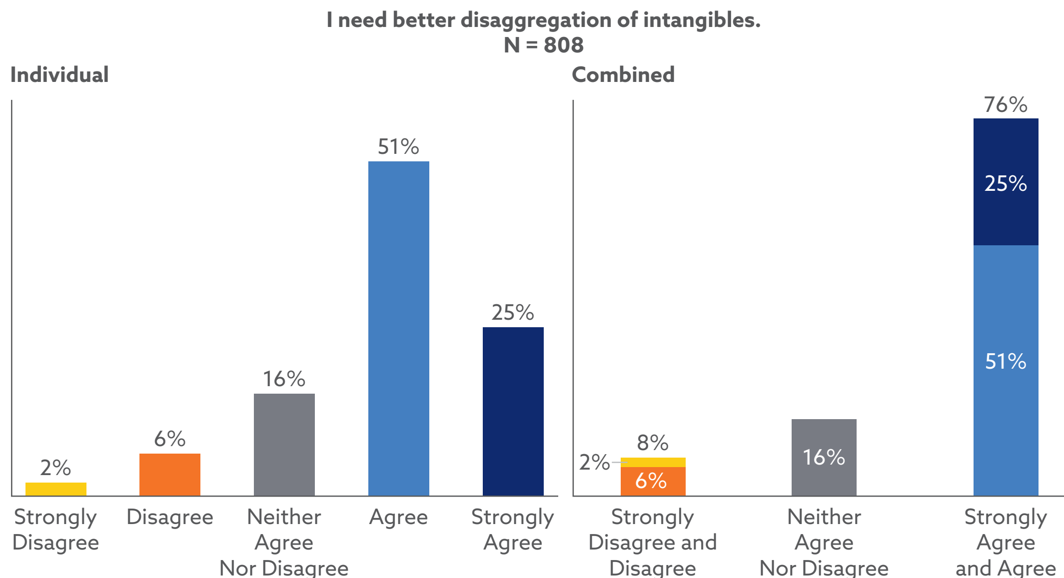
4. Greater Disaggregation across the Financial Statements Is Needed

Some companies and accounting standard setters believe the current identification and disaggregation of intangibles is too extensive. As a result, we asked respondents whether they do or do not need greater disaggregation of intangibles than is currently provided in financial statements. As shown in **Exhibit 26**, a significant majority (76%) supported (51%) or strongly supported (25%) greater disaggregation of intangibles.

Regrettably, we did not ask additional questions on the specific disaggregation of income statement expenses or statement of cash flows expenditures on intangibles (e.g., R&D expense, customer acquisition costs), but this will be a topic of further research.

Exhibit 26. Need Better Disaggregation of Intangibles



Source: CFA Institute, 2024.

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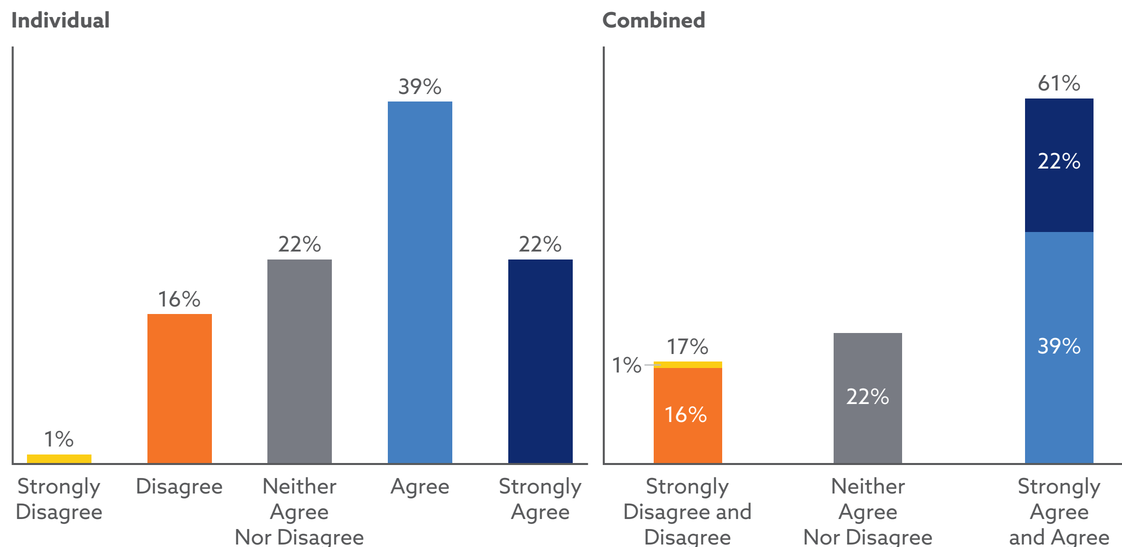
Aggregation of Acquired Intangibles with Goodwill Is Detrimental

We asked specifically about whether greater aggregation of acquired intangibles with goodwill would result in a loss of decision-useful information. Most respondents (61%) agreed, as shown in **Exhibit 27**, that greater aggregation of acquired intangibles with goodwill would reduce the rigor of deal valuation and result in the loss of value relevant information to investors.

In Section IV(D)(1), Initial Recognition: Acquired Intangibles), we query this topic in more detail and explain the importance of gaining investors' perspectives on this concept.[86]

Exhibit 27. Greater Aggregation of Acquired Intangibles with Goodwill Is Not Useful



Source: CFA Institute, 2024.

[86]Exhibits 32–34.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following is a selection of representative comments supporting and opposing greater disaggregation of intangibles, which are further analyzed in the appendix.

Investor and Analyst Comments
Supporting Greater Disaggregation
• **Spending on intangibles needs to be disclosed with more details** (e.g., The type of R&D, estimated usage life, marketing spending, etc.). • You don't record the value of heavy equipment as goodwill, either in an existing business or from an acquisition, so why record the intangible value of a software system any differently. • Greater transparency in acquired assets is better, even if subjective, in my opinion.
Opposing Greater Disaggregation
• Again, **this disaggregation is too subjective**. I know of companies that tell the market they are purchasing companies purely for customer acquisition but then convince their auditor to [allow] less allocation to customer list intangibles and more to goodwill to avoid the P&L impact of amortization. These accounting choices can be too easily manipulated. **Leaving it all as goodwill provides a scoreboard for investors to rely upon in the form of impairment testing**.

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5. Clear Desire for Better Disclosures

The Broadest and Strongest Levels of Agreement in Our Survey Were for Greater Disclosures

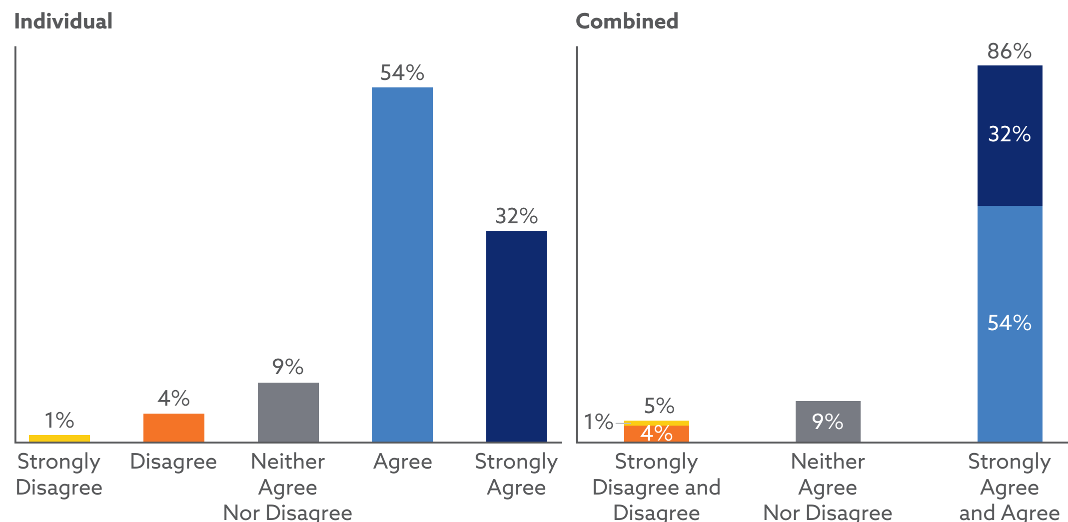
The current model of expensing investments in most intangibles and scant requirements for details around that investment means that investors in some companies are given few clues from management on the level and return on those investments and must rely on aggregate figures.

For example, Apple spent USD29 billion in R&D in its fiscal year ended 30 September 2023, but it provided no explanatory disclosure or detail on its R&D activities. This contrasts with the company's detailed footnote on financial instruments, which is required by US GAAP but far less relevant to the company's business model.

We asked investors whether better disclosures regarding intangibles were necessary. As shown in **Exhibit 28**, respondents expressed nearly universal agreement (86%) regarding the need for better disclosure regarding intangibles, irrespective of whether they were internally generated or acquired. There was only marginal indifference to the question and virtually no disagreement with this view.

We then queried the need for improving disclosures regarding internally generated intangibles. The need for improvement of such disclosure was even higher at 91%, as shown in **Exhibit 29**. This statement was the most strongly supported across the survey.

Exhibit 28. Need Greater Disclosure of Intangibles



Source: CFA Institute, 2024.

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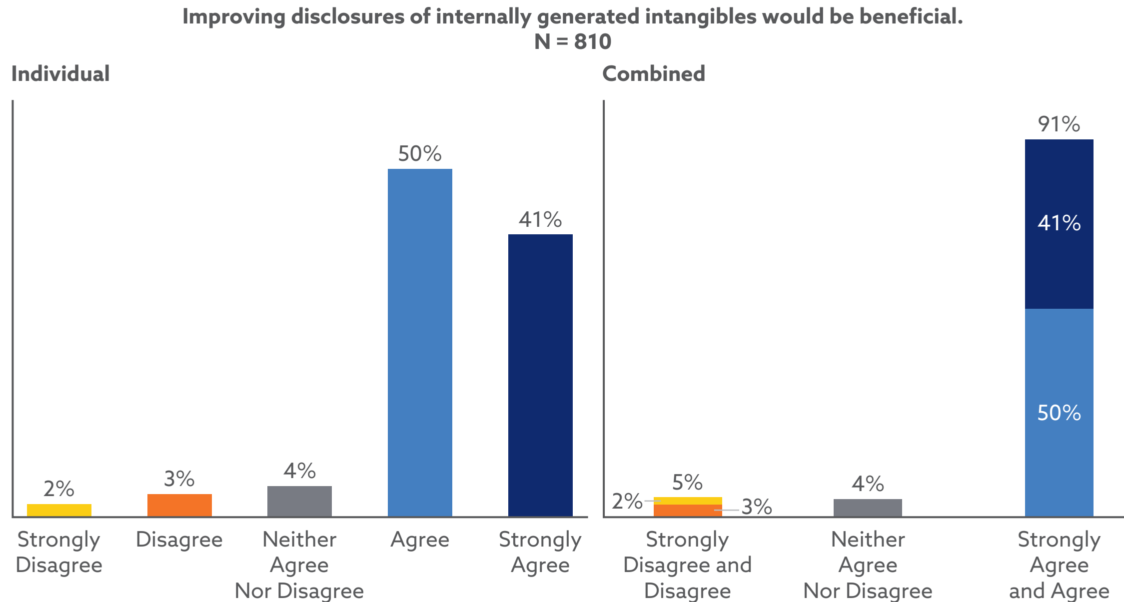
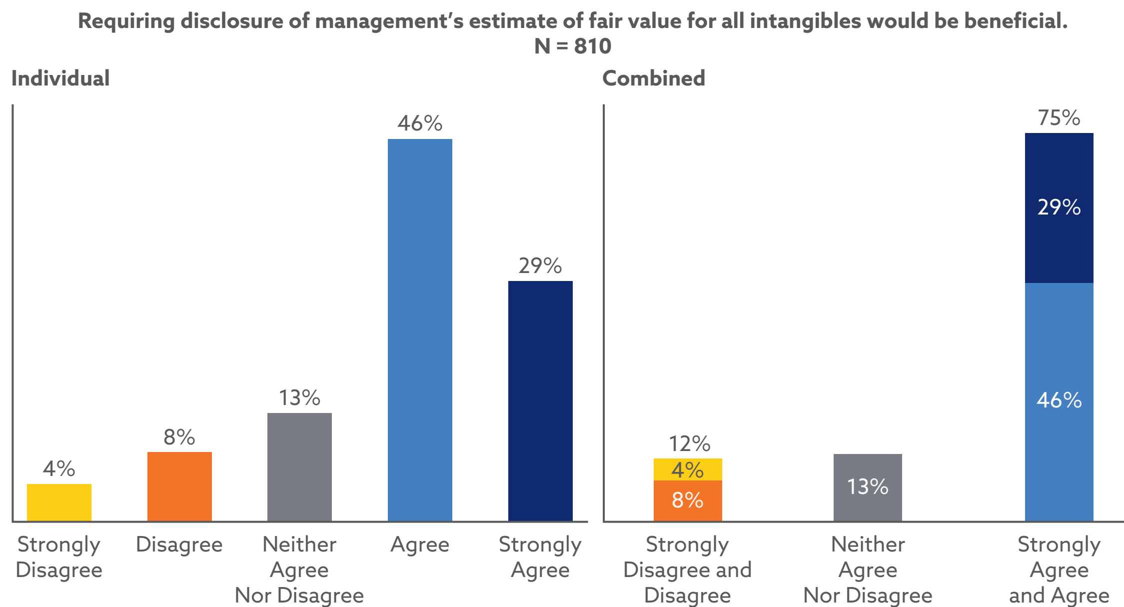
Exhibit 29. Better Disclosure of Internally Generated Intangibles



Source: CFA Institute, 2024.

We also asked respondents whether they thought disclosure of management's estimates of fair value of intangibles would be beneficial. Nearly 75% of respondents agreed that such disclosures would be beneficial, as noted in **Exhibit 30**.

Exhibit 30. Disclose Fair Value of Intangibles



Source: CFA Institute, 2024.

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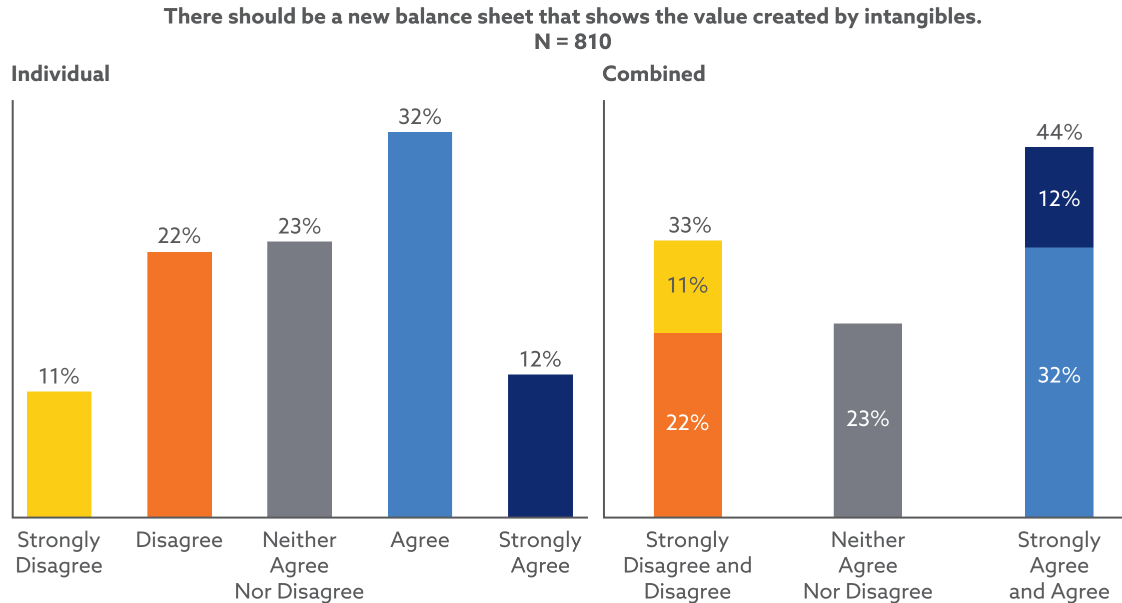
Less Support for Radical Changes Such as a New Balance Sheet

Although investors expressed strong desires for disclosure improvements, only a plurality, 44%, of respondents, as shown in **Exhibit 31**, agreed with the notion of a new balance sheet that shows the value of intangibles, with 33% of respondents disagreeing and a relatively high level of indifference at 23%.

We queried the needed improvement related to disclosures with respect to these four exhibits (Exhibits 28–31) as well as in Exhibits 21–22 in Section IV(C)(2), Investors Strongly Support Improving Disclosures before Changing Recognition. In Section IV(D)(4), Disclosures, we present our specific findings related to the usefulness and needed improvements related to intangible disclosures broadly and the need for improvement in disclosures related to internally generated assets before their recognition.[87]

Exhibit 31. Balance Sheet of Value Created by Intangibles



Source: CFA Institute, 2024.

[87]Exhibits 45–46.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following are several representative comments related to disclosures. The comments highlight a key takeaway from the survey—that is, respondents not only have a desire for recognition of intangibles but also exhibit skepticism and caution regarding potential manipulation by management of any amounts recognized. Review of these comments throughout the appendix convey this key takeaway.

Investor and Analyst Comments

Disclosure

- My primary concerns relate to management's classification of "internal intangible asset" vs. "expense" and valuation methodology for certain intangibles (e.g., "data"). Allowing footnote disclosures for internal intangibles is a more conservative approach than permitting them on balance sheet and would reduce the potential for balance sheet manipulation.
- **Need to have disclosure of internally generated intangibles but the measurement is very difficult and subjective.** It requires a lot of judgement so the most practical is to have cost and then it is up to analysts to subjectively determine the value they want to put on it. Management would be too biased.
- I don't believe one can really measure all intangibles, especially the ones generated over time. But more disclosure of the intangibles that we do know about is crucial. Except for a few industries, current balance sheets aren't that helpful to analysts.

D. Views on the Accounting for and Disclosures of Intangibles

After the high-level questions, we asked respondents more detailed questions about the accounting for and disclosure of intangibles.

- ***Initial Recognition of Acquired and Internally Generated Intangibles:*** The first of the detailed questions covered the initial recognition of acquired intangibles (Section IV(D)(1)) and internally generated intangibles (Section IV(D)(2)).
- ***Subsequent Measurement (Impairment versus Amortization) of Intangibles:*** We asked investors additional questions related to subsequent measurement of the intangibles (Section IV(D)(3))—more specifically, questions related to impairment versus amortization after they have been initialing recognized.
- ***Disclosures:*** We then queried investor views on disclosures related to intangibles (Section IV(D)(4)).
- ***Overall Views on Improving Intangible Asset Disclosure, Recognition and Measurement:*** We then sought investors views on improving each element of the accounting for and disclosure of intangibles (Section IV(D)(5)).

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We connect these accounting and disclosure questions to the broader questions discussed in the preceding section, Section IV(C), Overall Perspectives on Intangibles.

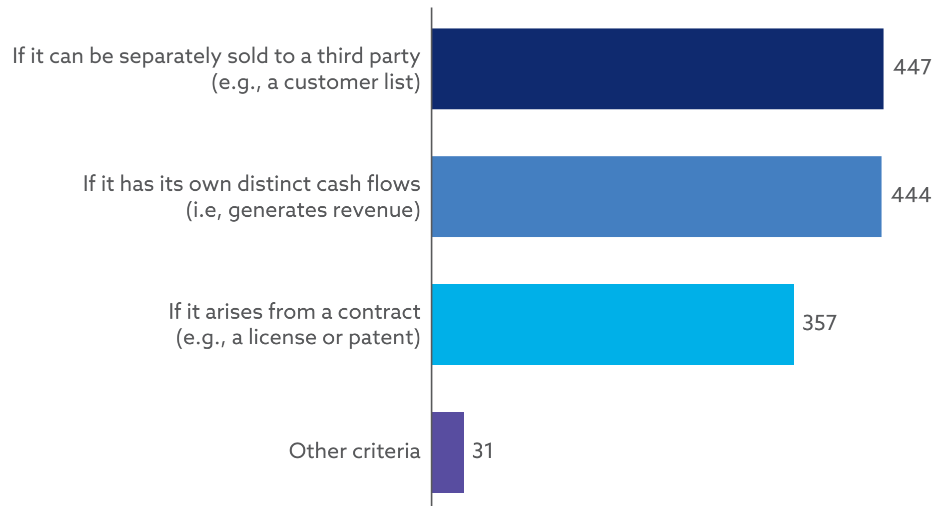
1. Initial Recognition: Acquired Intangibles

As discussed in Section II, acquired intangibles that are *identifiable* are recognized on the acquirer's balance sheet separate from goodwill. Identifiable assets are those that meet the definition of an asset as well as either the separability or contractual (legal) criterion.[88]

Support for Separability and Contractual Criteria

Respondents supported the current separability and contractual (legal) criteria for initial recognition of acquired intangibles, as noted in **Exhibit 32**. In fact, most supported an additional criterion (i.e., intangible has its own distinct cash flows) that is arguably more stringent than the separability and contractual (legal) criteria.

Exhibit 32. Criteria for Recognition of Intangible Assets Acquired in a Business Combination



Source: CFA Institute, 2024.

[88] IFRS 3, *Business Combinations*, paragraphs B31-B34; and ASC Topic 805, *Business Combinations*, paragraphs 805-20-25-1 and 805-20-55-2 through 55-45.

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Strong Support for Disaggregation of Acquired Indefinite-Lived Intangibles: Provides Useful Information

Intangibles acquired in an acquisition or asset purchase transaction that meet the recognition criteria are classified as having either an indefinite or definite useful life.

As we note in Exhibits 14 and 15 in Section IV(C), we queried whether respondents believed they needed greater disaggregation of intangibles than is currently provided in financial statements. We posed this question because some companies and accounting standard setters believe the current identification and disaggregation of intangibles is too extensive and costly. As shown in Exhibit 26, a significant majority (76%) supported greater disaggregation of intangibles.

We also asked respondents whether less disaggregation than is currently required of acquired intangibles would result in a loss of value relevant information. A majority (61%) agreed, as noted in Exhibit 27, that this would result in a loss of value-relevant information.

We also asked respondents for their level of agreement with four statements about the recognition of acquired indefinite-lived intangibles separate from goodwill.[89]

In general, respondents had strong support for the current model of separate recognition of acquired indefinite-lived intangible assets, as shown in **Exhibit 33**. Investors agreed (77%) that separate identification and recognition of acquired indefinite-lived intangibles provides useful information on the acquired business and agreed (74%) with the view that separate identification and recognition provides useful information on the business purpose of the acquisition.

A majority (54%) also agreed that existing accounting encourages management to better analyze acquisitions, knowing that separate identification and recognition will be required—an observation many of those in the valuation profession have shared with us. Furthermore, we queried whether respondents agreed with the rather cynical notion that recognition of indefinite-lived intangible assets serves only to take pressure off goodwill impairment testing by reducing the amount of goodwill recognized. Only 30% of respondents agreed with this statement, 31% disagreed, and 39% neither agreed nor disagreed.

[89]We asked about acquired intangibles more broadly in the overall perspectives section and then asked specific questions about indefinite-lived intangibles in this section because indefinite-lived intangibles, unlike finite-lived intangibles, are not subject to amortization. They are subject to impairment testing similar to the subsequent accounting and measurement of goodwill. Some companies and accounting standard setters do not object to the separate identification of finite-lived intangibles because these are amortized away over time, which reduces the effort associated with impairment testing. Those same individuals seek aggregation of indefinite-lived intangibles with goodwill to further ease impairment testing. Additionally, the FASB considered reverting to amortization of goodwill. As such, we were seeking investor perspectives on the decision-usefulness of disaggregation of intangibles broadly and specifically acquired indefinite-lived intangibles.

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Exhibit 33. Separate Recognition of Acquired Indefinite-Lived Intangibles

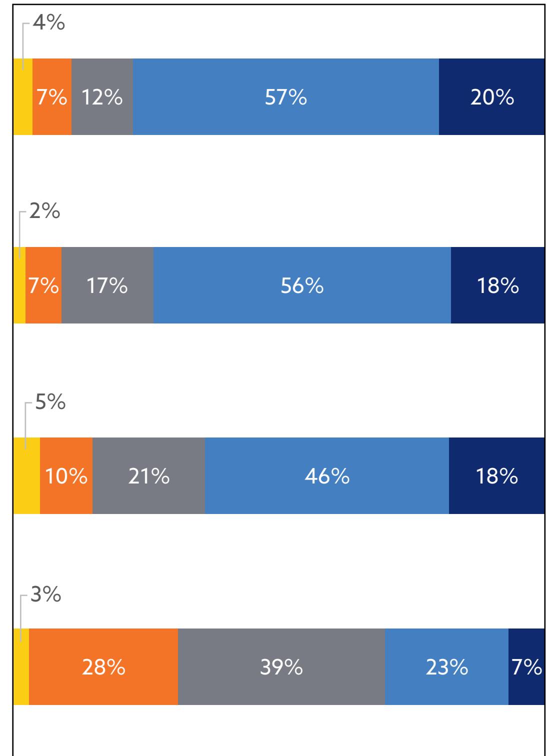
Recognition of Aquired Indefinite-Lived Intangible Assets Separate from Goodwill:

PROVIDES USEFUL INFORMATION ON THE ACQUIRED BUSINESS
Provides useful information regarding the components of the acquired business and predictive information regarding future cash flows.
N = 583

PROVIDES USEFUL INFORMATION ON BUSINESS PURPOSE OF THE ACQUISITION
Provides useful information regarding the business purpose of the acquisition.
N = 583

ENCOURAGES MANAGEMENT TO BETTER ANALYZE ACQUISITIONS
Encourages an entity's management to better analyze acquisitions.
N = 580

SERVES ONLY TO TAKE PRESSURE OFF TESTING GOODWILL FOR IMPAIRMENT
Serves only to take pressure off testing goodwill for impairment, by reducing the balance of goodwill.
N = 580



Strongly Disagree | Disagree | Neither Agree Nor Disagree | Agree | Strongly Agree

Source: CFA Institute, 2024.

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Little Support for Aggregation of Acquired Indefinite-Lived Intangibles with Goodwill

We posed the preceding and the following questions because the FASB has considered changing the requirement to separately identify indefinite-lived intangibles. In the following questions, as shown in **Exhibit 34**, we asked more directly whether the indefinite-lived intangibles should be aggregated with goodwill (i.e., not recognized separately).

Investors supported retaining the current model. Only a minority (26%) of respondents believed that indefinite-lived intangibles should not be separately identified because they were effectively the same as goodwill. Even when we queried whether the subjective nature of the measurement and allocation of purchase price to recognition of indefinite-lived intangibles should cause them not to be separately identified, only a minority (46%) viewed this as a valid basis for not separately recognizing the intangibles. Less than a majority (48%) agreed with nonrecognition even in the case of immateriality of indefinite-lived intangibles.

Exhibits 33 and 34 demonstrate a lack of support for the FASB's consideration of the aggregation of indefinite-lived intangibles with goodwill. Investors and analysts support maintaining separate recognition as they find disaggregation decision-useful, and they do not see these assets as similar to goodwill. They also were not deterred by materiality or measurement challenges.

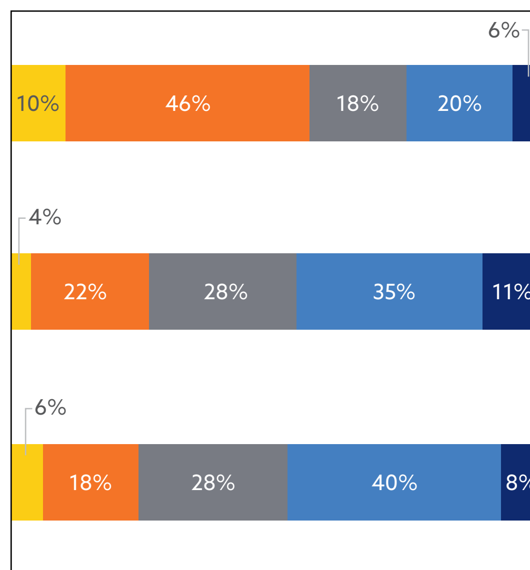
Exhibit 34. Recognition of Acquired Indefinite-Lived Assets as Part of Goodwill

Acquired Indefinite-Lived Intangible Assets Should Be Included as Part of Goodwill and Not Recognized Separately:

EFFECTIVELY THE SAME AS GOODWILL
Because they are effectively the same as goodwill.
N = 582

MEASUREMENT OFTEN INVOLVES A SUBJECTIVE & ARBITRARY ALLOCATION OF FUTURE CASH FLOWS
Because their measurement often involves a subjective and arbitrary allocation of future cash flows of the net assets acquired. (i.e., due to lack of tradability; uniqueness of assets; complex valuation models; lack of legal enforceability, etc.)
N = 580

ONLY IF THEY ARE IMMATERIAL
Only if they are immaterial.
N = 578



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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following are several representative comments related to recognition of separately identifiable indefinite-lived intangibles. The appendix provides more detailed analysis of the comments.

Investor and Analyst Comments
Initial Recognition of Intangible Assets Acquired in a Business Combination
• Companies should be able to recognize and amortize distinct assets. The problem is that valuations for these assets are subjective, and third parties do a poor job of ensuring independent realistic valuations are derived. • Too many companies create the illusion of earnings growth through acquisitions that place large amount of goodwill on the balance sheet, which doesn't get amortized. Creating that same business internally would result in significant expenses that would depress earnings, at least in the short run. • You don't record the value of heavy equipment as goodwill, either in an existing business or from an acquisition, so why record the intangible value of a software system any differently? • Most assets will actually turn out to be finite. • **The disaggregation is too subjective.** I know of companies that tell the market they are purchasing companies purely for customer acquisition but then convince their auditor to allocate less to customer list intangibles and more to goodwill to avoid the P&L impact of amortization. These accounting choices can be too easily manipulated. **Leaving it all as goodwill provides a scoreboard for investors to rely upon in the form of impairment testing.**

2. Initial Recognition: Internally Generated Intangibles

As discussed in Section II, costs to develop intangibles are expensed as incurred rather than capitalized to the balance sheet as assets. We solicited investors' views on this accounting model, in contrast to acquired intangibles described in the preceding section.

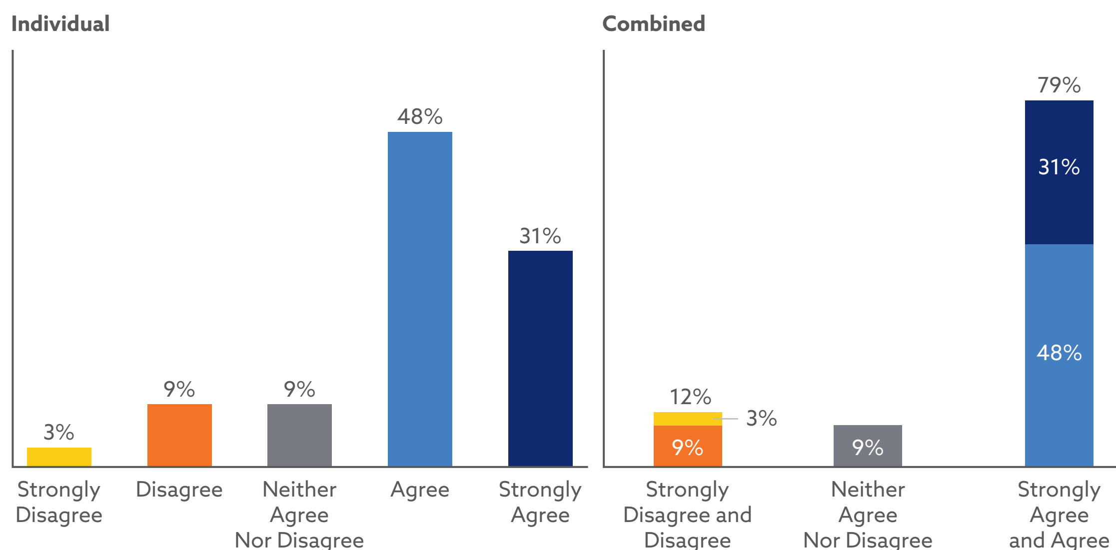
Acknowledge Challenges to Comparability, Lesser but Still Majority Support for Single Model

As shown in **Exhibit 35**, we found broad and strong (79%) support—with 48% agreeing and 31% strongly agreeing—that the disparate accounting models for acquired and internally generated intangibles creates a lack of comparability between companies growing organically versus through acquisition.

In Section IV(C), Overall Perspectives on Intangibles, Exhibit 23 highlights that 66% of respondents agreed that both acquired and internally generated intangible assets should be recognized on the balance sheet to enhance comparability.

As shown in **Exhibit 36**, however, we observed less support, but still a majority (60%)—with 38% agreeing and 22% strongly agreeing—for creating a single accounting model for acquired and internally generated intangibles.

Exhibit 35. Lack of Recognition of Internally Generated Intangibles Results in Lack of Comparability



Source: CFA Institute, 2024.

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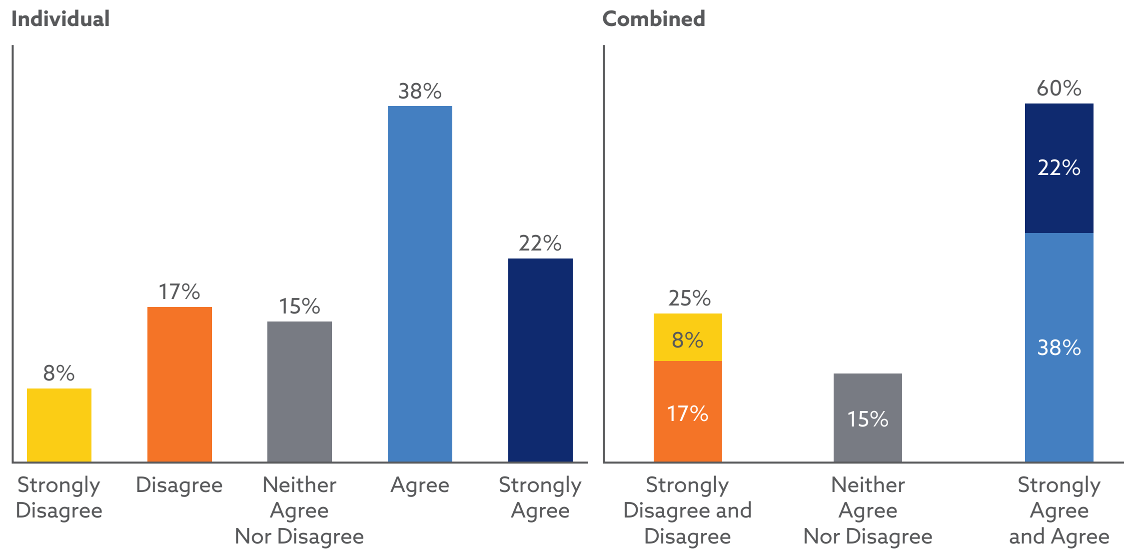
Exhibit 36. Apply Same Recognition to Internally Generated Intangibles



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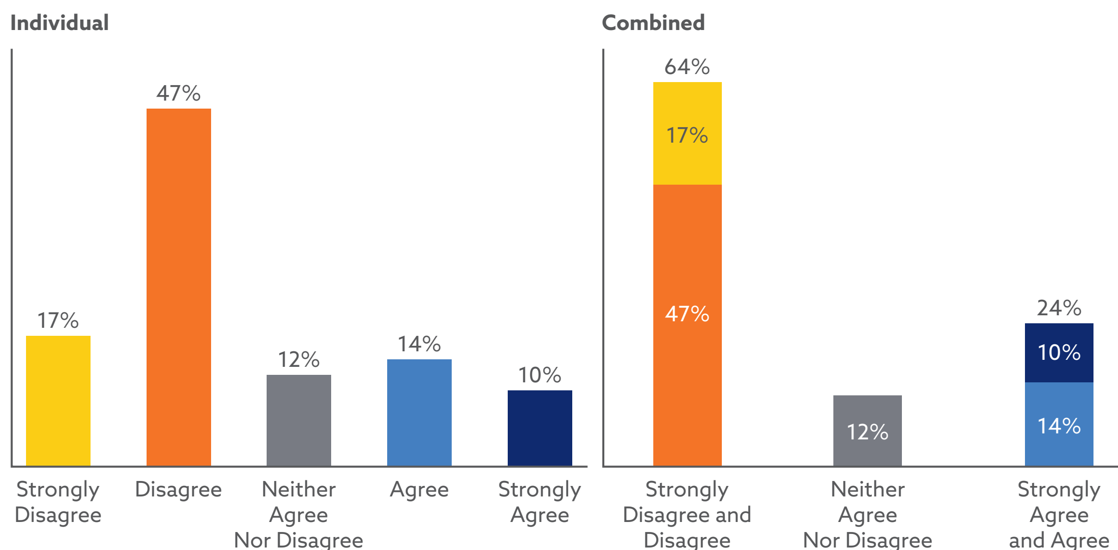
Broad Dissatisfaction with Status Quo on Intangibles; Improved Disclosures Sought

We gauged investors' views on the current accounting model for internally generated intangibles using a different approach: we asked if they agree that the current model does *not* need to change. As shown in **Exhibit 37**, asking the question differently did not change the result. Consistent with prior answers, only 24% of respondents agreed—with only 10% strongly agreeing and only 14% agreeing—with maintaining the status quo; 64% disagreed with the notion that the current approach of capitalizing acquired intangible assets and capitalization of internally generated intangibles did not need to change. Said differently, 64% supported a change consistent with the response highlighted in Exhibit 36.

In Section IV(C), Overall Perspectives on Intangibles, Exhibit 29 highlights that 91% of respondents agreed that improving disclosures related to internally generated intangibles would be beneficial.

Exhibit 37. Current Recognition Model for Intangibles Should Remain Unchanged



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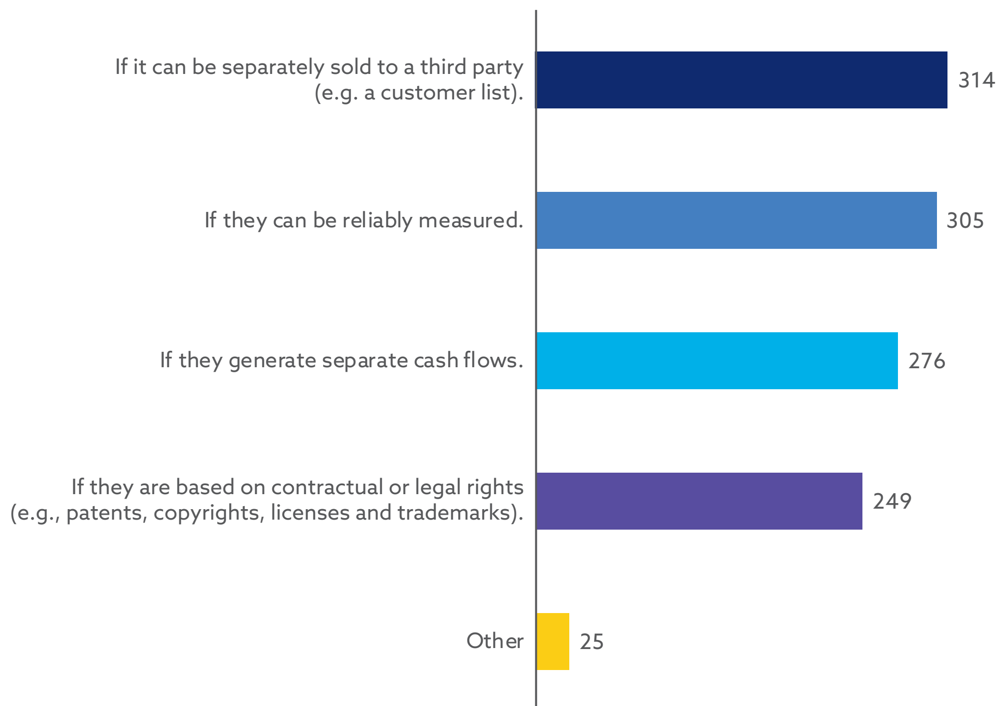
Investors Generally Support the Same Recognition Criteria for Both Internally Generated and Acquired Intangibles: Measurement Reliability an Important Additional Recognition Criteria

Investors generally agreed, as shown in **Exhibit 38**, that the recognition criteria for internally generated and acquired intangibles should be similar: separability, contractual-legal, distinct, or separate cash flows. Those criteria were supported in a similar fashion to those associated with acquired intangibles, as highlighted in Exhibit 32. For internally generated intangibles, we asked whether measurement reliability was also an important criterion. As noted in Exhibit 38, this was the second most important criterion.

Exhibit 38. Criteria for Recognition of Internally Generated Intangible Assets



Source: CFA Institute, 2024.

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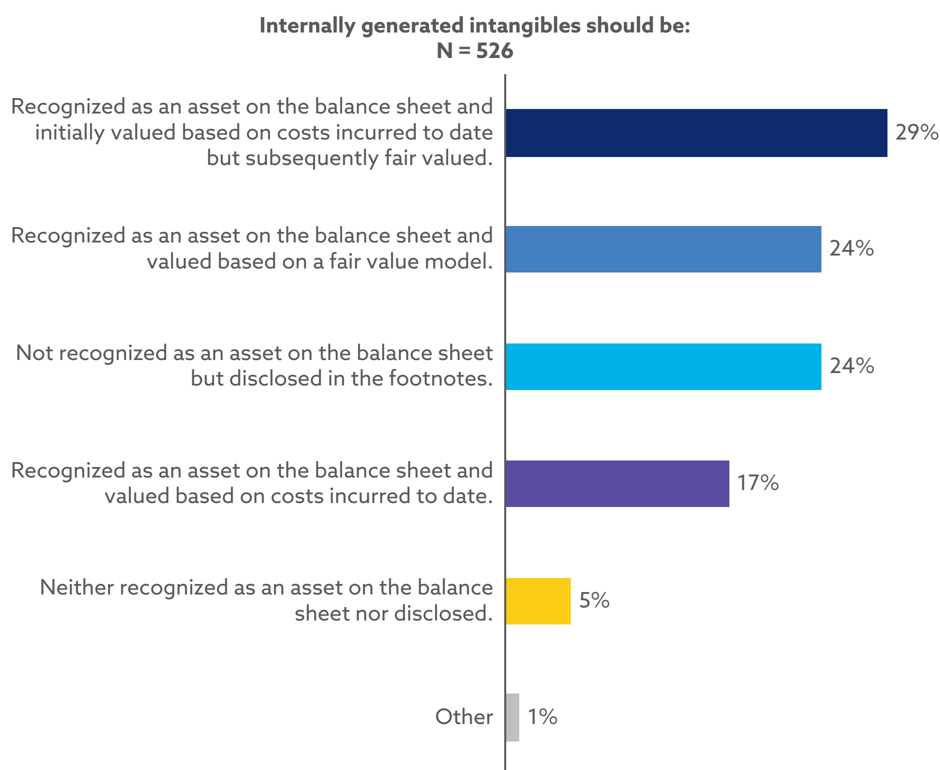
No Clear Consensus on Cost versus Fair Value Measurement of Internally Generated Intangibles

We also asked how, if at all, the value of internally generated intangibles should be measured on the balance sheet based on several options. As shown in **Exhibit 39**, no single option garnered majority support, although an initial cost-based model received 46% support—with 17% indicating that intangible assets should be valued based on cost incurred to date and 29% indicating they should be initially recognized based on costs incurred to date and then subsequently measured at fair value.

When asked whether internally generated intangible assets should be initially recognized at fair value, only 24% of respondents believed that was the appropriate initial recognition approach. Another 24% of respondents believed that internally generated intangible assets should not be recognized on the balance sheet but instead disclosed in the notes to the financial statements. We did not query whether that disclosure should be based on cost, fair value, or both. Only 5% believed internally generated intangibles should be neither recognized as an asset nor disclosed.

Exhibit 39. Disclosure, Recognition, and Measurement of Internally Generated Intangibles



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In Section IV(C), Overall Perspectives on Intangibles, Exhibit 24, we queried whether an internally generated asset such as data should be disclosed and possibly recognized on the balance sheet as an asset. We found that 54% of respondents agreed (40%) or strongly agreed (14%), with 19% disagreeing and 22% ambivalent. See Section IV(C), Overall Perspectives on Intangibles, Exhibit 15, to see how this response stacks up against other questions in the survey. See also Section IV(D)(5), Overall Views on Improving Intangible Asset Disclosure, Recognition, and Measurement.[90]

Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following are several representative comments related to recognition and measurement of internally generated intangibles. The appendix provides more detailed analysis of the comments.

Investor and Analyst Comments

Internally Generated Intangibles

- **The ability to sell an intangible asset separately and separate cash flows generation would be strong indicators** that the intangible asset could indeed fetch a market price separate from the overall business in which it is embedded.
- The methodology for valuing and therefore expensing or impairing assets needs to be the same for acquired or developed, though the former seem to be almost always overestimated.
- **Try to treat in as similar fashion to tangible assets as possible.** You can build a factory and it too can be tough to value and turn out worthless.
- The recognition of internally generated assets as an asset on the balance sheet would be an ideal state. That said, in the real world recognition could lead to increased manipulation of financial statements, notably if allowing a fair value model. Further, even intangible assets that appear to be able to be sold separately, such as client lists, are regularly still dependent on the overall business in which they are embedded. Disclosure instead of recognition as a first step would allow analysts to assess the value assigned to such assets over time while preventing management from manipulation. Full recognition could follow in a second step once valuation standards have been established.
- Recognized as an asset on the balance sheet at cost, but fair value is disclosed in the footnotes.
- For the sake of conservative estimates, **I believe cost should be the initial value**, and **then fair value testing for impairment** thereafter (or amortization if defined life).
- If using fair valuation methodologies, need to ensure there is comparability across industry and continuity in standards.
- **Fair value is probably going to be inaccurate.** And very onerous for management to prepare on an ongoing basis.

[90]Exhibit 47.

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3. Subsequent Measurement: Impairment versus Amortization

As we described in Section II, Overview of the Accounting for and Disclosures of Intangibles, intangible assets, when recognized, are classified as either finite- or indefinite-lived assets. Finite-lived assets are amortized over their useful lives, subject to impairment testing. Indefinite-lived assets are not amortized; rather, they are subject to annual impairment testing and written down when it is determined the assets value has been impaired.

As we described in our December 2021 publication, *Goodwill: Investor Perspectives*, the FASB was considering reverting from impairment only to amortization with impairment testing related to goodwill, an indefinite-lived intangible. Furthermore, as described in Section D(IV)(1), Initial Recognition: Acquired Intangibles, the FASB also considered aggregating more indefinite-lived intangibles with goodwill—resulting in their amortization and the likelihood that the same accounting would be applied to any remaining indefinite-lived intangibles. Because of those contemplated changes by the FASB, we asked investors a series of questions about their views on the subsequent measurement ("day 2 accounting") for intangible assets, in particular, whether they viewed amortization or impairment testing as a superior model. We made similar queries from investors in the aforementioned goodwill paper.

In Section IV(C), Overall Perspectives on Intangibles, Exhibit 25, we queried respondents regarding whether identification, initial recognition, and measurement of intangible assets was more important to investors than subsequent measurement. We found that 55% of respondents did not believe subsequent measurement was a secondary concern to initial recognition. This response indicated an interest in the concept of impairment versus amortization.

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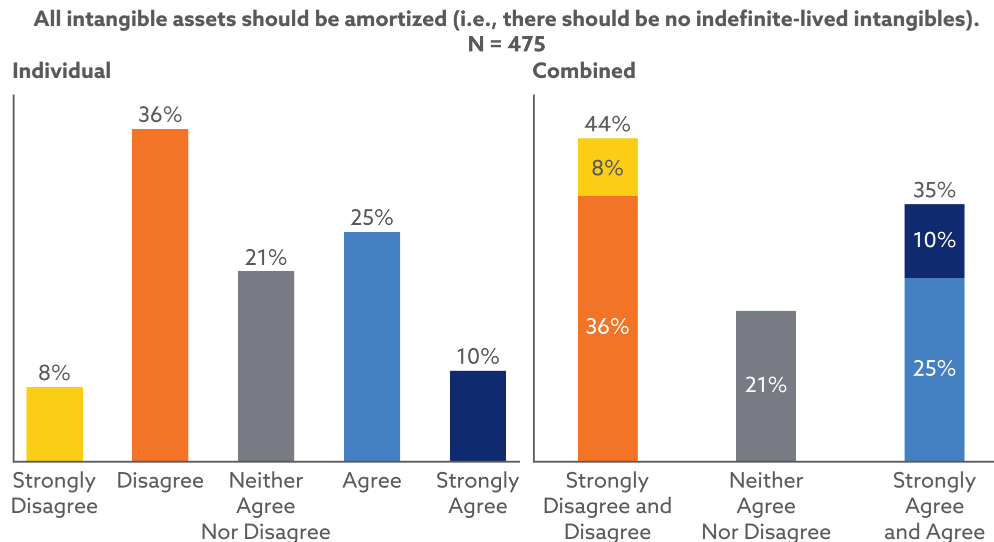
Investors Are Not Supportive of Amortizing All Intangibles

As **Exhibit 40** shows, only 35% of respondents agreed (with 44% disagreeing) that all intangibles should be amortized, which indicated that a more significant plurality of investors continue to support the impairment testing model or some alternative.

Exhibit 40. Subsequent Measurement of Intangible Assets: Should Be Amortized



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Impairments: Lack Transparency and Timely Recognition, but More Useful Than Amortization, and More Meaningful When They Occur Early

Although more investors do not support amortizing all intangibles, they do still see significant room for improvement with the impairment testing model. As shown in **Exhibit 41**, investors broadly agreed (66%) that impairments are not recognized in a timely manner and an even greater majority (73%) believed that there is a lack of transparency as to when and how much impairment should be recognized. Even with those flaws, a majority (59%) of investors believed impairment provides more useful information than amortization. There was also majority support (53%) for the notion that impairments are more meaningful when they occur within the first five years of an acquisition.

Exhibit 41. Subsequent Measurement of Intangible Assets: Impairments

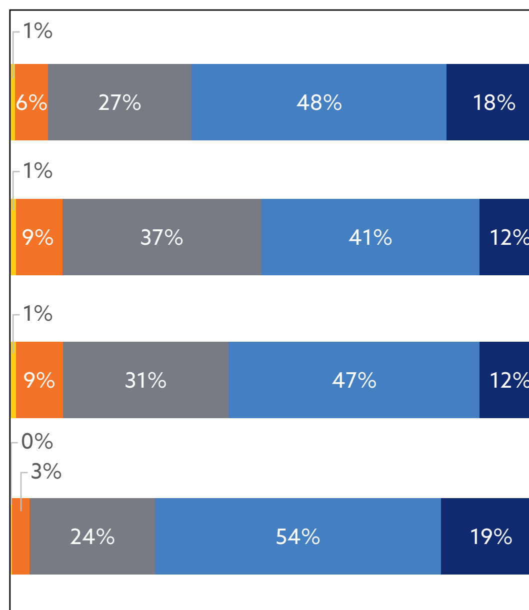
Intangible Asset Impairments:

NOT RECOGNIZED TIMELY
Are not recognized by companies in a timely manner.
N = 472

MORE MEANINGFUL WITHIN FIRST FIVE YEARS
Are more meaningful when they occur within the first five years of an acquisition.
N = 472

MORE USEFUL INFORMATION THAN AMORTIZATION
Provides more useful information than amortization for intangible assets.
N = 470

LACK TRANSPARENCY
Lack transparency as to when and how much should be recognized.
N = 471



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Amortization Is Inferior, Principally Because It Distorts Performance

To determine why investors view amortization of indefinite-lived intangible assets as inferior to impairment testing, we asked respondents to provide their level of agreement to several statements regarding amortization and its analytical relevance. Those results are included in **Exhibits 42** and **43**.

A majority of respondents (56%), as shown in Exhibit 42, noted that amortization is an inferior model because it distorts performance and automatically improves trends in ratios, such as return on equity (ROE) and return on assets (ROA), by reducing the carrying value of assets.

A significant plurality of investors (48%) agreed, as shown in Exhibit 42, with the statement that amortization impedes the ability to distinguish successful from unsuccessful acquisitions. Similarly, a near majority (49%) of investors agree with the statement that amortization does not provide decision-useful information.

Respondents showed relatively high levels of neutrality (28–31% neither agree nor disagree) to all three statements presented.

Exhibit 42. Is Amortization an Inferior Model for Subsequent Measurement?

Amortization of Indefinite-Lived Intangible Assets Is an Inferior Model Because:

DISTORTS PERFORMANCE
Amortization of indefinite-lived intangible assets is an inferior model because it automatically improves trends in profitability ratios such as ROE and ROA over time, as equity and assets systematically decrease with amortiztion, [thereby distorting performance].
N = 471

INABILITY TO DISTINGUISH SUCCESSFUL MANAGERS
Amortization of indefinite-lived intangible assets is an inferior model because it produces the same results across companies and doesn't allow investors to distinguish between managers who successfully executed on acquisitions.
N = 471

NO DECISION-USEFUL INFORMATION
Amortization of indefinite-lived intangible assets is an inferior model because it provides no decision-useful information for my investment analysis.
N = 470

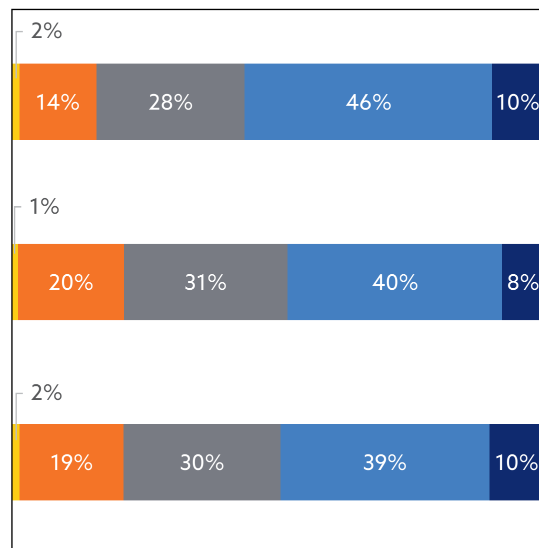

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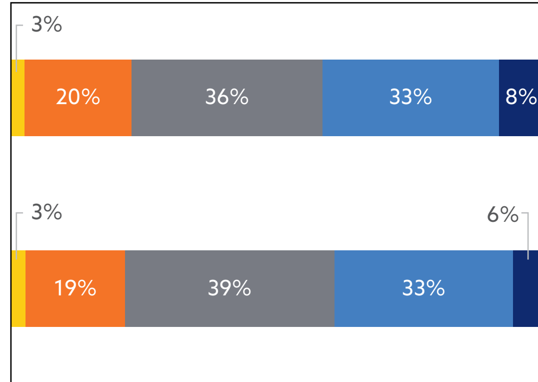
Exhibit 43. Is Amortization a Superior Model for Subsequent Measurement?

Amortization of Indefinite-Lived Intangible Assets Is a Superior Model Because:

MANAGEMENT'S IMPAIRMENTS UNTIMELY
Amortization of indefinite-lived intangible assets is a superior model because management does not take impairments in a timely manner.
N = 472

ADMINISTRATIVE CONVENIENCE
Amortization of indefinite-lived intangible assets is a superior model because it is administratively convenient.
N = 472



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Amortization Is Not Superior to Impairment

In contrast, when we asked if amortization is a *superior* model to impairment testing, as shown in Exhibit 43, only a minority of respondents agreed (41% and 39%, respectively) that amortization was superior because it compensated for the lack of timely impairment and because it is administratively convenient. Both questions reflected greater uncertainty than other questions regarding whether amortization could be seen as superior to impairment.

Amortization of Intangibles Should Be over Period of Cash Flows

We then queried respondents about the selection of an amortization period for indefinite-lived intangible assets. As shown in **Exhibit 44**, respondents broadly agreed (78%) that amortization, if adopted, should be taken over the period the cash flows associated with the intangible asset are expected to be realized. This would result in better matching between revenues and costs.

Exhibit 44. Amortization of Indefinite-Lived Assets

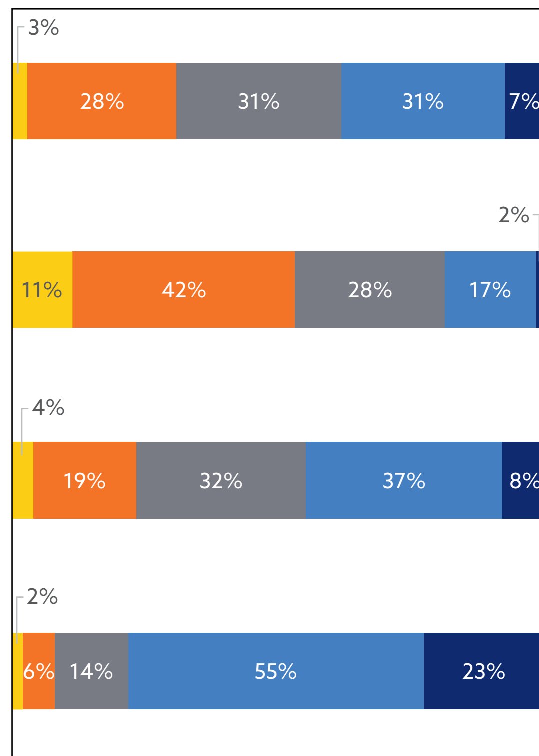
If Amortization of Indefinite-Lived Assets Is Implemented It Should Be:

FIXED PERIOD
A fixed amortization period to enhance comparability.
N = 457

MANAGEMENT DETERMINED PERIOD
An amortization period determined by management.
N = 458

MANAGEMENT DETERMINED PERIOD (MINIMUM/MAXIMUM)
An amortization period determined by management bounded by a minimum and maximum amortization period.
N = 457

CASH FLOW PERIOD
A period over which the cash flows associated with the intangible is expected to be realized.
N = 460



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A fixed/standard period was supported by a greater minority (38%) than a method discretionarily determined by management, which received little support (18%). If that management-determined period included bounded minimums and maximums, this approach received greater support (45%).

Although respondents did not support an amortization period determined by management, management would nevertheless determine the amortization period in investor's preferred option, the period over which an asset's cash flows are expected to be realized, though respondents may view that period as less discretionary. Investors would likely expect disclosures regarding management's view of the asset's future cash flows and their connection to the amortization period.

Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following is a selection of representative comments related to the subsequent measurement (impairment versus amortization) of intangible assets, which are more extensively analyzed in the appendix.

Investor and Analyst Comments

Subsequent Measurement of Intangible Assets

- I do not think intangibles with indefinite lives should be amortized. Full stop. It would release management from the consequences of making reckless capital allocation decisions.
- ***This (amortization) is again a disastrous endpoint for investors.*** It would cloud the P&L, and lead to sub-optimal decisions. Investors would also lose clarity over the performance of separate cash generating units as the ***removal of impairment testing would also remove key external assessment of whether intangibles are supported by cash flow.***
- I **do not believe indefinite-lived intangibles should be amortized**. The value of, for example, the Coca Cola brand is something that, if capitalized, would not have a meaningful level of amortization, either because management would select an outrageously long useful life, or because the true value of the brand would end up understated as a result of forced amortization.
- I would choose the life of the cash flows option, but that is subjective. There simply needs to be a way to force companies to expense the purchased intangible so it doesn't incentivize management to acquire rather than internally develop to boost earnings. Not having to amortize acquired indefinite-lived assets and goodwill increases the likelihood that management will overpay for acquisitions.
- Most **investors ignore intangible amortization** (i.e., add it back to profit measures).

See also Section IV(D)(5), Overall Views on Improving Intangible Asset Disclosure, Recognition, and Measurement.[91]

[91]Exhibit 47.

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4. Disclosures

Investors were nearly unanimous in their desire for improvements in intangibles disclosures, generally, and internally generated intangibles, more specifically, when we asked for about their overall perspectives on intangibles as shown in Exhibits 14 and 28–31 in Section IV(C), Overall Perspectives on Intangibles. And, although respondents supported improved disclosures—including disclosure of the fair value of intangibles—they were less supportive of a new balance sheet that showed the values created by intangibles.

As Exhibits 15 and 15A highlight, questions related to improving disclosures yielded the highest level of agreement and the lowest levels of disagreement or ambivalence, thereby demonstrating the conviction of respondents' beliefs. Our consideration of the more specific disclosure improvements in this portion of the survey began by asking investors and analysts about their views on the usefulness of current intangible asset disclosures. We then considered whether disclosure was a useful first step to recognition. We asked whether disclosure would be a useful first step toward recognition given that it is difficult for investors, without greater insight through better disclosures, to make well-informed decisions on the type and nature of intangibles to be recognized.

We concluded by asking what disclosure elements might improve the usefulness of intangible disclosures.

Current Intangible Disclosures Are Not Useful

As noted in **Exhibit 45**, only 39%—a minority—of respondents agreed, with only 6% strongly agreeing, that current disclosures regarding intangibles were useful. A majority (61%) found that disclosures were not useful (30%) or demonstrated uncertainty or ambivalence (31%) about their usefulness.

Improving Disclosures of Internally Generated Intangibles: Essential First Step

Exhibit 45 also shows that there was significant agreement (78%) that disclosures of internally generated intangibles in the notes to financial statements was a good first step toward recognition.

Improve Disclosures Outside the Financial Statements and Then Disclosures in Financial Statement before Recognition

Because of the inherent subjectivity of the measurement of intangible assets, as shown in Exhibit 45, we asked respondents whether information related to internally generated intangibles should first appear outside the financial statements before including them inside the financial statements (footnotes)

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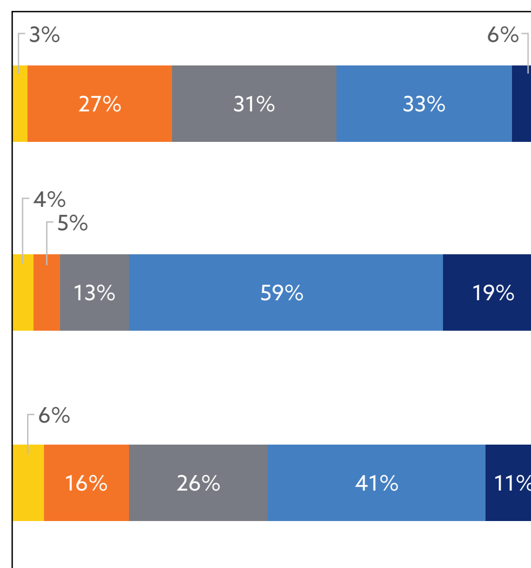
Exhibit 45. Views on the Usefulness of Intangible Disclosures and Disclosures before Recognition

USEFULNESS
Current intangible asset disclosures are useful.
N = 455

DISCLOSURE OF INTERNALLY GENERATED INTANGIBLES AS FIRST STEP TOWARD RECOGNITION
I believe disclosure of internally generated intangible assets is a good first step to eventual recognition of such assets on the balance sheet.
N = 454

DISCLOSURE OF INTERNALLY GENERATED INTANGIBLES OUTSIDE FINANCIALS, INSIDE FINANCIALS, THEN RECOGNITION
I believe disclosure of internally generated intangible assets should start with disclosures outside of the financial statements, then move to disclosure within the financial statements and then eventual recognition as assets on the balance sheet.
N = 454



Strongly Disagree | Disagree | Neither Agree Nor Disagree | Agree | Strongly Agree

Source: CFA Institute, 2024.

and ultimately recognizing them on the financial statements. Surprisingly, a majority (52%) supported this approach, but there was more uncertainty (26%) and greater disagreement (22%) for this approach than simply including the disclosures first in the financial statements.

We asked similar questions regarding recognition and its relationship to improved disclosures in Section IV(C), Overall Perspectives on Intangibles. (specifically, see Exhibits 21 and 22). We noted even stronger support for disclosure-before-recognition at the beginning of the survey:

- 87% of the more than 800 respondents (Exhibit 22) agreed (47%) or strongly agreed (40%) with the statement: *Recognition of intangibles must begin with better disclosures such that valuation and measurement may improve*.
- 79% of the more than 800 respondents (Exhibit 21) agreed (31%) or strongly agreed (48%) with the statement: *The accounting and valuation for intangibles is challenging, but the accounting standard setters must work toward disclosures, and then recognition, of currently unrecognized intangibles for financial statements to remain relevant for many industries*.

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See also Section IV(D)(5), Overall Views on Improving Intangible Asset Disclosure, Recognition, and Measurement.[92]

As the wealth of comments we received on the topic of disclosure show, while investors inherently see internally generated intangibles as assets in the economic sense, they are also concerned about abuse and manipulation of deferring costs through capitalization.

Additionally, because of the lack of disaggregation of intangibles investments on the income statement of expenses—a problem unfortunately not in scope of the FASB's standard-setting project Disaggregation of Income Statement Expenses—investors and standard setters cannot understand which expenses on the income statement are related to current revenues versus expenses that are investments intended to generate future revenues. Greater disclosure in this regard, on both a consolidated and segment basis, would help investors forecast expenses and separate investment from return on investment.

The Bottom Line:

Without greater disclosure, there is no analytical content or data for investors or standard setters to judge whether changes to recognition, measurement, and presentation are appropriate.

[92]Exhibit 47.

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Strong Support for Improving Intangible Disclosure Elements

To better understand how exactly disclosures for intangible assets might be improved for investors, we asked for respondents' level of agreement regarding nine different disclosure enhancements, as shown in **Exhibit 46**. Respondents broadly agreed with all the options presented, with levels of agreement ranging from 68% to 88%. The broadest agreement (88% of respondents strongly agreed or agreed) was for disclosures of the type and amounts of internally generated assets, whereas the least agreement (68% strongly agreed or agreed) was for disclosures that pertain to the board of director's assessment of intangible assets' performance over time.

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Exhibit 46. Views on Various Disclosure Improvements for Intangibles

TYPE AND AMOUNT OF INTERNALLY GENERATED INTANGIBLES
Information on type and amount of internally generated intangible assets.
N = 451

FUTURE CASH FLOWS
Information regarding expected future cash flows of all intangible assets.
N = 451

VALUATION MODELS
Information regarding valuation models used at recognition and subsequent measurement of all intangible assets with greater transparency around inputs and outputs.
N = 451

ESTIMATES & ASSUMPTIONS
Information around the most significant and sensitive estimates, assumptions and factors that could impact impairment analysis of all intangible assets.
N = 451

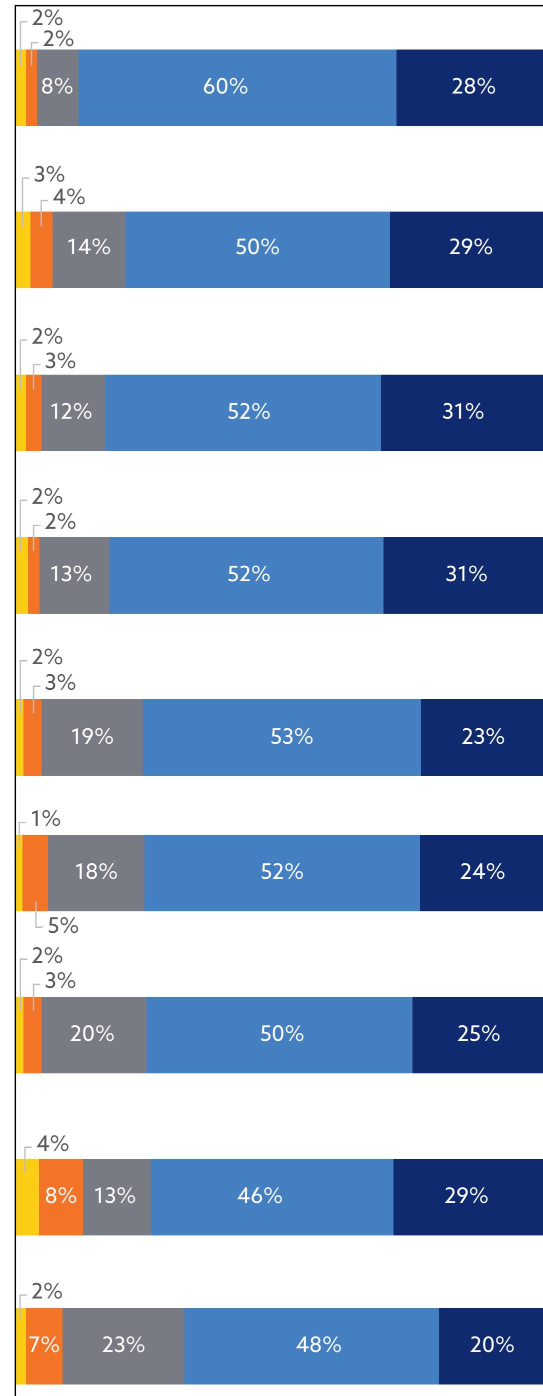
PERFORMANCE METRICS
Key common performance metrics that most management uses to monitor performance of all intangible assets.
N = 449

QUALITATIVE INFORMATION
More qualitative information on how the intangible asset (acquired or internally generated) performs over time.
N = 450

QUANTITATIVE INFORMATION
More quantitative information on how the intangible asset acquired or internally generated performs over time such as a quantitative assessment of the performance relative to when the asset was acquired or recognized.
N = 449

DISCLOSE FAIR VALUE OF INTANGIBLES
Requiring disclosure of management's estimate of fair value for all intangibles would be beneficial
N = 810

BOARD'S ASSESSMENT
More information on the board's assessment of how an intangible asset acquired or internally generated performs over time.
N = 449



Strongly Disagree | Disagree | Neither Agree Nor Disagree | Agree | Strongly Agree

Source: CFA Institute, 2024.

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Investor and Analyst Comments

Appendix B provides a complete set of respondent comments to the survey. Following are several representative comments related to intangible asset disclosures. The appendix provides more detailed analysis of the significant number of comments related to disclosures throughout the entirety of the survey.

Investor and Analyst Comments
Intangible Asset Disclosures
• **Disclosure for internally generated intangible assets is the way to go.** Recognizing on the financial statements will make the financial statements less useful as management decisions on capitalization of intangible assets is too subjective.
• I like the idea of disclosure that can help us work out whether this is an important area, and how best to analyze going forward. There should be a mechanism to allow for reflection in X years' time, with the possible outcome of: no, it turns out that wasn't useful, and we should go back.

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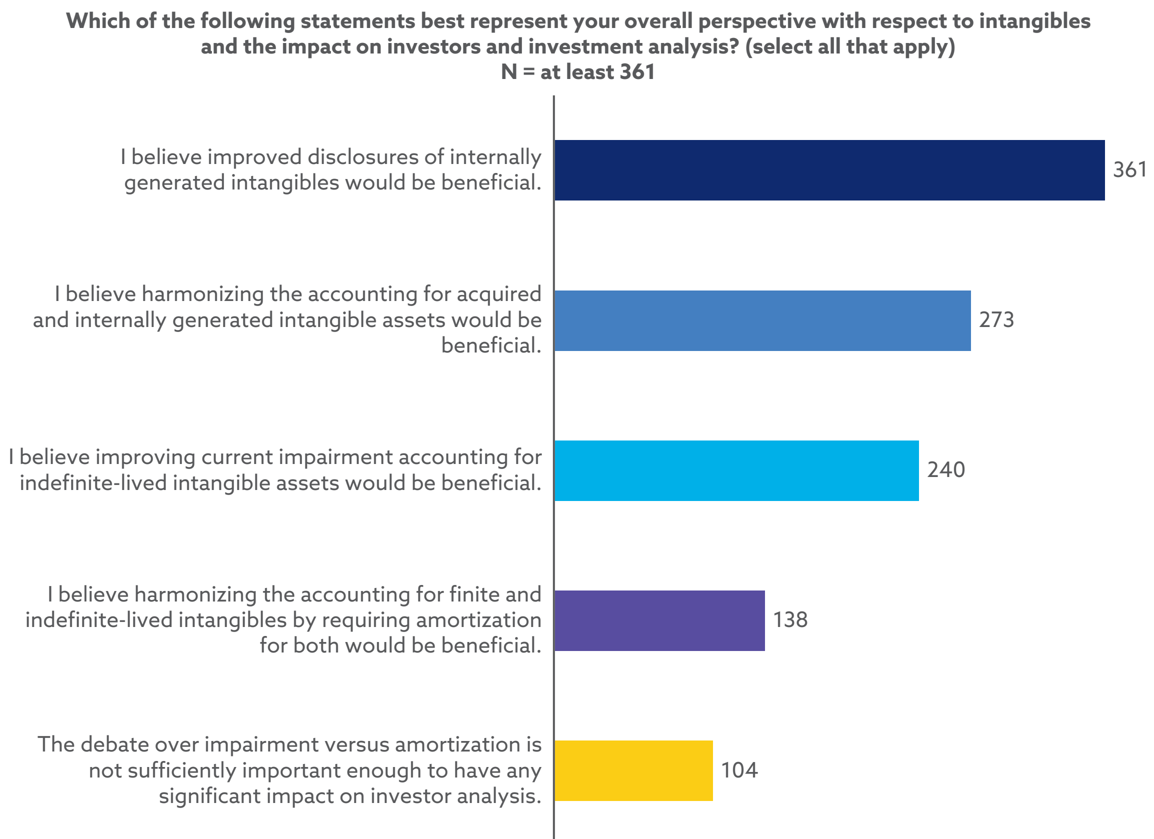
5. Overall Views on Improving Intangible Asset Disclosure, Recognition, and Measurement

We asked respondents for their views on the path forward for improving selected elements of the accounting and reporting for intangible assets, shown in **Exhibit 47**. Consistent with the overall survey results, the need for improved disclosures related to internally generated intangibles was the most frequently selected response. Harmonizing the accounting between acquired and internally generated intangibles was the second most frequently selected improvement.

As we found in our work on goodwill, investors think improving impairment testing (i.e., making charges timelier and broadening disclosure requirements to make the process more transparent) garnered high support. We found substantially less support for requiring amortization of both finite- and indefinite-lived intangible assets. Few thought that the debate over impairment versus amortization of intangible assets was not sufficiently important.

Exhibit 47. Views Regarding Improving Intangible Asset Disclosure, Recognition, and Measurement



Source: CFA Institute, 2024.

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V. CONCLUDING THOUGHTS AND RECOMMENDATIONS FOR STANDARD SETTERS AND REGULATORS

In Section IV(B), Key Findings, we provide the seven key takeaways from our survey. The subtitle of this report, "Before Recognition, Improved Disclosures and Disaggregation Are Needed," conveys the central message emerging from our work to standard setters and regulators.

Collectively, the responses (particularly those shown in Exhibits 16–20) considered alongside the comments in **Appendix B** highlight the existence, importance, and relevance of intangibles to investors. They affirm investors' view that financial statements are missing many of these important assets. They also highlight, however, the challenges with measurement and valuation of such intangible assets—particularly internally generated intangible assets.

The survey comments reinforce the perspectives of the opponents and proponents of recognition as discussed in the academic literature, but the survey results overall point to the fact that consistency in recognition between acquired and internally generated intangibles is something investors strongly support. The principal challenge for investors is that they worry that capitalization of internally generated intangibles may give management too much discretion, and that the manipulation of financial results may ensue without transparency on what was capitalized, why, and the performance of the intangible asset.

Specific Accounting and Disclosure Improvements

Our survey provided us with several discrete observations and recommendations regarding how the IASB and FASB can approach and proceed with their intangible projects.

1. *Acquired Intangible Assets:* As it relates to acquired intangible assets, our results find that standard setters should pursue the following:
   - Retain the current accounting identification and recognition model for acquired intangibles. There was support for the current separability and contractual-legal criteria for their initial recognition.
   - Retain the separate recognition of acquired intangibles from goodwill because it provides decision-useful information for both management and investors.
   - Not revert to amortization of indefinite-lived intangible assets. It may be administratively convenient, but it is not decision-useful information.
   - Retain and improve the impairment model to improve transparency and timeliness of impairments.
   - Improve disclosures regarding intangibles, which are not currently useful, as described next.

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2. *Internally Generated Intangible Assets:* As it relates to internally generated intangible assets, our results show that the standards setters need to know the following:

    - Investors believe intangible assets are being generated internally, and they seek to understand and value them when considering whether to invest in a business.
    - There is strong support for a single accounting model across internally generated and acquired intangibles because of the lack of comparability between companies creating versus acquiring intangibles, with investors appreciating that the recognition criteria and measurement are the most challenging issues for standard setters.
    - Investors support the current separability and contractual-legal criteria for intangibles recognition, not "opening the floodgates" for capitalization of all intangibles-related expenditures.
    - There is significant concern among investors that greater flexibility to capitalize costs incurred for intangibles would be abused by management and that capitalized costs may not produce decision-useful information.
    - Intangible assets are not recognized on balance sheets and there is also little disaggregation (or footnote disclosure) on income statements or the statement of cash flows regarding investments being made to generate such intangible assets. Without such transparency, investors, or regulators, have limited ability to mitigate management cost capitalization abuse. Accordingly, any changes to recognition criteria may require "guardrails" to mitigate overcapitalization, such as disclosure requirements on what asset has been created and its expected future benefits, or a quantitative limit on capitalization in a given period.
    - The fair value of intangibles would be more a relevant and useful measurement than the costs incurred for an internally generated intangible, but the subjectivity of that valuation and management bias make it, at least initially, more appropriate for the notes to the financial statements rather than the face of the balance sheet.

3. *Disclosures and Disaggregation:* Disclosure and disaggregation improvements were the most significant message to standard setters and policymakers. Investors noted the following:

    - Improvements are needed in existing intangible asset disclosures as investors do not find the disclosures useful.
    - Disclosures of internally generated intangibles before recognition is the preferred path forward. Some investors support disclosures outside of financial statements before disclosures within financial statements.

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- The disaggregation of investments in intangible assets on the income statement and statement of cash flows from other operating expenses would be an important first step. This would involve greater income statement and statement of cash flows disaggregation and footnote disclosures that include defining and disclosing costs incurred for "investment" as those intended to generate future revenues, which are distinct from operating expenses related to generating revenue recognized in the current period or that are not attributable to either (e.g., period costs, compliance costs).
- Investment expenses should be presented separately from other expenses on the income statement and statement of cash flows, so they can be forecasted and evaluated separately. This is already done in part with R&D expenses on the income statement and capital expenditures for tangible assets on the statement of cash flows, but more detail is necessary. For example, many companies simply disclose the total R&D expenses without any disclosure of the nature of the underlying expenses included within R&D or the purpose of the expenditure. Also, many companies commingle investment with other types of operating expenses within SG&A expenses or other expense captions.
- New disclosures with broad investor support in our survey included the following:
    - The type and value (management's estimate) of internally generated intangibles.
    - Expected future cash flows attributable to the assets.
    - Information on relevant valuation models, including the type of model and transparency around major inputs and outputs.
    - Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
    - Key performance metrics that managers use to monitor performance of intangibles.
    - Qualitative information on how internally generated and acquired intangible assets have performed over time.
    - More quantitative information on how the acquired or internally generated intangibles performed over time.
    - Requirement to disclose management's estimate of the fair value of these intangibles.
    - Information on the board's assessment of how intangible assets have performed over time.

Importantly, these presentation and disclosure improvements do not require standard setters to redefine "asset" or "intangible asset" or the recognition criteria for them, which we understand are complicated issues, while delivering decision-useful information to investors.

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Most Significant Obstacles to Progress for Standard Setters and Investors

We appreciate the difficulties faced by standard setters with respect to intangible assets. We discuss significant obstacles and our proposed approach as follows.

1. The Lack of Existing Disclosures and Transparency Regarding the Generation of Intangibles Impedes Standard-Setter Outreach and Decision Making

Existing financial statements and management reporting provide little information on the investments being made toward the creation of internally generated intangibles. The lack of transparency creates a problem not only for investors as highlighted in our survey, but also for the standard setters (e.g., FASB, IASB, SEC, EFRAG). Simply put, standard setters are seeking to explore changes in accounting with a lack of information—a lack of information they have created and can change.

US GAAP and IFRS financial statements are heavily focused on the balance sheet. Most footnotes within financial statements relate to balance sheet accounts. Income statement disaggregation is minimal, with few if any footnotes providing information on income statement captions, and segment disclosures are sparse (which the FASB's recent projects on income statement disaggregation and segment disclosures modestly improve). Additionally, the operating section of the statement of cash flows is indirect and provides little detail on capitalized costs besides capital expenditures in investing cash flows. There are also often few to no footnotes related to the statement of cash flows.

This lack of transparency impedes standard setters' ability to do meaningful outreach to, and gain insight from, stakeholders. The FASB, for example, is using traditional methods of outreach to investors—asking investors if additional software costs should be capitalized. Unsurprisingly, investors are challenged to respond to the question in detail, and their responses include concern that a cost capitalization approach might lead to abuse because there is little detail on which to hold management accountable and little hope or belief that increased disclosures will accompany increased capitalization.

Simultaneously, the FASB is asking companies what software costs should be capitalized. These are the same companies that already are making sparse disclosures and will point to obstacles in making such disclosures such as commercial sensitivity. The FASB does not have evidence to challenge those assertions, putting themselves in the same position as investors.

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Consider, for example, Apple, which reported USD29.9 billion in R&D expenses in FY2023, 54.5% of operating costs (equal to 8% of net sales) that year. No further disaggregation or information—including by segment in the footnotes—was provided, other than to say that the nearly 14% increase in R&D from the prior year was primarily due to increases in headcount related expenses.[93] Apple provides no detail regarding the nature of the related expenses, nor in what capacity or why they are being incurred. They also disclose no capitalized software on the balance sheet, but in the income tax footnote, they disclose an increase in deferred tax assets related to capitalized research and development from USD1.3 billion in FY2022 to USD6.3 billion in FY2023, an indication that certain costs have been capitalized, but no discussion.

Simply put, the lack of existing transparency has put standard setters in a position in which they cannot analyze and make decisions on improving recognition of internally generated intangibles, such as software development. Their conclusions are based on biased assertions from companies and opinions from investors who, like them, have little to no information.

2. The Existing Tangible Asset-Based Accounting Model and Differing Perspectives of Stakeholders (Accountants versus Investors) Impedes Informed Decision Making and Progress

This lack of transparency also inhibits stakeholders from understanding and reconciling their different perspectives related to the lack of recognition of internally generated intangibles.

The current accounting model utilized for US GAAP and IFRS was built for the manufacturing economy that has been increasingly replaced by a services and technology-based economy. That model focuses on the capitalization of tangible assets and largely ignores intangible assets. As a result, accountants (or auditors) trained in a tangible asset-based accounting model, or frame of reference, are unlikely to fully understand or appreciate the magnitude of the problem at hand (i.e., unrecognized assets) or offer any meaningful solutions other than the capitalization of the costs (i.e., historical cost perspective). From their education, training, and frame of reference, they do not see the problem in the same way as investors do. They do not regularly consider, for example, price-to-book ratios and they are not trained in valuation processes; as a result, they are not likely to fully appreciate investors' views.

In contrast, investors (i.e., those who do valuation) can see, through the emergence of cash flows over time, the existence of intangibles within the enterprise and can better appreciate that assets are missing from tangible asset-based balance sheets. Investors, however, do not have the information to value the intangibles more discretely. The tangible asset-based financial statement accounting model—with the limited, highly aggregated income

[93]Apple Inc., US SEC Form 10-K, fiscal year ended 30 September 2023, https://www.sec.gov/ix?doc=/Archives/edgar/data/320193/000032019323000106/aapl-20230930.htm.

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statement and cash flows information—provides little information for them on how to value the specific intangibles, rather than the business as a whole.

The stakeholder outreach to investors does not focus on gaining an understanding of the inherent intangibles they may see in financial statements, enabling accountants and standard setters to learn what is driving the difference between book and market value—in which case the intangible assets are valued by the market but not by the accounting. Furthermore, the standard-setting stakeholder outreach also does not generally extend to the management running the business (i.e., those outside the reporting functions). As a result, the outreach lacks insight and understanding of what they see as the intangibles being generated within the business.

We believe that to make progress accountants and standard setters need to better understand the perspective of investors. Sufficient information in the ecosystem is needed for accountants to better understand why investors might believe the balance sheet of Apple, for example, with a book value of USD62.1 billion (assets of USD352.6 billion) and a market capitalization of USD2.7 trillion at year-end 2023, might be missing important assets.

3. A Phased Approach That Allows for Learning and Education

For these reasons, we believe that using the existing disclosures, retaining the existing tangible-asset based mindset, and engaging in the routine outreach approach, is unlikely to yield progress in standard setting.

Progress on recognition of intangibles likely needs to be phased as was the case with projects, such as fair value accounting, stock-based compensation, and pension measurement—whereby disclosure led the way to more productive conversations and recognition of these financial instruments, stock compensation, and liabilities in the financial statements. One respondent to our survey made the following observation:

> *I like the idea of disclosure that can help us work out whether this is an important area, and how best to analyze going forward. There should be a mechanism in that to allow for reflection in X years' time and the possible outcome of "no, it turns out that wasn't useful, and we should go back."*

Without more information, investors cannot provide greater insight into the intangibles their valuation tells them exists. Just as investors knew their interests were diluted by stock compensation, that financial instruments were worth amounts different than reflected on balance sheets, and that pensions were a very large liability, they did not have the information necessary to measure those assets and liabilities as precisely as the accounting would require at the outset. We think the same phased approach is necessary here.

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The IASB's research project on intangibles has commenced with a broad aperture—asking, for example, what problems are stakeholders seeking to see solved. Our work suggests a disclosure and disaggregation first approach is necessary to improve understanding of the intangibles generated, before considering recognition and measurement of more intangibles on the financial statements. At the time this paper went to press, the FASB did not yet publish materials for its research project on intangibles, but we hope their approach is similarly open minded.

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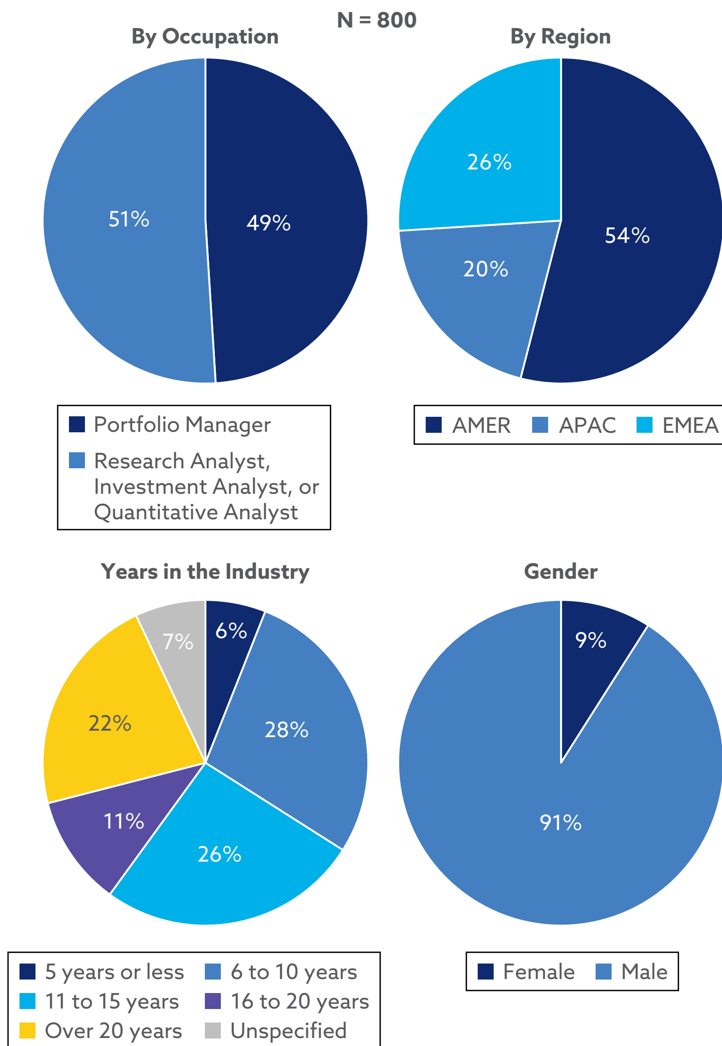
APPENDIX A. ABOUT THE SURVEY

We invited a random sample of 21,786 CFA® charterholders employed as research, investment, or quantitative analysts or portfolio managers to participate in this electronic survey in June 2021 through email invitations.

In this survey, we asked about the accounting for intangibles and the related disclosures as well as how these issues are affecting respondents' investment analyses and decision making. In this survey, we also collected relevant demographic information.

Demographic information on respondents by their occupation, years in the industry, region, and gender are shown in **Exhibit 48**.

Exhibit 48. Survey Demographics



Source: CFA Institute, 2024.

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Sample Size and Margin of Error

A total of 813 individuals provided at least one response to the survey—a response rate of approximately 4%. Approximately 800 individuals answered the first 16 questions on overall views of intangibles, and 450 individuals answered every survey question, for a complete response rate of approximately 2%. The number of responses declined throughout the survey, as expected, because of its length and likely because some respondents were more interested in answering the earlier questions regarding intangibles overall than answers questions specifically on the accounting. We do not believe that the change in sample size affects our conclusions because the ending sample size of 450 is still large, and the tenor of the responses did not noticeably change from beginning to end.

A sample of this size (650, averaging the sample size throughout the survey) has an overall margin of error of plus or minus 4% at a 95% confidence level. This means that if the survey was repeated 100 times with different samples from the same population, 95 out of 100 samples would yield a result within plus or minus 4% of each statistic reported in this study. For example, if an answer is offered by 50% of respondents, the results would range between a high of 54% and a low of 46% for 95 out of 100 other samples from the same population.

The survey respondent demographics were found to be representative of the wider population of interest; therefore, the data were not weighted.

Survey Sponsor and Collection Provider

The survey sponsor was CFA Institute; the data collection provider was Market Intelligence and Business Analytics at CFA Institute.

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APPENDIX B. SURVEY RESPONDENT COMMENTS

This appendix includes comments from the respondents to the open-ended remarks section following a variety of questions in the investor survey described in Appendix A, About the Survey, and in Section IV(A), Introduction to Our Survey.

Not all questions within the survey were followed by an open-ended remarks section. We have indicated—by reference to the exhibit in the body of this report—to which question or section the comments relate.

Because these are the respondents' words—and we seek not to alter their meaning—we have included them without substantive editing for grammar, punctuation, or content.

We have collated, as best as possible, the comments into themes that emerged in each open-ended remarks section. This has been done for synthesis and ease of review and understanding of key messages. Some comments are repeated if they contain concepts applicable to multiple themes. Such comments are denoted with an asterisk (*) at the end of the comment. Several of the comments have been pulled forward to the respective body of the report to emphasize key takeaways. We included only select comments in the body of the report to ensure the conciseness to the findings and analysis. We include all respondent comments in this appendix, however, because the comments of our members are a rich source of insight.

Section IV(B), Key Findings summarizes the key findings from the survey results set forth in the exhibits included in Sections IV(C), Overall Perspectives on Intangibles, and IV(D), Views on Accounting for and Disclosures of Intangibles. Comments were provided by only a subset of respondents. For example, approximately 20% of the respondents to the first 16 questions in Sections IV(C), Overall Perspectives on Intangibles—which are summarized in Exhibits 14 and 15 and presented separately in Exhibits 16–31—provided responses to the open-ended comments. Note also that comments can be made by those with a majority or minority perspective and must be contextualized and analyzed relative to the overall response to the questions as displayed in the exhibits. For example, in certain circumstances, the majority of comments may reflect the minority response to the question and vice versa.

Overall Perspectives on Intangibles

The following comments relate to the Overall Perspectives on Intangibles questions in Section IV(C), which are aggregated by theme in Exhibit 14 and by level of agreement in Exhibit 15. Each of the 16 questions within those summary charts is discussed in detail in Exhibits 16 to 31.

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Comments in Favor of Capitalization of Intangibles on the Balance Sheet

- As the world economy continues to move from industrial to economic age, efforts should be made to bring the valuations of these non-physical assets to the balance sheet to enable users [to] appreciate what is driving values in organizations. A key concern is manipulation of value attributed to these assets; however, these could be addressed by instilling greater disclosure requirements on the creation and valuation of the intangibles to enable users [to] critique the values.
- As a general matter, the costs incurred that bring benefits in future periods should be capitalized and expensed over those future periods. This does not happen now with R&D, etc. Disclosures should be designed to prevent firms from capitalizing costs that have no identifiable future benefits or value to debt and equity holders upon sale or liquidation.
- From my experience the issue which comes with the recognition of internally generated intangible assets [is] more crucial for tech heavy companies. These intangible assets are very hard to value; however, they are a major source of the company's wealth. Moreover, banks hardly use these assets for collateral. I took part in a project where a government sponsored agency was trying to bridge this gap with banks and tech companies. Better disclosure requirements from accounting standards can start the movement in the right direction. However, there is a major pitfall as there would be incentive for some companies in other industries to recognize internally generated software as assets that may not be tradeable at all or hold little value for potential acquirer company.*
- This area is very near to my heart as my PhD dissertation was based on [the] hypothesis that financial statements lack [the] most important intangible assets on books and that [this omission] created a lot of spread among book value and market value. Human capital, relational capital, structural capital etc. all are valuable intangibles which can be valued and disclosed in financial statements but due to a lack of accounting standards and requirements, this information is lacking. These intangibles discussed earlier are valued by investors with [a] subjective lens, therefore for comparison mechanism there must be a concrete and coherent framework so such disclosures can be given in statements, so user of statements evaluate and compare accordingly.*
- For consistency, my preference is to see intangibles treated as similarly as reasonably possible to spending on tangible assets.
- Just to underscore the significance of internally generated intangible assets and recognition of it on the balance sheet so as to reflect proper valuation of the associated businesses.
- It is very important to figure out this issue to correctly value companies.
- It's about time . . .
- Internally generated intangibles are usually understated, while acquired intangibles are often overstated and frequently amortization is an economic cost that should NOT be added back in estimating adjusted earnings.

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Of Those Objecting to Capitalization, a Number of Reasons Were Given

Intangibles Are Too "Amorphous" or "Idiosyncratic" to Be Measured

- The issue is that intangibles take too many different forms, meanings, interactions and impacts to boil down to a balance sheet item.
- In general, financial statements are becoming less relevant because of capital light (or non-tangible investment) business models. However, attempting to value intangibles and put them on balance sheet is only likely to add limited value in my view (given difficulty assessing the value of these assets).
- I don't believe one can really measure all intangibles, especially the ones generated over time. But more disclosure of the intangibles that we do know about is crucial. Except for a few industries, current balance sheets are not that helpful to analysts.*
- Trying to come up with a one-size-fits-all approach on recognizing intangibles will just complicate financial statements without adding any benefit for analysts. Just like the amount of goodwill on balance sheets doesn't reflect its true value, whatever accounting standard on intangibles recognition we can come up with will not reflect its true value, which is idiosyncratic. Dozens if not hundreds of companies were developing social networks in the early 2000s, but only one (Facebook) was also creating an enormous intangible asset at the same time.
- It sounds like you're asking the balance sheet to do something that it's not designed to do. Valuing intangible assets is inherently qualitative. Forcing intangible assets onto the balance sheet runs the risk of allowing management to effectively make up numbers and completely eliminate company-to-company comparability. DISCLOSE but don't force fake numbers onto the balance sheet. Teach analysts what balance sheets are and are not able to tell them. It's folly to try to come up with a magical "number" that will "solve" what companies are worth.* (emphasis in the original)
- Not everything can be quantified, and it is better to not even attempt it with something like ethereal values such as internally generated intangibles. It only leads to more expense in financial reporting, more liability for management, and more analysts relying on management's (biased) estimates. Disclosing the cost of generating certain intangibles (like a drug or software for sale; software for internal use should be capitalized at cost and amortized) in a footnote might be helpful, but do not put it on the balance sheet. Putting them on the balance sheet just makes the balance sheet less hard/more subjective.*

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Capitalization Would Be Too Time Consuming and Would Not Add Meaningful Information to the Financial Statements: Cash Flows Were Held to Be More Important

- I think it would be a big waste of time trying to quantify intangibles further.
- How exactly will intangibles be valued? Is there something inadequate about valuing a company based on its cash flow?
- We don't need more balance sheet accounts that have subjective valuations. Cash flow drives most valuations, and this data won't enhance decision making.

Some Felt the Value of Intangibles Would Show Up on the Income Statement and in Retained Earnings over Time

- True intangible assets will be reflected in retained earnings over long-term, not buy some accounting gimmicks from the management.
- The value of internally generated intangibles should be kept off the balance sheet. In fact, their values are reflected in their top-line and bottom-line numbers and are recognized on a balance sheet when the company is acquired. Better disclosure should be encouraged.
- Practical issues around valuing brands, customer relationships, etc. will be significant. Most of the value from these types of assets should be reflected in the margin profile and companies with negative operating margins should not be able to recognize intangible assets related to assets like brand or customer relationships.
- I believe the best reflection of the "value" being recognized by intangible assets rests on the income statement and the relative market multiple; neither of which can be quantified on a balance sheet.
- The intangible assets described by Warren Buffett (moat) have been reflected in income statement of a company already. Further recognition of intangible assets on a balance sheet will become an income managing tools of bad management and will distort all things!

Many Investors Felt It Was Their Job, Not Management's, to Discern the Value Added by Intangibles

- It is the job of the investor to recognize the additional value of the company that is not reported in the books. This is a source of excess returns for those who can.
- Too much judgement in valuing intangibles. Best left for each investor to determine their value rather than being led by management's optimism.*

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A Common Concern Was That Valuation of Intangibles Was Too Subjective to Include Them in the Balance Sheet

- Key question: Can intangibles be measured precisely enough to be "published" in black on white?
- Attempting to measure intangibles on the balance sheet is too subjective and difficult.
- Too much judgement in valuing intangibles. Best left for each [investor] to determine their value rather than being led by management's optimism.*
- This issue and the comments early on make a material mistake in that they assume that a company's premium valuation to its current book value is in part due to the understatement of intangible assets on the books of a company. That is a flawed conclusion. Additionally, the estimated valuation of intangible assets is simply too subjective. Time and resources would be wasted in marking such an estimate with no added value. Finally, for public companies, management would be inclined to predict that the company's intangible asset values have increased following appreciation of its stock price. For example, the managements of GME or AMC, whose share prices appreciated materially, would be promoted to conclude that the value of the company's intangible assets must be higher, considering the stock prices have appreciated so significantly. This would be backwards and create another wedge between accounting and economic reality, except in this case we would incur more costs and resources with that wedge.
- There may be certain internally generated intangible assets where a reliable value could be placed on it. Generally, though, this would just add to the amount of management's estimation in the results, which would reduce the relevance of the financial statements. It is the job of preparers of financial statements to provide financial information that can be reliably measured and compared to peers. It is the job of market participants to estimate [the] value of items that cannot be reliably or objectively measured from inside a company. Much of this focus on intangibles appears to be driven by value investors trying to find ways to include growth stocks into their funds and then justify this inclusion to their clients. Their trusty price-to-book heuristic doesn't work in the internet economy, so they are looking to inflate book value. It appears to be a very unconstructive exercise.
- I believe that firms have the latitude to cover intangibles as completely as necessary in the text of their reporting. We should all be reading that text and making any subjective adjustments to financial reporting that we want to make. I do not want to see any additional intangibles show up on balance sheets, which I depend upon as a bastion of black and white truth.
- The valuation would be the main issue regarding these assets. Disclosure in the financial statements should be mandatory.*
- I agree that disclosure and disaggregation of various intangibles (acquired, internally developed, software, data) could be helpful but also see too

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much subjectivity in valuing some internally developed intangibles like a company's brand(s).*

- It is hard to value intangibles across companies and therefore subject to too much judgement.
- I generally ignore measured intangibles—they're not measurable and therefore relevant to analysis and valuation. Any measurement regime would require a ton of arbitrary assumptions and therefore too much management discretion.
- Intangibles should not be valued by the business that owns/holds them, this is the subjective job of an analyst to discover whether anything nonphysical (employee culture/incentive/investment in brand) will generate returns on capital and improve the market capitalization/value of a company. The suggested changes are more reliant on company reporting and openness to non-genuine accounting. I also do not believe the suggested changes will improve or give more accurate valuations.

Many Felt That the Subjectivity of Valuation Would Make Financial Statements Less Useful

- Significant uncertainty regarding future value created from current investments in intangible assets (R&D) makes assessment of fair value arbitrary and cumbersome.
- Statements were more useful 20 years ago before FASB and IASB made them too complex and full of endless estimation and valuation.
- Not everything can be quantified, and it is better to not even attempt it with something like ethereal values such as internally generated intangibles. It only leads to more expense in financial reporting, more liability for management, and more analysts relying on management's (biased) estimates. Disclosing the cost of generating certain intangibles (like a drug or software for sale; software for internal use should be capitalized at cost and amortized) in a footnote might be helpful, but do not put it on the balance sheet. Putting them on the balance sheet just makes the balance sheet less hard/more subjective.*
- Measurement of internally generated intangibles is difficult and can end up being misleading. Disclosure is a good first step with description of management recognized intangibles.*
- Intangibles should not be fair valued, nor should the balance sheet be rewarded by an allocation of often sunk costs, as incentives of management will create new distortions. Balance sheet[s] should be left alone, but all benefit should accrue to disclosures in reporting as qualitative discussion supported by as much quantitative data as the company wants to disclose. The presence of this discussion is an inevitable side effect of an out-of-control bubble in assets of a speculative nature, and not for any accounting shortcomings.*

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- Financial statements are supposed to provide an objective and prudent picture of a company's finances. Recognizing internally generated intangibles is extremely subjective, imprudent and opens the field for manipulation, error, and deception. Financial statements would become significantly less useful. The judgment of the user of financial statements would need to undo or adjust for the judgment or deception of those providing the information.*
- Suppose you provide a fair value estimate of intangible assets, how easy is that to do? A rubbish fair value model is not helpful.
- Valuing intangibles will add to further balance sheet analysis complexities, as companies will use different valuation methods.
- This proposed change would create more complication and confusion in the preparation and interpretation of financial statements, similarly to the catastrophic IFRS 16 change which significantly distorted the ability for investors to use EBITDA as a proxy of operational cash flow generation capabilities.
- The idea of recognizing internally generated intangibles on the balance sheet is opening a can of worms and will create unintended, negative consequences. Do not push this agenda.
- It is fine if the balance sheet becomes less useful over time.
- Intangible asset recognition is by the nature of valuation process imperfect. Allowing more wiggle room for the identification of categories of intangible assets on the balance sheet will lead to further opacity and disconnect from economic reality in financial statements. The income statement will be harmed by this, and companies will further promote "underlying" or "adjusted" metrics lowering overall investor utility.
- I do not think that you can standardize internally generated intangibles and be meaningful.
- I do not believe any intangibles, either acquired or internally generated, should be disclosed on balance sheets.

Many Comments Reflected a Concern That the Subjectivity of Valuation Would Open the Door for Intentional Distortion of Financial Statements by Management ("Gaming")

- If the current rules of accounting for intangibles change, I think management teams would have too much discretion in what expenses to capitalize; therefore, further distorting financial statements. Furthermore, I believe it may be impossible to come up with a universally acceptable way of measuring what constitutes internally generated intangible assets and any associated amortization expenses.
- You are inviting accounting shenanigans with this emphasis on internally generated intangibles. Such assets are evident from the medium- or

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long-term performance of a company and it is up to analysts—and not company financial officers—to judge those.

- You should never trust the company to internally value assets that are intrinsically hard to value, look at mortgage servicing rights (MSRs) and what happened in 2007—when you allow companies to dictate what is the value of intangibles they create, it leads to increased fraud and less reliable financial statements. The goal is to identify the intangible assets and have management provide estimates/thoughts on [the] value of the intangibles in footnotes—keep it off the statements!
- We need to be thoughtful about the potential for management to game the fair value of this asset. The cost incurred to date seems most conservative.
- There are a lot of games that can be played with made up numbers. Using intangibles in some sort of leverage ratio can distort what is really happening.
- The risk is that some companies might overstate the value of their intangibles to hide the financial risk on the liability side. One cannot pay debt with intangibles.
- Recognizing organic intangibles will mislead investors, facilitate an environment of fraud, and burden companies. There will be no improvement in valuations.
- Putting intangibles on the balance sheet creates a brand-new can of worms for unscrupulous management to inflate their values.
- Many companies utilize intangibles accounting to circumvent the P&L expenses they should be booking, driving balance sheet items that are overstated. The ability to capitalize expenses is a problem for investors as it often results in write downs that are classified by reporting entities as "non-cash." Stricter rigor around the ability to capitalize expenses is dearly needed.
- Intangibles should be footnoted items, because shady companies will inflate them, and conservative companies will dismiss them. They are intangible for a reason and therefore should not show on the balance sheet, the result will not be more accurate but rather less reflective and accurate balance sheets.*
- I am concerned that internally generated assets can open the door to abuse. They would only work if linked to return on common equity (ROCE) incentives.
- Financial statements are supposed to provide an objective and prudent picture of a company's finances. Recognizing internally generated intangibles is extremely subjective, imprudent and opens the field for manipulation, error, and deception. Financial statements would become significantly less useful. The judgment of the user of financial statements would need to undo or adjust for the judgment or deception of those providing the information.*

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- Allowing management to determine fair value of intangibles increases the likelihood of biases in reported values. Further, the applicability may be high for large, publicly traded firms but overly burdensome to smaller firms as well as innovators who develop unproven technologies and other intangibles.
- We do not need more intangibles. We need less.
- Valuing certain intangibles would be highly subjective and could lead to companies artificially inflating them. Better to disclose details and allow investors to decide what they are worth.*
- Trying to marry book value with market value by greater recognition of intangibles is a good idea in theory. But in practice, it will most likely create accounting and auditing headaches and be subject to enormous manipulation by management. Most investors would likely make their own judgements about intangible value anyway rather than look at carrying value in a footnote.

Some Believe Capitalization Should Be Permitted Only Where There Is an Acquisition, or Other Clear Evidence Supporting the Value

- Please note that intangible assets recognized on the balance sheet due to acquisition is an actual sale process through which valuation has been determined. This wouldn't be the case with internally generated intangible assets and management would be mostly estimating internally generated intangible assets. So, I do not think we can solve this at the current stage.
- While disclosures of details around intangible assets are important, balance sheet recognition should not be a clear-cut rule, just because it is an intangible asset. While it may introduce an element of judgement, capitalization should occur if there is clear evidence (which a company is able to show) to suggest an intangible asset will be able to generate cash flows in the future. If not, then expensing will make more sense.*
- Disclosure of the presence of an internally generated asset (data, brand, customer relationships) is very important, but valuing it is difficult and open to manipulation. Perhaps a system where only a percentage of sales and marketing can be capitalized to create these intangibles may be less easy to manipulate?

Some Favored an Approach Based on Capitalizing Costs Only: Similar to Capitalized Leases or Treatment Similar to Deferred Acquisition Costs

- Capitalization of costs like treatment of operating leases based on incurred costs would be useful. Fair value would theoretically be better, but comparability would become an issue + capitalization of costs superior

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to fair value (FV) for understanding value creation, i.e., economic profit, return on invested capital (ROIC), etc.

- Treat all intangibles in the same way that we do life insurance deferred acquisition costs (DAC).

Many Cited the Current Approach of Expensing Costs as a Practical Alternative

- I do not see a big problem with the current expensing accounting model as it is straightforward. The capitalization model would create a lot more management assumptions and heterogeneity among issuers. I don't think that management has a good estimate of the value of these things as they're uncertain, illiquid (no secondary market/way to dispose of them) and would often just be a capitalization of payroll expenses. Eventually, the amortization of the intangible would converge with the expensing anyway. I value companies on cash flows; the non-current asset side of the balance sheet is virtually useless. I do not think more management assumptions/fair value accounting models would make it more useful, it would just be biased (it's [the] analyst['s] job to come up with PV of future cash flows, we can't trust management to make that calculation). I do not care about making book value or P/B multiples closer to market values. I am fine with more disclosures/disaggregated disclosures in the notes or MD&A. By the way, I think the definition of intangible assets would need to be substantially revised to make what you're implying work.*
- When in doubt, expense instead of guessing at a demi-asset's (i.e., intangible's) value and then reevaluating it annually. If the intangibles have value, they'll result in higher revenue and operating cash flow. The balance sheet isn't the only place the value of intangibles shows up. And it's better to have market validation through real transactions.
- Need to have disclosure of internally generated intangibles but the measurement is very difficult and subjective. It requires a lot of judgement, so the most practical [approach] is to have cost and then it is up to analysts to subjectively determine the value they want to put on it. Management would be too biased.

Many Suggested the Need for Clear Valuation Standards If Intangibles Are Capitalized, with Disclosure of the Valuation Method Used

- This area is very near to my heart as my PhD dissertation was based on [the] same hypothesis that financial statements lack [the] most important intangible assets on books and that created a lot of spread among book value and market value. Human capital, relational capital, structural capital, etc. all are valuable intangibles which can be valued and disclosed in financial statements but due to a lack of accounting standards and

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requirements, this information is lacking. Intangibles are valued by investors with [a] subjective lens, therefore for comparison mechanism there must be a concrete and coherent framework so such disclosures can be given in statements, so user of statements evaluate and compare accordingly.*

- The problem with fair value methodologies is that companies may be too free to choose valuation methodologies to suit their needs, change definitions. There needs to be some way to ensure consistency and continuity of standards.
- My concern is proper control should be put into place to recognize internally generated intangibles.
- Internally generated intangibles are extremely relevant for pharma and tech companies. Whilst IASB and FASB are quite rightly worried about a liar's charter of self-identified intangibles this can be fixed prescriptively with detailed recognition rules, disclosures, director affirmation and impairment.
- There needs to be a standard in human capital valuation. May use the individual's relative salary level as a proxy.

The Need for Independent Valuation Experts Was Emphasized

- The amortization or valuation of intangibles is extremely important. So is the disclosure of the method used to achieve the valuations and that there is independence of the valuers.*
- I feel the problem is twofold: (1) limited disclosure, and (2) accounting bodies should take aid of independent experts to value different intangible assets. I feel this part has remained neglected. Additionally, companies should continuously disclose numerical information on variables that are used in recognition of intangible assets.*

Additional Disclosure Was Viewed Favorably: Often as an Alternative to Capitalization or as a First Step

Disclose Estimates of Fair Value as an Alternative to Capitalization

- I do believe that value is missing from the balance sheet by not reflecting intangibles. However, allowing fair valuation at any discretion of management will create an even greater information gap between investors and executives. If intangibles are to be included, disclosure will have to be transparent and objective as the two key attributes.
- Disclosure of internally generated intangibles is important and valuable. However, the valuation of these intangibles will be subjective due to the inherent conflict of the business. Disclosure should be required and estimates of fair value can be provided. But this should not form part of the balance sheet.

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- It sounds like you're asking the balance sheet to do something that it's not designed to do. Valuing intangible assets is inherently qualitative. Forcing intangible assets onto the balance sheet runs the risk of allowing management to effectively make up numbers and eliminate company-to-company comparability. DISCLOSE but do not force fake numbers onto the balance sheet. Teach analysts what balance sheets are and are not able to tell them. It is folly to try to come up with a magical "number" that will "solve" what companies are worth.* (emphasis in the original)
- The valuation would be the main issue regarding these assets. Disclosure in the financial statements should be mandatory.*

Disclose Internally Generated Intangibles

- I prefer management's disclosure of internally generated intangibles, to prevent all costs and troubles related to putting them on the balance sheet.
- My primary concern relates to management's classification of "internal intangible asset" vs. "expense" and valuation methodology for certain intangibles (e.g., "data"). Allowing footnote disclosures for internal intangibles is a more conservative approach than permitting them on balance sheet and would reduce the potential for balance sheet manipulation.
- From my experience the issue which comes with the recognition of internally generated intangible assets is more crucial for tech heavy companies. These intangible assets are very hard to value, however they are a major source of the company's wealth. Moreover, banks hardly use these assets for collateral. I took part in a project where a government sponsored agency was trying to bridge this gap with banks and tech companies. Better disclosure requirements from accounting standards can start the movement in the right direction. However, there are major pitfalls as there would be incentive for some companies in other industries to recognize internally generated software as assets that may not be tradeable at all or hold little value for potential acquirer company.*

Disclose Costs Incurred

- Not everything can be quantified, and it is better to not even attempt it with something like ethereal values such as internally generated intangibles. It only leads to more expense in financial reporting, more liability for management, and more analysts relying on management's (biased) estimates. Disclosing the cost of generating certain intangibles (like a drug or software for sale; software for internal use should be capitalized at cost and amortized) in a footnote might be helpful, but do not put it on the balance sheet. Putting them on the balance sheet just makes the balance sheet less hard/more subjective.*

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Disclose Fair Value Methodology

- I feel [the] problem is twofold: (1) limited disclosure, and (2) accounting bodies should take aid of independent experts to value different intangible assets. I feel this part has remained neglected. Additionally, companies should continuously disclose numerical information on variables that are used in recognition of intangible assets.*
- The amortization or valuation of intangibles is extremely important. So is the disclosure of the method used to achieve the valuations and that there is independence of the valuers.*

Other Disclosure Suggestions

- Spending on intangibles needs to be disclosed with more details. (e.g., the type of R&D, estimated usage life, marketing spending, etc.).

General Support for Disclosures

- I do not see a big problem with the current expensing accounting model as it is straightforward. The capitalization model would create a lot more management assumptions and heterogeneity among issuers. I do not think that management has a good estimate of the value of these things as they're uncertain, illiquid (no secondary market/way to dispose of them) and would often just be a capitalization of payroll expenses. Eventually, the amortization of the intangible would converge with the expensing anyway. I value companies on cash flows; the non-current asset side of the balance sheet is virtually useless. I don't think more management assumptions/FV accounting models would make it more useful, it would just be biased (it's [the] analyst['s] job to come up with PV of future cash flows, we can't trust management to make that calculation. I don't care about making book value or P/B multiples closer to market values. I am fine with more disclosures/disaggregated disclosures in the notes or MD&A. By the way, I think the definition of intangible assets would need to be substantially revised to make what you're implying work.*
- Valuing certain intangibles would be highly subjective and could lead to companies artificially inflating them. Better to disclose details and allow investors to decide what they are worth.*
- I agree that disclosure and disaggregation of various intangibles (acquired, internally developed, software, data) could be helpful but also see too much subjectivity in valuing some internally developed intangibles like a company's brand(s).*
- Intangibles should be a footnote item, because shady companies will inflate them, and a conservative company will dismiss them. They are intangible for a reason and therefore should not show on the balance sheet, the result will not be more accurate but rather less reflective and accurate balance sheets.*

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- While disclosures of details around intangible assets are important, balance sheet recognition should not be a clear-cut rule, just because it is an intangible asset. While it may introduce an element of judgement, capitalization should occur if there is clear evidence (which a company is able to show) to suggest an intangible asset will be able to generate free cash flows in the future. If not, then expensing that intangible asset will make more sense.*
- My preference would be that relevant information was provided in footnotes and as a part of the MD&A.
- Measurement of internally generated intangibles is difficult and can end up being misleading. Disclosure is a good first step with description of management recognized intangibles.*
- Intangibles should not be fair valued, nor should the balance sheet be rewarded by allocation of often sunk costs, as incentives of management will create new distortions. Balance sheet[s] should be left alone, but all benefit should accrue to disclosures in reporting as qualitative discussion supported by as much quantitative data as the company wants to disclose. The presence of this discussion is an inevitable side effect of an out-of-control bubble in assets of speculative nature, and not for any accounting shortcomings.*
- Improve disclosure but do not put on balance sheet.
- I do not believe one can really measure all intangibles, especially the ones generated over time. But more disclosure of the intangibles that we do know about is crucial. Except for a few industries, current balance sheets are not that helpful to analysts.*
- Better disclosure regarding intangibles would be useful. Some of the other points overstate the issue in my view. I think the question about data is interesting. I put "disagree" on that one because I'd be concerned companies could then boost assets or reduce assets quite easily. I think disclosures may be useful, but I wouldn't like to hand management an additional tool to use to obfuscate when it suits, and I would worry about that one (data). I think ESG has its own dynamics/force at the moment and wouldn't take that into consideration as an argument—there are many (most in fact) things not captured in financial disclosures. That doesn't reduce the significance of financial disclosures.
- At a minimum, disclosure of the amount of intangibles should be included in statements.

Some Commenters Supported the Idea of a "Secondary Balance Sheet"

Exhibit 31 presents the question regarding whether a secondary balance sheet including fair values should be created. Comments related to that specific question follow.

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- I would choose not to capitalize intangibles (either acquired intangibles or internally generated), since the disclosure, valuation and amortization of intangibles is open to broad subjective interpretation. Book value should be kept as pure as possible and not be distorted by subjective notions of perceived value. A separate statement of value of intangible assets (IP, human capital, etc.) could be shown, but should not be included in the balance sheet.
- We can have two balance sheets, one as per the prevailing standards, and the second including management estimates of unrecognized intangibles.
- Intangible assets should be reconciled and reported through their own trial balance system and then reported with proper comprehensive segments within the balance sheet to report their value. Single line items of intangibles leave the door open to unfair reporting, missed disclosures and lack of transparency to the reader. Note disclosures, and a secondary balance sheet reflecting intangibles vs. full level 3 speculation seems like a more prudent path.

A Few Other Suggestions/Comments

- Please distinguish book value and fair value. Book values don't have to be the same as fair value.
- The relationship between intangibles and competitive advantage is key.
- Don't overcomplicate matters. If you choose to capitalize something like R&D show the intangible at cost and amortize over an industry-accepted time period. For a low growth business, the amortization should be pretty similar to the amount capitalized each year, once the business is mature.

Initial Recognition of Intangibles

Acquired Intangibles Assets

We posed several questions related to the accounting for acquired intangibles, many of which related to the notion of separability from goodwill because of the FASB's consideration of this question. See Section IV(D)(1), Investor Perspectives, Views on the Accounting for and Disclosures of Intangibles, Initial Recognition: Acquired Intangibles.

An Acquired Intangible Asset Should Be Recognized Separately from Goodwill

Exhibit 32 sets forth the survey respondent's views related to the recognition of intangibles separate and apart from goodwill. The comments on that question follow.

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Current System Is Fine

- I don't have an issue with the current separation of intangibles from goodwill.

More Separation Is Needed

- Goodwill should be decomposed into its intangible components.
- Anything, goodwill is a worthless catch-all entry.

Separated Only If They Are "Measurable"

- If its fair value can be reasonably estimated and corroborated.
- If it is measurable.
- If it is objectively measurable in value.
- More specifically, if cash flows can be estimated disclosure is important.
- If it can be separately measured as distinct from goodwill (e.g., payment for the acquired intangible)

Separated Only If They Are "Separable"

- If a customer list can be sold it should be recognized as a product, not an intangible.
- While this makes sense, the impact of allowing this without tight rules is dangerous for knock on impacts to amortization, ROA/ROE and a host of other metrics that can potentially be gamed via opaque processes of categorization.
- If it has a finite life.

Separate Only If They Have Some Evidenced "Value"

- It underpins operating segments of a business.
- If the acquired intangible creates a tax deduction.
- If it contributes to higher margin or revenue visibility.
- If it has material strategic value.
- Modifies existing cash flows (incremental cash flows [margins]).
- If the acquiree had to incur costs to build or create them (capitalized costs).
- Customer lists is BS. License or patent rights should be only those above and beyond which generates value. A contract to exhibit the Olympics is not an intangible asset since it's the exhibition that generates the value.

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Acquired Intangibles Should Be Included with Goodwill

- Just go back to the way things used to be. Any excess of acquisition price vs. book value (at cost value minus aggregate depreciation) should be entirely recognized as goodwill. Let's not give accountants any more reason to exist than is absolutely necessary.
- Put it all in goodwill.
- No need to separate.
- Never recognized.
- We all ignore amortization charges, so why capitalize?

Other

- FWIW: Everything should be depreciated/amortized, even goodwill. Too many companies create the illusion of earnings growth through acquisitions that place [a] large amount of goodwill on the balance sheet that doesn't get depreciated. While creating that same business internally would result in significant expenses that might depress earnings if the business doesn't reach a certain level of profitability.
- Companies should be able to recognize and amortize distinct assets. The problem is that valuations for these assets are subjective, and third parties do a poor job of ensuring independent realistic valuations are derived.

Indefinite-Lived Intangible Assets Should Be Included as Part of Goodwill, Not Recognized Separately

Questions related to the aggregation of acquired intangibles with goodwill are included in Exhibits 33 and 34. The comments on those questions follow.

Disagree: Do Not Include Intangibles with Goodwill

- Greater transparency in acquired assets is better, even if subjective, in my opinion.
- Goodwill should never be commingled with anything.
- Goodwill is overused, the more segmentation, the better.
- I think allowing management teams discretion to forgo amortizing intangibles through recognizing more as goodwill will distort earnings reported.

Most Intangibles Are Finite

- Most assets will actually turn out to be finite.
- Intangible assets may falsely appear to be indefinite.

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- Brands are effectively the consumer appreciation of product use and trust. This can change. Saying a brand is indefinite takes total pressure off of quality control vs. outsourcing for example because we are saying the brand can't be harmed?

Recognize Intangibles Using a Cost Accumulation Approach

- Certain intangibles can at the very least be measured at cost, for example cloud infrastructure.

Estimation of Intangibles Is Difficult but Should Be Attempted

- The value of intangible is fuzzy. Goodwill is the acquirer's estimate of total intangible value, within which there are parts that are less debatable. The debatable part of goodwill should be named as "takeover premium."
- Very difficult to address, because it is not obvious to me how to estimate the value; but perhaps starting with voluntary estimates of the value of brands, we will find a heuristic.
- There is a lot of subjective judgment here, but that is generally true, even with tangible assets.
- The second one would be solved by the suggestions in the earlier section. If balance sheets do start to include well defined measures of intangibles, then their measurement won't be as subjective and arbitrary (bearing in mind that all figures are accounting estimates at best in any case).

Just Improve Disclosures

- Please, don't make goodwill bigger, just disclose intangibles.
- Obtaining an understanding of management's assessment of where value is expected to exist is useful for benchmarking future results.
- No significant objections to the current treatment of acquired intangibles, disclosures could be more uniform and consistent, but I believe the current treatment is likely the best available.

Agree: Fewer Intangibles Should Be Recognized

- Goodwill value should be already reflected in the revenue and DCF. Creating indefinite intangible assets is just an accounting practice to justify overpaying.
- We need fewer intangibles, not an excuse to put up more.
- These should be treated as goodwill.

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- You don't record the value of heavy equipment as goodwill, either in an existing business or from an acquisition, so why record the intangible value of a software system any differently?
- Put it all in goodwill if it isn't identifiable organic book invested capital.

Include in Goodwill Due to Concern over Subjectivity and Possible Manipulation

- Again, this disaggregation is too subjective. I know of companies that tell the market they are purchasing companies purely for customer acquisition but then convince their auditor to allocate less to customer list intangibles and more to goodwill to avoid the P&L impact of amortization. These accounting choices can be too easily manipulated. Leaving it all as goodwill provides a scoreboard for investors to rely upon in the form of impairment testing.
- Companies clearly utilize these identified intangible balances to minimize goodwill recognition. The valuation process is imperfect and thus it creates a severe weakness in financial reporting.

Include in Goodwill and Amortize Goodwill

- As per above. Any excess of acquisition price over the book value of the business acquired should be entirely recognized as goodwill and not amortized. Any future impairment of that goodwill should go into a separate clearly identifiable reserve within shareholders' funds, so that those who choose to can add it back when performing "all in" return on capital calculations and clearly showcase the value-destructive behavior of profligate management teams.
- If the intangible that was purchased, would not have been on the balance sheet of the company that was acquired then it should be part of goodwill and goodwill should be amortized.

Goodwill Should Not Even Be Recognized

- Value is in the eye of the beholder. Goodwill should be eliminated from balance sheets and expensed as incurred.
- Stupid acquisitions are enabled because buyers can capitalize goodwill/intangibles. The accounting rules should be changed so that only tangible book value is added to the buyer's balance sheet. The excess of purchase price over tangible book acquired should be an immediate hit to acquirer's shareholders equity. Maybe then there would be fewer fiascos like AT&T.

Other Suggestions

- Immateriality suggests no meaningful value, and thus would not appear separately nor as part of goodwill.

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- Again, I will share what I have analyzed in my PhD research, goodwill and something very different from other intangibles which are not reported in financial statements and their separate recognition will serve the broad purpose.

Internally Generated Intangible Assets

We posed several questions—included as Exhibits 35 to 39 in the body of the report—related to the accounting for internally generated intangibles, requesting open-ended remarks. The comments on those questions follow.

Should Internally Generated Intangible Assets Be Recognized?

The following comments are related to Exhibits 35 to 38, which queried whether internally generated assets should be recognized.

Agree, Recognize Internally Generated Assets

- Try to treat in as similar fashion to tangible assets as possible. You can build a factory and it too can be tough to value and turn out worthless.
- R&D expense is the elephant in the room, as well as customer acquisition costs. Should be capitalized and amortized over a reasonable useful life.
- Always and measurement methods should be dictated by accounting standard. Disclosure on measurement should be included.*
- In all of those cases.
- All of the above plus valuing "brand."
- I have checked boxes I think make sense; however, I think this is probably an area needing more context. I suppose I could think of something internally developed which cannot be separated out, but which is absolutely integral to the cash generation of a part of a business—surely that has value that should be captured/reported, but it may not be possible to separate it out, may not generate separate cash flow.

Disagree, Do Not Recognize Internally Generated Assets

- This is a naked attempt by tech companies to increase reported earnings by being allowed to capitalize more costs.
- They shouldn't be on the balance sheet. They should be better disclosed in the income statement.*
- If they can be sold or generate cash flow, they are a product and should be inventoried, not become an intangible.
- Never. Intangible assets should never be recognized on balance sheets.
- They should not be capitalized.

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- They should not be recognized as an asset—they should always be expensed.
- Don't recognize internally generated intangible assets.
- Not recognized.

No Need to Capitalize Because Value Shows Up in Future Cash Flows

- Intangibles should, in both cases, be eliminated from the balance sheet. The value of intangibles is reflected in income and cash flow and imaginary valuations should not be added to assets/shareholders' equity.
- Internally generated (other than capitalized cost of something like software for internal use) should not be on the balance sheet. If they are of value, it will show up in future cash flows. Putting something of such subjective value on the balance sheet before it generates cash is too presumptive. Disclosing the historical cost of developing an intangible would be more helpful and less subjective than subjectively assigning a value and putting it on the balance sheet.*

Concern over Subjectivity (Abuse) of Valuation

- The challenge here is how to recognize intangibles without creating a black hole of assumptions and discretion on the valuation of possible future benefits.
- They are too difficult to measure—this is a waste of time and lacks validity.
- There is far, far too much opportunity to abuse this sort of reporting by management in an effort to inflate earnings and share prices. Although it could add information in some cases, I do not want it sullying balance sheets.
- Allowing more scope to capitalize internally generated assets is a can of worms for earnings manipulation. Reference to the recent IFRIC guidance on cloud computing is worth considering, as a host of Australian companies are likely to write down internally capitalized software balances in FY21 and FY22 due to an over eagerness to capitalize expenses.
- Capitalization of marketing expenses creates a strong incentive for management teams to label expenses that have little to no benefit beyond the current period as an investment in an intangible asset.
- Be careful what you wish for. Capitalizing internally generated intangible assets will be very subjective and hence will allow management manipulations. Consequently, the B/S will not become more comparable if managers from different firms value the internally generated intangible assets differently. It is true that the B/S's equity does not reflect the market

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cap, but that doesn't make the entire [financial statements] obsolete. Important is the CF statement for the valuation, not the B/S.

- Internally generated (other than capitalized cost of something like software for internal use) should not be on the balance sheet. If they are of value, it will show up in future cash flows. Putting something of such subjective value on the balance sheet before it generates cash is too presumptive. Disclosing the historical cost of developing an intangible would be more helpful and less subjective than subjectively assigning a value and putting it on the balance sheet.*

Capitalize According to Certain Criteria: Separability, Ability to Generate Cash Flows and Measurability

- The ability to sell an intangible asset separately and separate cash flows generation would be strong indicators that the intangible asset could indeed fetch a market price separate from the overall business in which it is embedded.
- The criterion: only if they generate separate cash flows should include projects that have separate negative cash flows. That is, a project or product does not need to generate a net positive stream of cash flows to be eligible.
- Assets that are specifically tied to cash generation only belong on the balance sheet.
- Costs associated with internally generated assets should be capitalized if they provide probable future economic benefit.
- If it pertains to a process or company characteristic that management claims are a differentiating factor and/or competitive advantage.
- If the intangibles have distinct costs associated with them.
- Must be separable and identifiable. The ability to identify should be based on reliability of measurement.
- The issue is of measurement, a coherent and objective measurement of such internally generated intangibles will serve the purpose. As I have worked on South Asian region and adoption of IFRS is very minimum in Bangladesh in terms of already established standards. Therefore, a robust measurement of such intangibles is required.
- The same methodology for valuing and therefore expensing or impairing assets needs to be the same for acquired or developed, and for the former [it] seems to be almost always overestimated.

Provide Additional Disclosure/Disaggregation of Certain Costs

- Treat R&D/advertising the same as capex, require detailed amortization disclosures for research assets.

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- R&D, customer analysis and marketing details should be provided in footnotes.
- They shouldn't be on the balance sheet. They should be better disclosed in the income statement.*
- Internally generated (other than capitalized cost of something like software for internal use) should not be on the balance sheet. If they are of value, it will show up in future cash flows. Putting something of such subjective value on the balance sheet before it generates cash is too presumptive. Disclosing the historical cost of developing an intangible would be more helpful and less subjective than subjectively assigning a value and putting it on the balance sheet.*
- Always and measurement methods should be dictated by accounting standard. Disclosure on measurement should be included.*

Other

- Goodwill should be allowed to be amortized if you want comparable financial statements across companies that have grown through acquisitions vs. organically.
- I could have a database of how often my customers mow their lawns. That could be completely pointless for one business, but highly valuable for another. Or maybe I haven't figured out how valuable that is yet, to me or to another party.
- Current system is okay.

Method of Recognizing Internally Generated Intangible Assets

The following comments are related to Exhibit 39 and the method of recognition of internally generated intangibles.

Only Certain Types of Internally Generated Assets Should Be Capitalized

- It depends on whether intangibles are marketable (can be sold and has a market). When marketable, it is suitable to book on the balance sheet. Otherwise, it creates room to manipulate financials statements. Spending on intangibles should be put into the footnotes.

Support for Capitalization Based on Costs Incurred

- Recognized as an asset on the balance sheet at cost, but fair value is disclosed in the footnotes.*
- Recognized as an asset on the balance sheet, initially valued on costs incurred, and subsequently tested for impairment.

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- For the sake of conservative estimates, I believe cost should be the initial value, and then fair value testing for impairment thereafter (or amortization if defined life).
- Assets values should be based solely on consideration paid or identifiable cash flows.

Support for Capitalization Using a Fair Value Approach

- Recognized as an asset on the balance sheet and valued based on fair value, PROVIDED THERE IS ENOUGH DISCLOSURE ON THE IDENTIFICATION OF ASSETS AND THEIR VALUATION IN THE NOTES. (emphasis in the original)
- Costs incurred may not correctly represent the value of the intangible and therefore fair value measurement should apply. Management should disclose fair value inputs and keep them constant unless there is a significant reason for those to change. Any changes should be explained by management in footnotes.
- The recognition of internally generated assets as an asset on the balance sheet would be an ideal state. That said, in the real world[,] recognition could lead to increased manipulation of financial statements, notably if allowing a fair value model. Further, even intangible assets that appear to be able to be sold separately, such as client lists, are regularly still dependent on the overall business in which they are embedded. Disclosure instead of recognition as a first step would allow analysts to assess the value assigned to such assets over time while preventing management from manipulation. Full recognition could follow, in a second step, once valuation standards have been established.*
- A reliable fair valuation should be done, and authentic mechanism should be applied.
- Initially valued and reported and with passage of time report at fair value.
- Try to treat as similar to tangible assets as possible; there is uncertainty in both of these.

Concern about Subjectivity of Valuation

- Too subjective and a waste of time and resources.
- That fair value is probably going to be inaccurate. And very onerous for management to prepare on an ongoing basis.
- Recognizing internally generated intangible assets (other than patents, etc.) will create a way for management to distort the value of their business.

Valuation Should Be Left to Analysts

- Investors are capable of valuing intangible assets more fairly than management.

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- Investment analysts should focus on the true cash earning power (free cash flow) and the book value of goodwill/intangibles is irrelevant.
- Internally generated intangibles, if that is what you wish to call them, are only relevant to investors if there's corresponding cash flow.
- I think the benefit of internally generated intangibles will appear as increased cash flow which will result in a higher valuation for the company. The existing model is appropriate.
- Definitely not an intangible asset if internally generated assets provide cash flow or revenues. They are a product and should be listed as such.
- The only comparable is money spent. The return on that money is the job of the analyst to capitalize. Better information of how that money is spent is the only way to level the analysis.*

Concerns Regarding Potential for Abuse by Management

- There is far, far too much opportunity to abuse this sort of reporting by management in an effort to inflate earnings and share prices. Although it could add information in some cases, I do not want it sullying balance sheets.
- Management estimates of intangibles are biased. The proof is in the pudding (income/cash flows). Leave it at that.
- The recognition of internally generated assets as an asset on the balance sheet would be an ideal state. That said, in the real world[,] recognition could lead to increased manipulation of financial statements, notably if allowing a fair value model. Further, even intangible assets that appear to be able to be sold separately, such as client lists, are regularly still dependent on the overall business in which they are embedded. Disclosure instead of recognition as a first step would allow analysts to assess the value assigned to such assets over time while preventing management from manipulation. Full recognition could follow, in a second step, once valuation standards have been established.*
- Recognizing internally generated assets reduces comparability as it increases flexibility for firms on how to value their assets.

Disclosure Suggestions

- DISCLOSE but don't pretend you can come up with a number of internally generated intangible assets that are comparable across different companies. (emphasis in the original)
- I think both the costs and fair value should be disclosed together along with a fair value approach.
- Recognized as an asset on the balance sheet at cost, but fair value is disclosed in the footnotes.*

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- Reasons for fair value deviation from cost should be disclosed each year.
- The only comparable is money spent. The return on that money is the job of the analyst to capitalize. Better information of how that money is spent is the only way to level the analysis.*
- Additional commentary on valuable costs that a company hopes to provide value in the future is useful.
- The recognition of internally generated assets as an asset on the balance sheet would be an ideal state. That said, in the real world[,] recognition could lead to increased manipulation of financial statements, notably if allowing a fair value model. Further, even intangible assets that appear to be able to be sold separately, such as client lists, are regularly still dependent on the overall business in which they are embedded. Disclosure instead of recognition as a first step would allow analysts to assess the value assigned to such assets over time while preventing management from manipulation. Full recognition could follow, in a second step, once valuation standards have been established.*

Other

- If using fair valuation methodologies, need to ensure there is comparability across industry and continuity in standards.
- The amortization period for brand and customer relationships (unless contractual) should be very short—maybe 3 years. While many companies fantasize about the durability of brands, most have no durability unless supported by advertising and marketing.

Subsequent Measurement

The following comments are related to the questions we posed on subsequent measurement of intangible assets as presented in Section IV(D)(3), Subsequent Measurement: Impairment versus Amortization, in the body of the report and presented in Exhibits 40 to 44.

Do Not Separate: Goodwill Only

- Just go back to goodwill only!!!

Do Not Capitalize

- The value of intangibles is so difficult to measure that any attempt to do so is inherently flawed and subject to manipulation. Most investors ignore intangible amortization (i.e., add it back to cash flow and earnings). It can be useful when calculating returns and evaluating deals on a retrospective basis. Attempts to "fix" the accounting of internally generated

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intangible assets will be subject to manipulation; too much discretion and is misguided.

- It may not be helpful to force a quantification on intangibles that serve embedded value, like a brand name/loyalty. Forcing a quantification creates false precision. Management can always provide state variables in footnotes (e.g., condition = good/require check/bad).

Do Not Amortize Indefinite-Lived Intangibles: Removes Management Accountability, Impairment Is Better

- I do not think intangibles with indefinite lives should be amortized. Full stop. It would release management from the consequences of making reckless capital allocation decisions.
- This is again a disastrous endpoint for investors. It would cloud the P&L, and lead to sub-optimal decisions. Investors would also lose clarity over the performance of separate cash generating units as the removal of impairment testing would also remove key external assessment of whether intangibles are supported by cash flow.
- Having a regular evaluation of the assets and impairments based on that review is better.
- I do not believe indefinite-lived intangibles should be amortized. The value of, for example, Coca-Cola's brand is something that, if capitalized, would not have a meaningful level of amortization, either because management would select an outrageously long lifetime, or because the true value of the brand would end up understated as a result of forced amortization.
- Allowing amortization of goodwill would be a disaster for Australian investors and investors globally that already struggle with the ability to properly track management performance.

Amortize over a Fixed Period

- 25 years fixed.
- Better to try to link to industry ranges similar to depreciation.
- Fine-tuning: industry guidelines by business segment could be guidelines; disclosure important, administratively difficult.
- An amortization period = expected cash flows are to be realized gives management too much discretion.
- Probably categories with the most amortizing over a long period (e.g., 30 years).

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Amortize over the Life of the Cash Flows: Pro and Con

- I would choose the life of the cash flows option, but that is subjective. There simply needs to be a way to force companies to expense the purchased intangible so it doesn't encourage management to acquire rather than internally develop in order to boost earnings. Not having to amortize acquired indefinite-lived assets and goodwill increases the likelihood that management will overpay for acquisitions.
- R&D again is difficult but generates a ton of value with an often-definite lifetime. That being said, it is difficult to directly attribute cash flows.

Amortize over the Period of Integration

- It should really be amortized over the period of integration as that is the synergy goodwill represents. If no integration, then no synergy = total impairment.

Amortize If There Is Recurring Investment in Intangibles

- I think amortization of indefinite live intangible assets is only a superior model if there is recurring investment required to sustain it. Only amortize assets which have an associated expense to generate/sustain them on an annual basis.

Disclosures Needed

- The fear of manipulation of values should be addressed by disclosure requirements.
- Adequate disclosure should be made of amortization methodology and rationale.

Other

- We can focus on the period where PV of realized value is above a certain threshold.
- As mentioned earlier the valuation methods and techniques should be reliable and done by a third party.
- After the fact, write-offs give information that would have been useful at the time of acquisition.

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Disclosures

The following comments are related to the questions we posed on intangible asset disclosures in Section IV(D)(4), Investor Perspectives, Views on the Accounting for and Disclosure of Intangibles, Disclosures, in the body of the report and presented in Exhibits 45 and 46.

Disclosure Usefulness

The question in Exhibit 45 related to the usefulness of intangible disclosures. The comments on that question follow.

Disclose Only

- Disclosures are good because they should come with an explicit or implicit rationale from the directors on why they think the asset is an asset (e.g., development of patent, patent approval pending, preference in contracts etc.).
- Not in the financial statements, but in the notes.
- If there is no reliable way of measuring an intangible, I would prefer disclosure in notes.*
- Better disclosure should be required. I am not for recognizing it as an asset on the balance sheet.
- Using non-GAAP metrics outside the financials and ordinary disclosures is an interesting first step.
- Financial statements are already overloaded with useless just “tick the box” information (e.g., 50 pages on risks). Including any additional detailed disclosure on intangibles will not help. My ideal scenario would be just one sentence from the management on how valuable the company’s intangibles are in their opinion.

Do Not Capitalize More Intangibles

- Allowing additional capitalization of expenses would be dramatically negative for the P&L. Cash flow would also be shifted to investing cash flow and then management can distort “growth vs. maintenance” capex to distort messaging on free cash flow. These are serious problems that have historically resulted in severe investor losses.

Intangibles Cannot Be Measured Reliably

- It’s still not clear to me how intangible assets can be accurately valued in financial statements, and including a bad estimate in a set of statements may be just as misleading as excluding them.
- Not sure about B/S recognition.

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- Again, reliable valuation will be the question.
- If there is no reliable way of measuring an intangible, I would prefer disclosure in notes.*

Manipulation

- Only an aggressive management team looking to capitalize as many costs as possible (and therefore increase earnings) is looking to do this. I don't understand why we as an organization are allowing ourselves to be used as a "tool" by these companies looking for a new way to boost reported earnings.*

Capitalize

- Many companies already capitalize cost like R&D (take Amadeus in Spain or Experian in the UK as just two examples) leading to the creation of internally generated intangibles which are fully recognized and disclosed on their balance sheets. This is already happening today and has been for many years!
- Won't be easy, but it's a start.
- Would do a gradual approach while trying to help standardize and provide more guidance and rules to companies.

Other

- If intangible assets are going to be on the balance sheet, then there should be a way to reflect the actual market value of hard assets including those that are fully depreciated.
- Tighten the definition of intangibles.

Disclosures: Improvements Needed

The question in Exhibit 46 related to the needed improvements in intangible asset disclosures. The comments on that question follow.

Disclose Performance against Initial Assumptions and/or Progress to Date

- Performance relative to initial assumptions is the single most important piece of information needed and should be the basis for valuation/impairment.
- Impairment tests run the risk of being an annual rubber stamp. To be really accurate, directors should be affirming lifespans, direction/size of cash flows and why, synergies, integration periods, steps in getting intangible assets to market, etc.

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- Hard metrics, no fuzzy math.
- Again, the focus should be on reliable valuation.

Disclose Nonimpairment Decisions

- More disclosure on what is driving non-impairment decisions.

Perils of Disclosure

- For many companies, the existence of, and the way in which you analyze intangible assets may be very confidential and highly valuable information. Companies who do not want to share that information may just stay private if you require disclosures.

Other Comments Regarding Capitalization within Discussion on Disclosures

Capitalize Using Cost Method: Do Not Separate Intangibles from Goodwill (Manipulation Concerns)

- Keep it simple. All internally generated intangibles should be recognized at cost and amortized. All acquisitions that lead to the creation of NEW intangibles (price paid in excess of net book value including EXISTING internally generated intangibles by the acquired business) should be classified as goodwill and not amortized. Any write downs of that goodwill should be accumulated and clearly shown in a separate reserve within shareholders' funds. Job done!! Minimizes the risk of management skullduggery, which is already rife enough as it is. (emphasis in the original)

Capitalize Acquired Intangibles Only and Amortize Them

- No recognition of internally generated intangibles and amortizes all acquired intangibles. Testing for impairment is helpful and disclosure of the method of testing is helpful; but amortization is necessary because too often impairments are taken too late.

Make Capitalization a Choice, to Be Disclosed

- Perhaps require additional disclosures for internally generated intangibles if management chooses to capitalize those expenses, but not if they continue to expense those items.

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Do Not Capitalize Internally Generated Intangibles

- To be clear I do not support adding the ability to capitalize internally generated intangibles. Software is already a big problem as can be referenced by the recent IFRIC decision on cloud computing.

Overall Comments at End of Survey

At the end of the survey, we allowed space for any open-ended comments that respondents wanted to make. Those comments follow.

Intangibles Are Not Important/Do Not Have Value

- We don't need more intangible assets on the balance sheet. They are ignored and the information content is limited. Reducing, not increasing these should be a priority.
- With a few limited exceptions (most notably pharma), internally generated intangibles aren't that important and aren't reliable as consistent cash flow generators.
- This seems like non useful busywork.
- Intangible assets should not be included in the balance sheet. Disclosure is enough. In a fast-changing tech driven world, life cycles are getting shorter. Hence, I give little weight in valuing a company.*
- Requiring internally generated intangibles to be capitalized will wreak havoc on the income statement and will allow management teams much more flexibility to manage their earnings. Moreover, it is unclear whether costs have much of a direct correlation to value when it comes to tech intangibles (one only need look to Microsoft and IBM for proof that spending more doesn't give you better results). Allowing companies to capitalize a random amount of costs, especially when such costs might make up the majority of their periodic expenses is an extremely risky proposition, and the benefit is unlikely to outweigh the risk, as you'll still end up with highly subjective and manipulated values for intangibles.*

Intangibles Are Not Quantifiable

- Trying to quantify intangibles is not worth the effort. I highly doubt internally developed intangibles can be effectively quantified and captured in financial statements. How do you quantify this intangible: the insight, creativity and intelligence of a company's new CEO? This intangible may be worth a lot, but you won't be able to quantify it.

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Intangibles Are Too Complex to Value

- I have been in business valuation (including intangible asset valuation) for over 30 years. Ascribing a level of reliability to valuation of intangibles that does not exist and is misleading on its own.
- The valuation of most intangible assets is, at best, subjective. Including the valuation of internally generated intangibles in the balance sheet adds another layer of complexity resulting in financial statements becoming even more opaque and reliant on the vagaries of company management and accountants. While institutional investors can struggle with these issues and find a way to work with/around these issues, the private investor is increasingly left in the dark.
- Accounting for intangibles (and many other facets of accrual accounting) is like herding cats. We should just go to universal cash accounting. Investors can make their own estimates of the importance of intangible assets to companies and US companies would save billions of dollars every year in wasted accounting fees.

Leave Valuation of Intangibles to Analysts

- I prefer clean balance sheets without made-up assets and the ability of financial analysts to estimate value based on operating results and their expectations of future revenue and cash flow from the intangible benefits from expense categories and strategy execution.
- I think investors generally do a good job in assessing the value of internally generated intangibles to a company and reward companies that generate them and have them with higher multiples on book value. Unfortunately, these assessments can change quickly and with a significant amount of magnitude. I do not think it would be helpful to capitalize these assets onto the balance sheet and then mark them up and down as these changes would almost certainly lag (in both directions) to an extent that makes them not useful. Furthermore, it opens up a lot of room for management teams to bury costs on the balance sheet. Therefore, putting internally generated intangibles on the balance sheet would not improve the usefulness of the balance sheet by much, but would degrade the integrity of the income statement significantly.

Capitalization of Intangibles Opens the Door to Manipulation by Management

- Valuation of intangible assets (like provision liabilities) are commonly utilized to smooth or manipulate earnings. Allowing more scope for internally generated expenses to be capitalized would be a major step backwards for the accountability of management teams in listed entities.

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- Only an aggressive management team looking to capitalize as many costs as possible (and therefore increase earnings) is looking to do this. I don't understand why we as an organization are allowing ourselves to be used as a "tool" by these companies looking for a new way to boost reported earnings.*
- Requiring internally generated intangibles to be capitalized will wreak havoc on the income statement and will allow management teams much more flexibility to manage their earnings. Moreover, it is unclear whether costs have much of a direct correlation to value when it comes to tech intangibles (one only need look to Microsoft and IBM for proof that spending more doesn't give you better results). Allowing companies to capitalize a random amount of costs, especially when such costs might make up the majority of their periodic expenses is an extremely risky proposition, and the benefit is unlikely to outweigh the risk, as you'll still end up with highly subjective and manipulated values for intangibles.*
- Management always finds a way to abuse accounting standards defeating the purpose of new complex concepts. It is better to stick to cost-based accounting with verifiable inputs. IFRS 16 that forced leases on balance sheets, is a nightmare and has wreaked havoc on comparability of financial statements across firms and doing valuation of equity. Putting new intangibles on the balance sheet will create another big nuisance for equity analysts. It is better to only introduce new disclosure requirements as footnotes to the balance sheet. Please don't introduce new assets on the balance sheet.*
- Be careful what you wish for. Capitalizing internally generated intangible assets will be very subjective and hence will allow management manipulations. Consequently, the B/S will not become more comparable, as managers from different firms value similar internally generated intangible assets differently. It is true that the balance sheets equity does not reflect the market cap, but that doesn't make the entire financial statements obsolete. Important is the CF statement for the valuation, not the B/S.

Value of Intangibles Shows Up over Time

- They aren't intangible if they truly exist (workforce, products lists) and if they generate cash flow or revenues. If so, they are either costs or could be considered a product, but definitely not an intangible.
- There are no assets with indefinite value, meaning all values depreciate to zero over time. And intangibles often have a shorter lifetime vs. tangibles like property and land. At the end, the value of a company is defined by the current value of all future cash flows and much less by what is on the balance sheet. Unless it is a REIT.
- Intangibles should not be included in assets on the balance sheet. If intangibles have value, they will show up in income statements in the future.

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Capitalize Intangibles Using Cost Accumulation Method

- Acquired intangibles are useless due to the fair market value accounting. Moving R&D/advertising to a capex-style treatment would be a first step in eliminating FMV accounting for intangibles acquired in a deal. It would allow for research assets to have book values in a deal, and any excess could be treated as goodwill.

Treat Intangibles Like Tangible Assets

- We have a long history of treating tangible assets in financial statements, but there is always subjective judgment. Base treatment of intangibles in as similar a fashion as possible to tangible assets.

Intangibles Are All Finite and Should Be Amortized

- Don't require valuation estimates by managements for internally generated intangible assets. Too subjective and not worth the cost to assess. Would not add value in evaluating a company. Do require amortization of intangible assets acquired that are currently deemed to have indefinite lives. There is no such thing as indefinite. Treat all acquired intangible assets that are not deemed goodwill the same.
- Most intangible assets that are non-contractual have very short lives if they are not invested in them on a regular basis and I believe a correct accounting for those as assets with an amortization charge will get you pretty close to the current treatment.

Level the Playing Field between Internally Generated and Acquired Intangibles and between IASB (IFRS) and FASB (US GAAP)

- The key improvement to intangible asset accounting will be to harmonize the treatment of acquired and internally generated intangible assets.
- The biggest needs are consistency in recognition of acquired intangible assets and internally generated assets and consistency in reporting across companies, industries, and regions.
- Amortization of purchased intangibles would be a harmonization with internally generated intangibles by eventually resulting in no B/S measurement.
- As the volume of M&A deals has been increasing rapidly these days, how intangible assets are valued becomes paramount. There are mutual funds that focus on companies' hidden intangible assets, you can imagine this topic is so critical to discuss. FASB vs. IASB . . . one common accounting standard would be needed in terms of valuation of intangible assets.

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Disclosures Needed but Need to Be Clear and Harmonized

- There should be clear and detailed disclosures requirements related to both internally generated intangibles and those developed in a business combination.
- Disclosure for internally generated intangible assets is the way to go. Recognizing intangibles in financial statements will make the financial statements less useful as management decisions on capitalization of intangible assets is too subjective.
- The disclosure requirements may differ among countries. It will be good to have a single format/disclosure around as many companies operate across geographies.
- Management always finds a way to abuse accounting standards defeating the purpose of new complex concepts. It is better to stick to cost-based accounting with verifiable inputs. IFRS 16 that forced leases on balance sheets, is a nightmare and has wreaked havoc on comparability of financial statements across firms and doing valuation of equity. Putting new intangibles on the balance sheet will create another big nuisance for equity analysts. It is better to only introduce new disclosure requirements as footnotes to the balance sheet. Please don't introduce new assets on the balance sheet.*
- I like the idea of disclosure that can help us work out whether this is an important area, and how best to analyze going forward. There should be a mechanism in that to allow for reflection in X years' time and the possible outcome of "no, it turns out that wasn't useful, and we should go back."
- Intangible assets should not be included in the balance sheet. Disclosure is enough. In a fast-changing tech driven world, life cycles get shorter. Hence, I give little weight in valuing a company.*
- Important areas of disclosure that need improvement, good job here.

Disaggregation

- Material sources of acquired intangibles should be separately disclosed to allow for tracking of major transactions to assess performance. Better transparency on what is allowed to be intangibles (satellite orbit slots?!?!?!?). Reduce use of contractual rights as an intangible. . . . It's what they're acquiring, and that right is a very tangible business operation.
- Focus should be more on the nature of investments and their classification (cap-ex vs. op-ex) and then everything that follows (balance sheet, amortization).
- A better mutually exclusive classification is needed in accounting statements. Accounting goodwill should not be taken as intangible value. It is a buyer's estimate in buyer's condition. The marketable part can be taken out and booked separately. Better disclosure of intangibles is needed.

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Disclosure Challenges

- One challenge with more commentary on internally generated intangible assets is it is competitive information about future business strategy. Hence, full-fledged disclosure will not work.
- This is a tough area. You must adapt to the new economy where intangibles are everything, but adding disclosures that are vague and hard to calculate may be more destructive than valuable.

Other

- I believe intangibles subject to amortization can and should be applicable for impairment testing, as you'd expect a capital asset that is depreciated.
- Start slow.
- Avoid making the rules too complex.
- See the recent IFRIC determination as to how this can go wrong.

Other Suggestions Not Related to Intangibles

- Good topic. It would be worth looking into requiring disclosure of market value estimates for all tangible assets on the balance sheet. The under-reporting does not just apply to intangibles.
- Harmonization of industry metrics would be helpful for analysis.

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