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EFRAG
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President of the EFRAG Board
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Our ref: RJ-EFRAG 618 F
Direct dial: Tel.: (+31) 20 301 039
Date: Amsterdam, 12 July 2022
Re: EFRAG draft comment letter in response to DP/2021/08 Better information on intangibles - which is the best way to go?

Dear Jean-Paul,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the EFRAG discussion paper “DP/2021/08 Better information on intangibles – which is the best way to go?”

The DASB welcomes the EFRAG’s efforts to explore approaches for providing better information on intangibles. We acknowledge the relevance of this subject for future standard-setting developments by the EFRAG. We support the view of EFRAG that there is room for improvement regarding information on intangibles in financial reporting, including unrecognised intangibles.

However, we realise that there are many challenges in this area to achieve good and balanced standards.

In summary, our main observations, considerations, and concerns to the DP are as follows:

- The DP iludes three approaches: (1) recognition and measurement, (2) information relating to specific intangibles and (3) information on future-oriented expenses and risk/opportunity factors that may affect future performance. We believe that these three approaches are scalable, mutually compatible and interdependent. There is no one-size-fits-all approach. A combination of the approaches could provide users better information on intangibles. At the same time, we acknowledge that all three approaches are very complex and highly judgmental in practice, for companies to prepare the annual report as well as for auditors to conclude on their assurance activities. The results of the approaches contain a high level of judgment. Therefore, we recommend further research to identify the relevant information (per type of intangible). Based on the information available and the discussions ongoing at this moment it is not yet clear which information should be presented to provide better information on intangibles.

- We have evaluated the need to amend IAS 38 significantly, especially with respect to recognition and measurement. The DASB does not see added value in fundamentally changing IAS 38. However, certain rule-based requirements on restricting recognition may not be up to date due to changes in the business landscape. We welcome further research to explore limited improvements in this Standard in this respect.
- Intangibles cannot be separated from other aspects of value creation, which are partly included in the anticipated sustainability standards, but value creation factors of an entity are much broader. The impact of the sustainability standards must be taken into account in this project.
- Although users indicate that this information may have relevance for them, a management's estimate of future oriented expenses can be complex, highly judgmental and costly. If after further consideration of the usefulness of this information, it's concluded that it would result in relevant information, additional guidance for separating operational costs from future oriented expenses can improve the quality of the information for users.
- We are of the opinion that the existing principles for providing information in the financial statements or in the management report should be used. Historical financial information should in principle be included in the financial statements (recognition, measurement and/or disclosures), in so far as relevant. In our views, forward-looking information and value creation should in principle be included in the management report.
- Because the expected implementation costs of the proposed approaches appear to be high, we recommend testing any new requirement carefully with a pilot before implementation.
- We would like to draw attention to the auditability of the information on intangibles (relevant for all approaches).

Our detailed feedback is provided in the appendix.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

G.M. van Santen
Chairman of the Dutch Accounting Standards Board

Appendix – Views on EFRAG Draft Comment Letter

QUESTION 1 - ISSUES WITH THE CURRENT INFORMATION Chapter 2 summarises issues put forward with the current information on intangibles. Do you think the issues listed are relevant and valid? Are there additional issues with the current information on intangibles that are not listed? If so, what are these issues?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

The DASB agrees with the identified issues.

QUESTION 2 - WHICH WAY TO GO? Chapters 3, 4 and 5 present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles. These different approaches represent different trade-offs between benefits and costs when considering the different needs of users of financial reports for better information on intangibles. Do you think there is room for improvement regarding information on intangibles in financial reporting? If so: a) Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs? If so, please describe such a combination. b) If you do not think the different approaches described in the Discussion Paper could be combined in a manner that would meet (most of) the needs of users, which (if any) of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles: • Amending existing recognition and measurement requirements for intangibles (see Chapter 3); • Providing disclosures on specific intangibles (see Chapter 4); • Providing disclosures on future-oriented expenses and risk/opportunity factors that may affect future performance (see Chapter 5); or • An approach other than those described in the Discussion Paper (please explain this approach)?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

The DP includes three approaches ((1) recognition and measurement, (2) information relating to specific intangibles and (3) information on future oriented expenses and risk/opportunity factors that may affect future performance). We believe that all three approaches are scalable, mutually compatible, and interdependent. A combination of the approaches may provide users better information on intangibles. However, we acknowledge that all three approaches are very complex and have significant challenges to be addressed in practice. Any result of the approaches applied contain a high level of judgment. Therefore, we recommend further research to identify which combination of approaches would result in better information of intangibles and to determine whether such approaches are practically implementable.

We believe that intangibles which meet the definition and the recognition criteria of an intangible asset should be recognised. For more details we refer to the answer to question 3. The second (Chapter 4) and the third approach (Chapter 5) can be applied for intangibles which could not be recognised.

QUESTION 3 - RECOGNITION
Chapter 3 considers whether and how internally generated intangibles could be recognised and measured in the financial statements and the benefits and limitations of the proposed approaches. In doing so, consideration is being given to the asset recognition in the statement of financial position but also to the effects in the statement of financial performance.

Do you consider that IAS 38 Intangible Assets should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)? (Please explain your answer). If your answer to this question is 'yes', please also answer sub-questions 1 to 3 below.

1 Paragraph 3.26 of this Discussion Paper explains that IAS 38 currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing. Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed? (Please explain your answer).

2 Paragraphs 3.10 to 3.71 of this Discussion Paper explore four possible approaches regarding the recognition of internally generated intangibles. Which of the following approaches would you support?
a) Recognise (as an asset) all defined intangibles; with no specified conditions or thresholds (see paragraphs
3.15 - 3.35 of this Discussion Paper);
b) Threshold for recognition of an asset (see paragraphs 3.36 - 3.48 of this Discussion Paper);
c) Conditional recognition of an asset (see paragraphs 3.49 - 3.59 of this Discussion Paper); if you prefer this approach, would you prefer an approach under which:
(i) Costs are expensed in profit and loss until the condition is met;
(ii) Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed;
(iii) Costs are expensed in other comprehensive income until the condition is met, at which point in time the expenses are 'recycled' and capitalised.
d) No recognition (that is, expensing all internally generated intangibles) (see paragraphs 3.60 - 3.67 of this Discussion Paper); and
e) None of the above or other suggestions (please explain).
Please explain the reasons for your preferences.
3 If you support 'Conditional recognition of an asset' or 'Threshold for recognition of an asset' in the previous sub-question, which criteria would you consider for recognition:
a) Criteria based on the level of (un)certainty about the outcome of the intangibles (that is, the probability of expected benefit and the pattern of consumption of these future benefits);
b) Criteria based on the identifiability of the expenditure related to the intangibles;
(c) Criteria based on the technical or commercial feasibility of the intangibles considered at inception of the development;
(d) Criteria based on separability of the assets, that is, the existence of a legal right and/or the ability to sell, transfer, licence or pledge the asset;
(e) All or a combination of the above depending on the nature of the intangibles (please explain);
(f) Other suggestions (please specify).

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

The DASB is open to further research to explore whether the prohibition of recognition of certain intangibles could be removed from IAS 38, while keeping the definition and recognition criteria in general unchanged. IAS 38 is a relatively 'old' standard and certain rule-based requirements may be outdated and not reflect the business developments of recent years.

We therefore welcome further research on the appropriateness of such rule-based requirements. The objective of further research should be to pursue a better financial reporting standard, but not necessarily to recognise more intangibles.

QUESTION 4 - POSSIBLE MEASUREMENT BASES
Paragraphs 3.72 to 3.100 of this Discussion Paper consider possible measurement bases for internally generated intangibles without suggesting a preferred approach. If you think that IAS 38 should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs), which of the following suggested measurement approaches would you support:
a) Initial and subsequent measurement at amortised cost with impairment ('Cost model');
b) Initial measurement at cost and subsequent measurement at fair value ('Revaluation model');
c) Initial and subsequent measurement at fair value ('Fair value model');
d) Initial measurement at fair value (as deemed cost) and subsequent measurement at amortised cost with impairment ('IFRS 3 model')?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

In general, we consider measurement at amortised cost to be the preferred method (i.e., method a). However, we perceive some challenges in the subsequent measurement of method a. The potential challenges are, e.g., the determination of the amortisation period, the accounting treatment of subsequent expenditures and the assessment for impairment losses. We recommend discussing and providing solutions for these challenges in further research.

Allowing initial and subsequent measurement at fair value for a specific intangible is highly exceptional. If the 'fair value model' is used, then it should be analysed whether and when this model leads to useful information in the balance sheet or in the disclosure. Only in certain very specific circumstances measurement at fair value through profit and loss could be appropriate, for example stand-alone intangibles which are not an integral part of the company's value creation. Although out of the scope of the DP, please see also our comment letter on the 'Discussion Paper Accounting For Crypto-Assets (Liabilities): Holder and Issuer Perspective' (June 2021), where we have made more general comments on developing a new standard applicable to other types of 'alternative investments' (p. 2).

In addition, we noted that the auditability of the proposed approaches is not discussed in the DP. We observe concerns (among auditors and preparers) about the auditability of most of the required information discussed in the DP. We recommend taking this topic into consideration.

QUESTION 5 - INFORMATION RELATING TO SPECIFIC INTANGIBLES
Chapter 4 discusses an approach under which information on specific intangibles, that are key to an entity's business model, is provided to help users assess the contribution of the intangible to the value of the entity.

1 To the extent that information relating to specific intangibles should be provided, do you agree that the information should be limited to the intangibles that are key to an entity's business model? If not, why?

2 Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information. Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?

3 Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 compared to recognition and measurement (see Chapter 3) and information on future-oriented expenses (see Chapter 5)? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

1. The DASB agrees that the information should be limited to the intangibles that are most relevant to the entity's business model and its cash-generating activities. This is also in line with the general principle of IFRS which requires entities to only disclose material information. Following this principle, users won't receive an overload of unimportant and/or excessive information.

The approach discussed in Chapter 4 provides information on how an entity creates value by linking the identified key intangibles with the entity's business model. We acknowledge that intangibles are part of the value creation process. But we believe that the value creation process should be approached at a holistic level, instead of at an individual intangible asset's level. We noted that value creation factors will be part of the required disclosures in the management report (like CSRD, which will soon be part of the management report). The DASB advises to consider these standards before proposing new disclosure requirements on intangibles.

2. The DASB agrees that disclosure of the fair value of specific intangibles which are part of the enterprise value is generally less useful to users than disclosure of quantitative and qualitative information, since the latter can be used to normalise cash flow statements and help users form their own views on the value of specific intangibles of an entity. In general, ongoing assessments of the fair value of individual intangibles is highly judgmental, difficult to separate from other 'interlinking' intangibles, and therefore less reliable and relevant.

3. The DASB agrees with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 compared to the recognition and measurement (see Chapter 3) and information on future-oriented expenses (see Chapter 5).

QUESTION 6 - INFORMATION ON FUTURE-ORIENTED EXPENSES

Chapter 5 proposes various elements of information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses').

1 Do you consider that requiring such information could be useful? If so:

a) Should the information mainly complement information on specific intangibles (see Chapter 4) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?

b) Should the information mainly:

(i) Reflect the views of the entity's management by disclosing the recognised expenses the management considers relate to the benefits of future periods)? Or

(ii) Help users perform their own assessments on the recognised expenses that relate to benefits of future periods, by providing further specifications and breakdown of the expenses of a period?

2 Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5? If not, which aspects do you disagree with and/or which additional advantages and disadvantages have you identified?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

1a. The disclosure of future-oriented expenses, including qualitative information, will support users of the annual report to better understand an entity and assist in normalising cash flow statements in addition to the information on specific intangibles. The expected implementation costs of disclosing future-oriented expenses are anticipated to be (too) high. The DASB advises testing additional information on future oriented expenses on intangibles with a pilot before implementing it widely.

1b. A management's estimate of future-oriented expenses can be complex, highly judgmental and costly. Such management's estimate will, most likely, be very labor intensive for the preparers and contain a high level of judgment. At the same time it will result in challenges for the auditor to provide assurance on such future-oriented expenses. If after further consideration of the usefulness of this information, it's concluded that it would result in relevant information, additional guidance for separating operational costs from future- oriented expenses could improve the quality of the information for users and address the concerns from preparers and auditors.

2. In general, the DASB agrees with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5, except for the advantage regarding the expected cost. If management has to disclose its estimate of future-oriented expenses, then it is expected to be more costly than providing information on specific intangibles. As stated above, a management's estimate of future-oriented expenses can be complex and highly judgmental which could outweigh the benefit and relevance of the additional information on future-oriented expenses.

QUESTION 7 - INFORMATION ON RISK/OPPORTUNITY FACTORS AFFECTING INTANGIBLES
Chapter 5 proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPI's used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.

Do you agree with this proposal? If not, what information on risk/opportunity factors affecting intangibles should be provided?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

The DASB emphasises that the question is whether it is appropriate to require risk/opportunity factors specifically for key intangibles or whether they should be assessed at a higher (entity) level. Please refer to our answer to question 5 for more details, more particularly on item 1.

QUESTION 8 - ISSUES TO BE CONSIDERED
Chapter 6 discusses challenges and issues to be considered when finding a manner to provide better information on intangibles. It mentions that it could be beneficial to introduce a common terminology on intangibles and that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive.

1 Do you consider that it would be useful to introduce a common terminology on intangibles?

2 Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?

3 Are there additional issues than those listed in Chapter 6 you think should be taken into account when considering how to provide better information on intangibles?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

1. The DASB believes that it would be useful to introduce a common terminology on intangibles and advises using the terminologies that are used in IFRS 3.

2. The DASB is hesitant to exempt disclosures of intangibles which would be (very) commercially sensitive, but does not want to exclude the opportunity completely to eliminate commercially sensitive disclosures at this stage of the project.

3. The DASB concurs with the issues listed in Chapter 6. In addition, we noted that the auditability of the proposed approaches is not discussed in the DP. We observe concerns (among auditors and preparers) about the auditability of most of the required information discussed in the DP. We recommend taking this topic into consideration.
Furthermore, the DASB advises considering the scoping in further research. The information needs regarding intangibles of users can depend on the 'type' of company. Due to the expected high implementation costs, we recommend investigating this point, as for particular companies and relevant sectors disclosures on intangibles could be more relevant than for others.

QUESTION 9 - PLACEMENT OF THE INFORMATION
Chapter 6 presents an approach under which information discussed in Chapter 4 and Chapter 5 would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 should be placed? Should they be placed all in the same section or in different sections of the financial report and why?

We refer to our overall observations, considerations, and concerns to the DP, as described in our comment letter above.

The DASB suggests splitting disclosures based on the following existing approach:
- Historical financial information in principle in the financial statements.
- Future-oriented information and value creation in principle in the management report.

The table below contains an example of the type of information which could be included in the management report or in the financial statements. As stated above (especially in question 6), the proposed approaches contain challenges as they are complex and judgmental. Based on the information available and the discussions ongoing it is not yet clear which information should be presented to provide better (relevant and reliable) information on intangibles.

Management report	**Financial statements**
Future-oriented expenses estimated by management	Disclosure of intangibles which meet the definition of assets
Risks and opportunities	Recognised costs per category (in line with existing disclosure requirements)

The DASB notes that IFRS does not contain an IFRS standard on the management report[1]. This should not be the reason to add all new intangible-related requirements (e.g. risks and opportunities) to the IFRS standards applicable to the financial statements.

[1] The Practice Statement – management commentary is not an IFRS Standard.