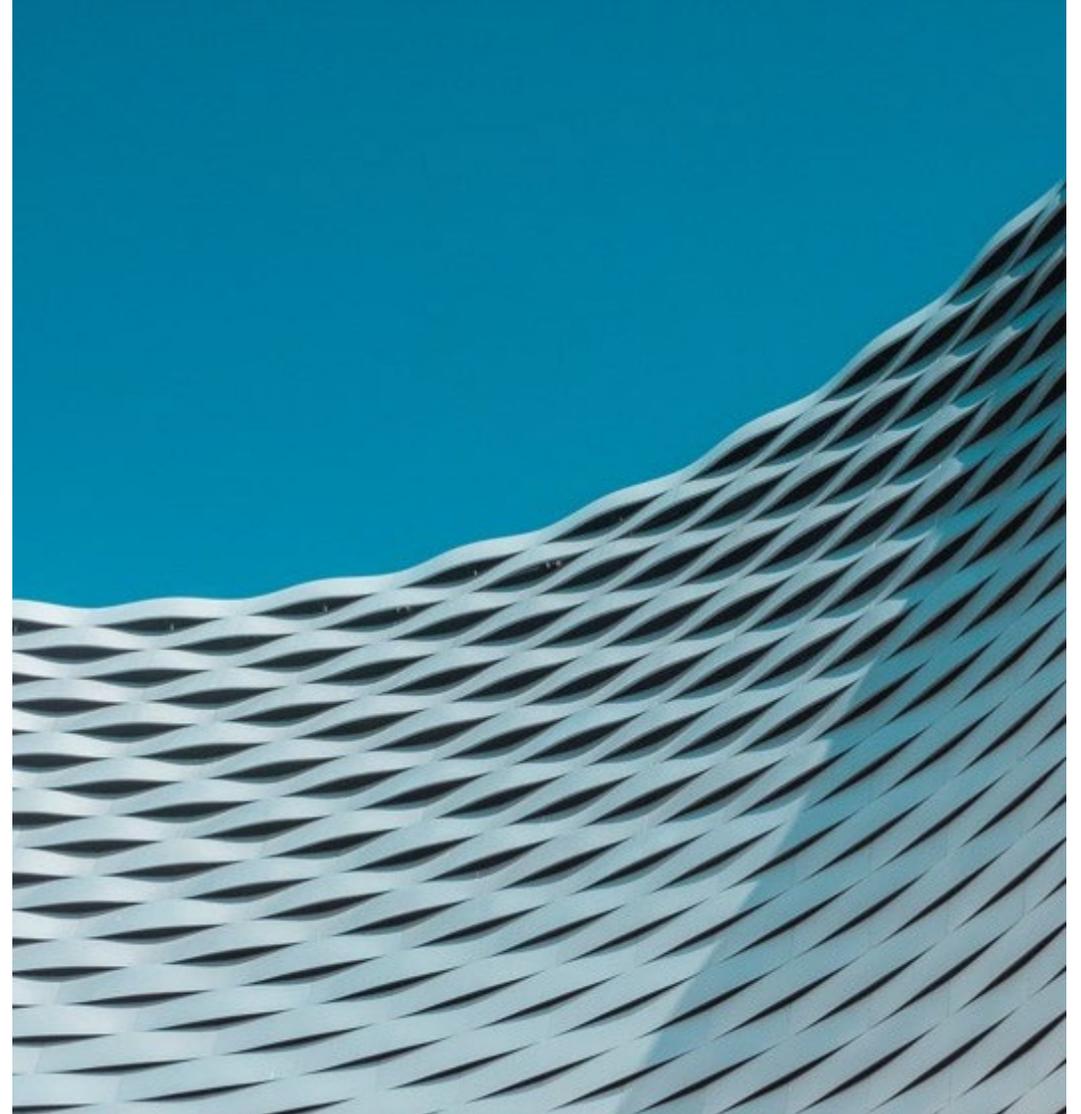

International Financial Reporting Standards & Intangible Assets

Zach Gast, CFA, IASB Member

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Agenda

- Overview of the IFRS Foundation
 - About the IFRS Foundation
 - Use of IFRS Accounting Standards
- Intangible Items and Assets
 - Current Accounting
 - Potential Path Forward



Overview of the IFRS Foundation

About the IFRS Foundation

Our organisation

- Not-for-profit, public interest organisation
- Three-tier governance model
 1. Monitoring Board (oversight)
 2. Trustees (governance & strategy)
 3. IASB + ISSB (standards)
- Extensive, inclusive due process

Our mission

- Develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world

IFRS Accounting Standards

- Required for use by more than 140 jurisdictions around the world

Governance structure

Public accountability

IFRS Foundation Monitoring Board

Governance, strategy, oversight

IFRS Foundation Trustees

Independent standard-setting

International Accounting
Standards Board (IASB)

International Sustainability
Standards Board (ISSB)

IFRS Interpretations Committee

IFRS Accounting Standards

IFRS Sustainability Disclosure
Standards

The IFRS Foundation's mission (partial)

Our mission is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy

- IFRS Standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.



TRANSPARENCY



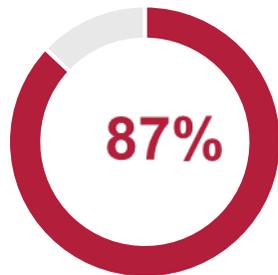
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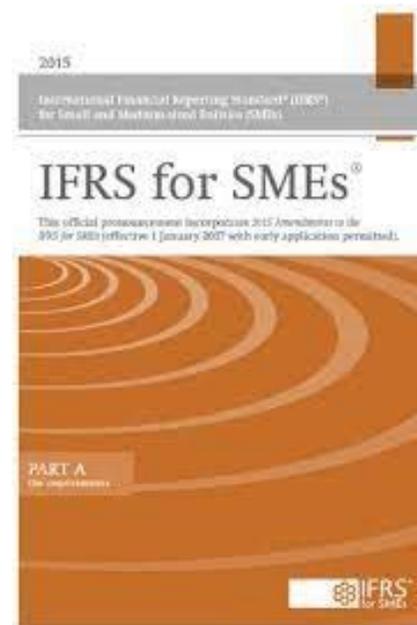
ACCOUNTABILITY

Who applies IFRS Accounting Standards

Over 140 of 167
jurisdictions require
IFRS Accounting
Standards for all or
most publicly
accountable companies



Full IFRS vs. IFRS for SMEs vs Other Standards



Overview of the *IFRS for SMEs* Accounting Standard

- **Tailored** for small and medium-sized entities (SMEs), which are entities that do not have public accountability and publish general purpose financial statements
- Based on **principles from full IFRS** Accounting Standards
- Focuses on **information needs of lenders and other users** of SMEs' financial statements

Scope of the Standard

Entities that do not have public accountability

Public Accountability

An entity has public accountability if:

- a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Accounting for Intangible Assets

The Intangible Asset

Definition: An intangible asset is ***an identifiable non-monetary asset without physical substance***. Such an asset ***is identifiable when it is separable, or when it arises from contractual or other legal rights***. Separable assets can be sold, transferred, licensed, etc.

Examples: computer software, licences, trademarks, patents, films, copyrights and import quotas

Recognition – When is an Intangible Asset Created?

Acquired:

- Most often in a business combination
- Fair Value of asset at time of acquisition

Capitalization:

- Spending by the firm
 - Expense (Income Statement) is delayed and cost moves to balance sheet
-

Recognition – IFRS vs. IFRS for SMEs

	IFRS	IFRS for SMEs
Acquired	✓	✓
Capitalization	✓	x

Derecognition – When is Intangible Asset Removed?

Amortization:

- Expense item in the income statement
- Occurs over the expected life of the intangible asset
- Some assets have indefinite lives!

Impairment:

- Expense item in the income statement
 - Occurs when estimated value falls below balance sheet value
-

Nature of cryptocurrency

In 2019 the IFRS Interpretations Committee discussed how IFRS Accounting Standards apply to holdings of cryptocurrencies

A holding of cryptocurrency meets the definition of an intangible asset in IAS 38 *Intangible Assets* on the grounds that:

it is capable of being separated from the holder and sold or transferred individually

it does not give the holder a right to receive a fixed or determinable number of units of currency

A holding of cryptocurrency is inventory if the company holds cryptocurrencies for sale

Potential Paths Forward in the Accounting for Intangible Assets

1 IASB's Third Agenda Consultation feedback

Research project pipeline		Intangible Assets—this project will aim to review IAS 38 <i>Intangible Assets</i> comprehensively.
		Statement of Cash Flows and Related Matters—as part of the research phase on such a project, the IASB will consider whether the project should aim to review IAS 7 <i>Statement of Cash Flows</i> comprehensively or make more targeted improvements
Maintenance project pipeline		Climate-related Risks in the Financial Statements—this project will consider whether and, if so, what narrow-scope actions might be needed in relation to accounting for climate-related risks in the financial statements.
Reserve list (if additional capacity becomes available)		Operating Segments
		Pollutant Pricing Mechanisms

1 Intangible Assets



Feedback

- Many investors rated project as high priority
- Mixed feedback about scope of project
 - Some support for more recognition of internally generated intangible assets
 - More support for better disclosures about unrecognised intangible assets



Objective

This project will aim to review IAS 38 comprehensively



Path forward

- Project could be undertaken in stages to allow for timely progress. Potential stages that could be discussed as part of the project plan include:
- development of enhanced disclosure requirements;
 - a review of the scope of IAS 38
 - a review of the definition of an intangible asset and recognition criteria in IAS 38; and
 - a review of the measurement requirements for intangible assets within the scope of IAS 38, including the criteria for when the revaluation model is permitted

Recognition and measurement of development costs

The IASB is seeking views on whether it should introduce an accounting policy option that allows **recognition** of intangible assets arising from development costs

WHY?

- Feedback on this comprehensive review questioned the simplification to require all development costs to be recognised as expenses due to cost–benefit
- SMEIG members agreed with amending the recognition and measurement requirements for development costs subject to the criteria in IAS 38



What we want to know ...

What are your views on introducing an accounting policy option that permits an entity applying the Standard to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38?

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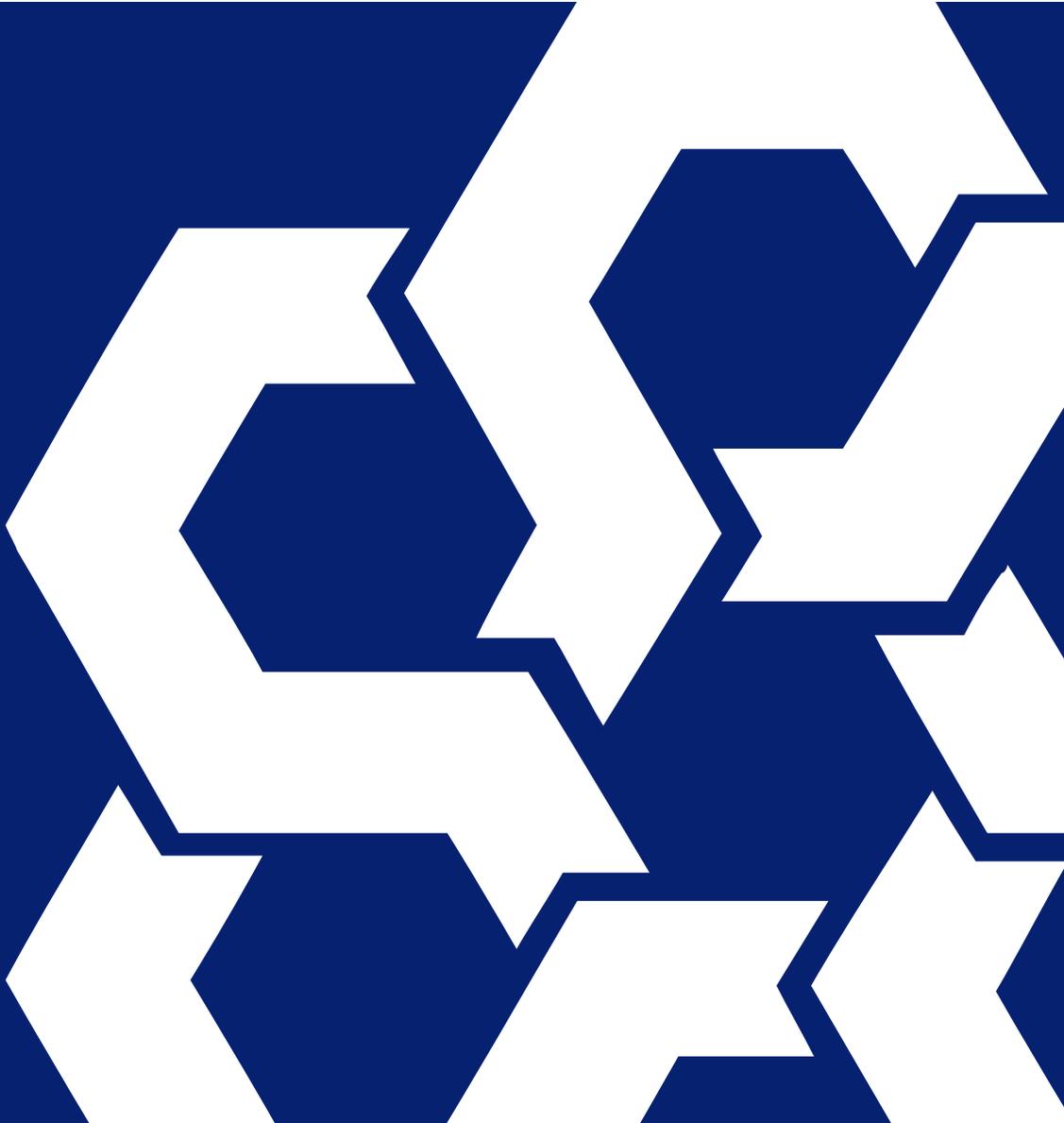
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Thank you

A large, abstract geometric pattern on the right side of the slide, consisting of interconnected white and dark blue hexagonal shapes on a dark blue background.