



**University
of Ferrara**

The usefulness of disclosures on unaccounted intangibles for CFOs and Investors: An international investigation

Prof. Stefano Zambon (University of Ferrara)

Prof. Laura Girella (University of Modena and Reggio Emilia)

Prof. Giuseppe Marzo (University of Ferrara)

Prof. Stefano Bonnini (University of Ferrara)

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Introduction & background: an “intangibles problem”

- On an *institutional* level → as a consequence of the IASB Third Agenda Consultation (2021) →
- In April 2023, a project on intangible assets (IAS 38 but not only) has been added to IASB research pipeline → possibly to start in 2024
 - Reasons indicated by respondents to prioritise the project:
 - most of information on these resources is evaluated as “pervasive and acute”
 - deficiencies are found in relation to all aspects of IAS 38 and are also related to the lack of information on unrecognised intangibles assets
 - possible impact on other related projects, such as those on Management Commentary & Integrated Reporting and the work of International Sustainability Standards Board (ISSB)
 - Already in 2018, as a result of its Research Agenda Consultation, EFRAG had activated a project on intangibles:
 - “responses to the Discussion Paper on “Better Information on Intangibles” have highlighted, among other aspects, that the scope of IAS 38 should be clarified and that in order to improve the disclosure of this information, no single solution is ideal, rather a mix of them” (Recommendations and Feedback Statement, EFRAG, 2023)

Introduction and background: an “intangibles problem” (cont’d)

- On *regulatory* grounds → the EU CSRD requires the disclosure on unaccounted intangibles for public interest entities from 2024 F.Y.
- On *academic* grounds → a revamp of interest → e.g., an academic literature review for EFRAG on intangibles (Zambon et al., 2020), a study jointly supported by ICAS, EFRAG and EFFAS (Zambon et al., 2023), and a Special Issue on *Abacus* (2024)

However, the majority of intangibles-related academic work still deal with accounted/disclosed intangibles and focuses on one category of actors (e.g., users, Mazzi et al., 2019) → this is mainly due to the lack of data and the large effort to be made to gather this data → to date no systematic and comprehensive study on unaccounted/undisclosed intangibles regarding the views of both preparers and users on this subject area

Aims and potential contributions

- 1) Provide **empirical insights** on the **views of preparers and users** on the **usefulness of intangibles-related information** (especially for unaccounted intangibles), and their **comparison**, on the:
 - perceived *importance* by preparers of information on the different classes of unaccounted intangibles (separable and inseparable, marketable and not marketable)
 - *technical, managerial and political challenges and opportunities* that the disclosure of this information could bring along
 - the measures and disclosures on unreported intangibles used for decision-making and assessments by users of this information
- 2) Contribute to the **current international and regional standard-setting debate** on intangibles by also providing a set of not easily available data

Caveats in the use of language!

- **Users** → collectively refers to sell-side, buy-side analysts and fund managers (Georgiou, 2018)
- **Preparers** → managers in different organisational positions in companies (CFOs, COOs, CAOs, CSOs)
- **Usefulness** → referring to both users AND preparers
- **Unrecognised, unaccounted, unreported** → used as synonyms

Literature review

It is possible to identify three main perspectives through which the usefulness of unaccounted intangibles-related information has been analysed in the academic literature (mainly through the concept of 'intellectual capital'):

- a) **who** → both preparers and users tend to perceive **intangibles-related information as useful** (Hall, 1992; Barth et al, 2001; Hsu and Chang, 2011), even though some have found that **professional experience can** have a significant **influence** (Loulou-Baklouti and Triki, 2018)
- b) **what** → which intangibles categories (human, organisational and relational) and/or single items: some authors found that information on **human capital** is perceived as the most useful **for preparers** (Mavrillac and Siesfield, 1997; Bornemann et al., 1999, Miller et al., 1999; Gan, 2001; April et al., 2003). Others that **relational capital** is perceived as the most useful by **preparers, users** (Flöstrand, 2006) **or both** (Ousama et al., 2001)
- c) **where** → traditional financial statements or other information tools (sustainability, management commentary, integrated report): **traditional financial statements might not be able to fully accommodate the disclosure of intangibles-related information. New models have been proposed** (Lev and Gu, 2016) and since the inception of integrated reporting which clearly mentions intangibles' components as part of its multi-capital approach, some authors have started to analyse whether this could be a viable and useful vehicle (Abhayawansa et al., 2019; Beretta et al., 2019; Camodeca et al., 2019; Terblanche and De Villiers, 2019)

Research Methodology: Overview and Rationale

Target → users and preparers, distinctively investigated but on the same questions

Two complementary research methods (Cascino et al., 2016):

- Global survey: a wider understanding of the views of these two categories of stakeholders, independently from their degree of experience on the topic
- Two focus groups: one composed of preparers and one of users to appreciate:
a) whether in the views of experienced people the trends observed through the survey can be confirmed, and b) any additional insights that they can share.

No hypotheses set to identify recurrent patterns and themes → we have then preferred to let the data "speak for itself" (Power and Gendron, 2015)

Descriptive statistics were used to examine the survey data

Transcriptions of the meeting recordings to analyse the focus group data

Research Methodology: The Survey

- **When:** available to any interested respondents in the period between March 1st and April 4th, 2021* → this implies that also non-users and non-preparers have responded (categorised as ‘Others’)
- **How:** a web-based survey (administered automatically online)+ completion time of the survey about of 30 minutes
- **What:**
 - Two sections: 1) personal and professional data (no indication requested on the name and the organisation of the respondent), 2) general questions linked to the reporting treatment of intangibles’ → questions developed relying on prior literature on these topics, and advice from experts in academic positions (Baudot et al., 2022)
 - Some mutually exclusive or single-choice answers, and an option was granted to add more information through free fields at the end of many questions → this enabled respondents to i) speak freely without concern about expressing their personal and professional views, and ii) to gather a broad range of views around this topic

*prior to EU CSRD

Research Methodology: The Focus Groups

- **When:** After the closing of the survey, the research team analysed the results collected
- **How:** The two Focus Groups (Preparers and Users) convened virtually once for three hours. 16–17 experts composing each of the Focus Groups (26 males, 7 females) with mixed experience on intangibles, belonging to various industries, companies, and type of investors
- Participants were informed that their responses would have been anonymised (name and organisation), and that meetings were recorded
- **What:** most controversial topics that emerged from the survey – where dissonant views from preparers and users emerged – were posed to the Focus Groups participants
- Focus Groups members were previously provided with an outline of the research project and its main aims, an introduction to the research team, and a list of the questions that were asked in the survey

Research Methodology: Complementary Analysis

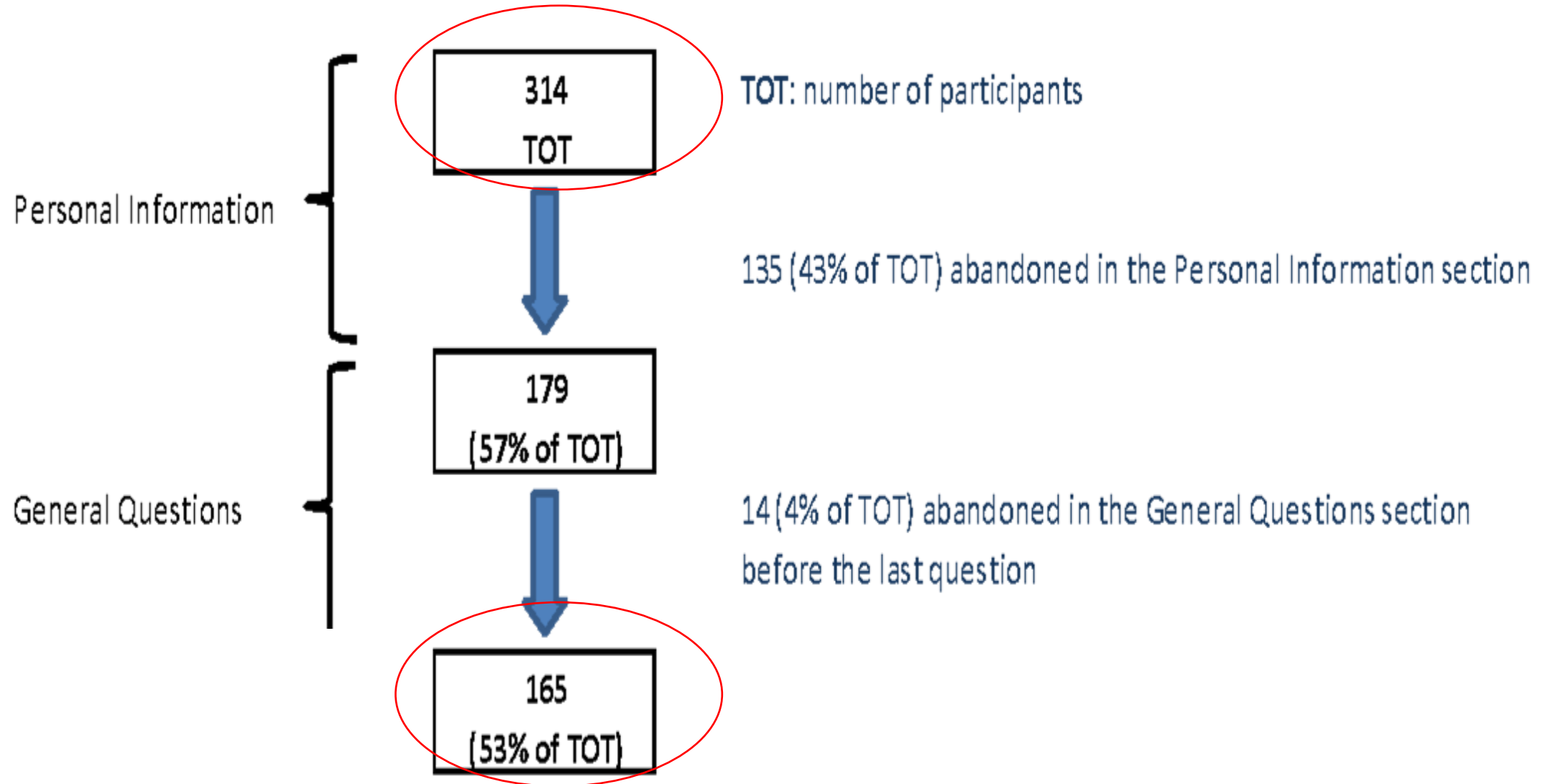
Survey: data obtained from the online survey was analysed through descriptive statistics. Two testing methods:

- for categorical responses, the p-value was analysed by employing a chi-square test
- for numerical responses, the ANOVA (Analysis of Variance) was used

In some cases, the distribution of responses was further deepened by investigating its relationship with personal and professional variables (professional occupation, age class, educational background, type of organisation, etc.)

Focus Groups: further analysis built on the transcriptions of the recordings was carried out by one researcher first → then shared for discussion with the wider research team

Responses and abandon rate



Main types of respondents

Users	%
Buy-side analysts	39.4
Asset Managers	29.6
Sell-side analysts	9.9

Preparers	%
Unlisted company	52.3
Listed company	32.3
Large company	43.1
SMEs	35.4

Professional position	%
Users	20.7
Preparers	22.6

Gender	%
Male	56.7
Female	26.1

Country of work	%
EU	69.1
UK	3.8
Americas	2.5

Age	%
50-59 years	28.3
40-49 years	20.7
30-39 years	15.6

Educational background	%
Business Economics and Finance	42.0
Accounting	10.5

The complement to 100% is 'other'

General Questions

The questions are linked to the general reporting treatment of intangibles and they address the following topics:

- Satisfaction with IAS 38
- Most important intangibles-related information currently missing
- Measurement basis
- Capacity of intangibles-related information to help predict and assess future cash flows
- Positioning of information
- Form of disclosure
- Cost-benefit analysis
- Auditing
- Overlap between intangibles and ESG
- Most relevant current framework(s)/standard(s) for the measurement and disclosure of information on intangibles
- Standardisation of intangibles-related information

Main findings

Intangibles are generally perceived to be a fundamental component of corporate reporting that is currently lacking (92.9% for users, and 61% for preparers)

		Current professional position		
		preparer (e.g., CFO, CAO)	user (financial analyst/inves tor)	other (e.g., auditor, profession al, academic, member of an institution)
In your opinion, is there any useful information on intangibles that is missing from today's financial reporting (reference to IAS 38)?	Yes	25	39	80
	No	14	2	15
	Missing Value	2	1	1

Main findings (cont'd)

Question: “In your opinion, is there any useful information on intangibles that is missing from today’s financial reporting (reference to IAS 38)?” → **Statistical analysis**

	Case					
	Valid Cases		Missing Value		Total	
	Number of observations	Percentage	Number of observations	Percentage	Number of observations	Percentage
Current professional position * In your opinion, is there any useful information on intangibles that is missing from today’s financial reporting (reference to IAS 38)?	161	97,6%	4	2,4%	165	100,0%

	Value	degrees of freedom	Asymptotic significance (bilateral)
Pearson Chi-square	14,518	2	,001
Likelihood ratio	14,045	2	,001
Linear association	6,011	1	,014
Number of Valid Observations	161		

a. 0 cells (0.0%) predicted a count less than 5. The minimum predicted count is 6.66.

		Value	Asymptotic standard error ^a	Approximation. T ^b	Approximation. Sign.
Confidence limits	Pearson's R	-,194	,089	-2,491	,014 ^c
Ordinal	Spearman Correlation	-,165	,088	-2,106	,037 ^c
Number of Valid Observations		161			

a. Do not assume null hypotheses.

b. Using the asymptotic standard error assuming the null hypothesis

c. Based on the normal approximation.

Main findings (cont'd)

Relevant **Categories of intangibles** are recognized as missing from today's financial reporting → preparers tend to privilege information on R&D (70%), human capital (55%) and intangibles-related risks & opportunities (>50%), whilst users indicate IP and know-how (55%), and intangibles-related risks & opportunities (48%)

Measurement basis →

Financial measurement indicated as preferable by preparers for 'human capital' (35%), 'corporate reputation and image' (33%), 'customer list' (30%); and by users for 'brand(s)' (>50%), 'IP' (40%), and 'intangibles-related risks' (36%)

Convergence between users and preparers on the use of:

- Cost for 'R&D', 'Software and information systems' and 'Training'
- Fair value for 'brand(s)' and 'intellectual property and know-how'
- Value in use for 'human capital'

Main findings (cont'd)

Positioning of information → convergence of both preparers and users on, in the order, ‘Supplementary notes to financial statements’ (45-55%), ‘Non-financial reporting statement according to the 2014 Non-Financial Reporting Directive’ (35-40%), ‘Integrated Reporting’ (33-40%), and, lastly, ‘Management Commentary’ (26% for both)

Current framework(s)/standard(s) for the measurement and disclosure of this information → both users and preparers indicate, in the order, the IR Framework (25-35%), a revised version of IAS 38 (36% for both), and the EU NFRD (2014) (25-35%)

Form of disclosure → a convergence amongst users and preparers regarding a combination of narrative (60-65%), KPIs (18-20%), and financial figures (18-20%)

Cost-benefit analysis → users are more optimistic (67%) than preparers (37%), and the class age 40-49 years old appears to be the most skeptical (51%)

Auditing of intangibles-related information → necessary for 64% of both professional categories, but need for a ‘proper’ auditing standard. However, for age classes 40-49 and 50-59 the most selected response has been “not necessarily” (50%)

Main findings (cont'd)

Overlapping between ESG and intangibles-related information → 35.7% of users tend to share the viewpoint that this exists for more than 50%, while preparers are a bit less convinced by that (only 26.8% thinks there is a >50% overlapping).

Intangibles are also seen by some preparers and users as a sort of pre-condition for ESG

“And what intangibles [do]... is, of course, improving the effects that we have on these ESG indicators on the climate and nature side. We're getting better processes, better technology improving and the way we do our business to reduce our footprint ... the impact on the natural world around us” (Preparer during its Focus Group)

Standardisation of intangibles-related information → both professional categories agree on the need for standardisation (users: 90.5%; preparers: 68.3%)

Key observations and policy implications

- Intangibles-related information is not perceived as equally useful by preparers and users → clear role of professional occupation in the respective attitudes
- Other factors (age, gender, educational background, etc.) do not generally have an impact (with the exception of age class that appears to be influential on cost-benefit assessment of information and on the need for auditing)
- Preparers appear to be more conservative than users towards the release of information on intangibles
- In standard-setting terms, this means that standards should possibly consider i) the diverging views and information needs of CFOs vs. Investors, ii) the size of companies → mandatory disclosures for large-sized and listed firms while voluntary for SMEs with some focused incentives, & iii) the location of information

Limitations

- **Survey**

- Self-selection bias of the respondents (it can have an impact on the generalisability of the results obtained)
- Complex nature of some questions' content → some of the questions in the survey had a multiple-choice nature, which implied a reduced capacity to obtain cross-cut responses, despite assuring a richer set of indications
- In a few cases the respondents were not asked to rank their preferences in order to limit the complexity of the survey

- **Focus Groups**

- Participants selected from a list of potential candidates provided by EFRAG → they were not necessarily representative of the full world of preparers and users

Future research avenues

- Extend the scope and deepen the analysis in terms of contents → e.g., usefulness of information on specific unaccounted intangibles, how the information is presented, the relationship between the usefulness of the information and the industry where companies operate
- Extend the scope of the analysis in terms of actors involved → e.g., further disaggregate the groups and their views, consider also auditors and, in general, the categories belonging to ‘Other’ respondents
- Monitor developments in the corporate reporting area → IASB project on intangible assets, work of the ISSB and EFRAG



**University
of Ferrara**

Thank you!

Prof. Stefano Zambon (University of Ferrara), zmbsfn@unife.it

Prof. Laura Girella (University of Modena and Reggio Emilia), laura.girella@unimore.it

Prof. Giuseppe Marzo (University of Ferrara)

Prof. Stefano Bonnini (University of Ferrara)

