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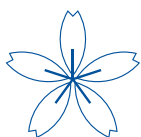
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National Differences
in the Disclosure of Intangible Assets in IFRS

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Abstract

This survey focuses on the national differences in reporting intangible assets in International Financial Reporting Standards (IFRS). Based on hand-collected data and narrative financial information, it presents and compares the main characteristics of intangibles from a sample of 280 pharmaceutical companies over the period 2013–2017. Most companies disclose intangibles typically in the notes, with some variations depending on the country. Conversely, “big pharma” companies, especially European ones, disclose intangibles by function because they are too many to be reported by nature. Disclosure by function also indicates the riskiness of intangibles.

These findings suggest that some national features have survived IFRS adoption, and that the disclosure of intangibles could benefit from further standardization based on functional classifications.

Keywords: Intangibles, Goodwill, IFRS, Pharmaceutical Companies, Accounting Harmonization

1. Introduction

Accounting for intangible assets was controversial since the beginning of the 20th century (Garcia et al., 2018). The issues regarding recognition and subsequent measurement have remained unsolved (Lev, 2019). In 2016, the Financial Accounting Standards Board (FASB) has re-launched a “Project on Identifiable Intangible Assets and Subsequent Accounting for Goodwill.” In 2021, the European Financial Reporting Advisory Group (EFRAG) published a discussion paper in which recognition and disclosure of intangibles are subject to reconsideration even much further than the FASB project (EFRAG, 2021).

This survey focuses on discretionary disclosure choices made by companies, like how intangibles are classified in the notes. The purpose is to benchmark existing practices and identify some possible improvements. IFRS is principle-based; hence, the interpretation of standards plays a major role. Additionally, IAS 38, which is about intangible assets, does not provide for a limitative list of intangible assets for disclosure. Because of these flexible guidelines, accounting practices vary greatly among businesses and countries (Garcia & Itabashi, 2020). In this survey, we will further investigate the national differences among companies, either in the underlying business model of companies or in the disclosure practice *per se*.

The remainder of this paper is organized as follows. Section 2 provides an overview of the relevant accounting standards. Section 3 explains the research design. Section 4 gives a global summary of the results. Section 5 analyses country-specific features. Finally, Section 6 is the conclusion.

2. Normative Framework in IFRS

2.1. Definition and recognition

The definition of intangible assets varied greatly over the 20th century. This study adopts the current definition in IAS 38.8 because it corresponds to the scope of our research: *An intangible asset is an identifiable non-monetary asset without physical substance.*

For our research, we must highlight two aspects: “identifiability” (IAS 38.11) and recognition (IAS 38.21):

An asset is identifiable if it either

(a) is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The types of intangible that can be recognized have no limitation; therefore, several elements for the same activity can be distinguished. For example, some pharma companies in our sample recognized customer lists, brands, and distribution rights for the same activity. Others recognize fewer elements.

Next, recognition implies that intangible assets meet the underlying definition of assets, which excludes deferred assets like start-up costs and advertising expenses. Most of the arguments raised by Lev (2019) in favor of capitalizing research and development investments appear to be limited by the definition of assets rather than the specific accounting standard for intangible assets.

IAS 38.21 provides some recognition criteria:

An intangible asset should be recognized if, and only if:

- (a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and*
- (b) The cost of the asset can be measured reliably.*

These two requirements tend to reduce intangible assets recognition drastically. Concerning (a), in the future flows of economic benefits, the uncertainty of the investment outcome cannot be denied. This results in a wide range of interpretation concerning the value of separable intangible assets, especially regarding R&D intangibles. Concerning (b), reliability is better accepted for purchased intangibles than internally generated ones. The reason here is more practical because the development costs that meet IAS 38 criteria are difficult to be distinguished from other costs that do not.

As far as goodwill and intangible assets acquired from a business combination are concerned, IFRS 3. 10 provides the following.

As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree.

This provision implies that the initial recognition of intangible assets, in this case, results from the purchase price allocation. In other words, amounts allocated to separate intangibles are recognized alternatively to other assets purchased and goodwill. To some extent, some discretionary choices may occur at the level of recognition from M&As.

2.2.Disclosure

IFRS do not provide a formal standard for disclosure. Some interesting initiatives like the WICI Framework (WICI, 2016) and some examples of intangible assets provided in IFRS 3 may provide a first idea for preparers, but they are not binding.

Another important point to highlight here is that the categories of intangibles used for disclosure are not always equivalent to those used for recognition. Some companies have

too many intangibles to disclose, and the items are grouped in categories like “marketing and brands,” “product-related intangibles,” and other generic labels. We will provide more details about disclosure policies in the findings.

3. Research Design

3.2. Objective and research question

In a pre-IFRS world, separate intangible assets were defined very differently among countries (Stolowy & Jeny, 2001). In most countries, intangibles were based on a limited list of items with a precise accounting treatment for each category. In IFRS, companies are granted more flexibility in recognizing intangibles; they can create their own categories. This research intends to survey discretionary choices regarding intangible disclosure and compare country-specific trends in these choices.

The survey also provides evidence about how IFRS standards have been implemented in financial reports. It is not intended to demonstrate the value relevance of information disclosed, nor the determinants of disclosure, but just to document existing practices.

Regarding the scope of this study, a first important aspect was raised in prior literature by the proposal made by Tweedie and Blanchet (1989) to recognize more separate intangibles and less goodwill. From prior research (Garcia & Itabashi, 2020), it seems that companies have eventually followed this direction, and the diversity of separate intangibles must be further investigated in practice.

The second proposal in prior literature concerns the recognition of internally generated intangible assets. Lev (2001, 2019) argued for their recognition on the balance sheet, whereas Skinner (2008) claimed that financial markets were able to identify innovative firms without such information. In IFRS, companies must capitalize on development costs, but in practice, intangible-intensive companies are reluctant to capitalize these costs. This survey provides more details about the type of cost and the circumstances of capitalization in pharmaceutical companies.

3.3. Research Method

The research method consists of a descriptive survey of information published by pharmaceutical companies. Our data are from hand-collected information of publicly available reports issued by pharmaceutical companies. We focus primarily on the categories of intangible assets disclosed in financial statements’ notes. Moreover, we use

qualitative explanations from other parts of financial reports as complementary information.

The original sample is composed of the 300 largest pharmaceutical companies using IFRS in 2017. From that list, we collected the financial reports of 280 companies from the Mergent database. We used both quantitative data and descriptions of intangibles and M&As. In some cases, we also used the management report and the description of risks.

Table 1 describes the total sample of 280 companies, which was divided depending on the parent's incorporation country. The parent was reassigned based on the main country of operations for a handful of Asian companies located in tax havens (Bermuda and Cayman Island). Moreover, pharmaceutical companies from the US do disclose their financial statements in IFRS. Hence, they are excluded in this survey.

For simplicity, countries with similar characteristics and geographical proximity were grouped as follows:

- European countries include the EU, the UK, and Switzerland;
- Australia and New Zealand are presented together;
- Other countries include Southern America, the Middle East, India, Russia, and African companies.

Table 1 Observations per Country.

Number of observations	2013	2014	2015	2016	2017
European Countries	102	113	122	123	124
China	24	25	33	34	34
Taiwan	26	28	30	30	30
Malaysia	6	7	8	8	8
Japan	4	5	6	6	6
Australia & New Zealand	28	29	31	32	33
Canada	8	11	17	22	25
Other Countries	12	12	15	18	19
Total	210	230	262	273	279

The number of observations varies between 2013 and 2017 because of the availability of financial reports. Additionally, some reports available only in local languages could not be fully translated, and they are not included in Table 1.

4. Overview of disclosure practices

4.1. Qualitative material

Information Collected

Despite the great number of cases, the information must be gathered comprehensively to document how companies disclose intangible assets. Quantitative and qualitative information was collected from different parts of the reports:

- Total intangibles and/or goodwill are disclosed on the balance sheet;
- A quantitative breakout of intangibles is usually disclosed in the notes to the balance sheet;
- A quantitative explanation of intangibles acquired in specific M&A transactions is sometimes disclosed in the notes;
- A quantitative assessment of impairment losses on intangibles, when applicable, is usually disclosed in the notes;
- Narrative information about accounting policies, including the treatment of development costs and amortization policy is usually disclosed in the notes;
- Narrative information about impairment tests, acquisitions and disposals of intangibles is usually disclosed in the notes, including the value of their most prominent trademarks;
- Narrative information about business strategy and how some intangibles contribute to operations in the management report;
- Narrative information about legal procedures and trials involving intangibles in the risk assessment chapter of financial reports; and
- Voluntary disclosure about intangibles can be found in sustainability reports and integrated reports.

This survey covered many cases: a total of 1,254 observations, 251 per year, on average. The findings are presented here generally for clarity and conciseness. Further research may use a more in-depth, case study approach to the phenomena investigated in this research; however, this is beyond the scope of this article.

Pre-Analysis of intangible assets

After collecting the net values of intangible assets from the notes to financial statements, we found diverse categories used by companies. Additionally, most companies changed the labeling of categories during the period. In some cases, they also reclassified as intangible assets from one category to another. For example, a license could be classified as “intellectual property rights” at the beginning of the period and later reclassified as “customer-related intangibles.” Based on companies' reclassifications and re-labeling of categories, they were reorganized into the following six categories:

1. *Goodwill*: This category corresponds to goodwill acquired from M&As.
2. *R&D*: This category includes both internally generated and in process development costs. It also includes the contractual payments made in the frame of a joint R&D agreement with a third party.
3. *Marketing*: This category includes all assets related to customers and distribution, including brands, licenses, customer lists, and exclusive distribution contracts.
4. *Scientific*: This category includes patents, technical medicine files, know-how, and other intellectual property related to the scientific characteristics of medicine.
5. *Information System*: This category includes software, information system infrastructure and assets related to telecommunication.
6. *Others*: This category mainly includes some leasehold rights, concessions, agricultural intangible rights that are not intrinsically related to the pharmaceutical business.

In the current state of corporate disclosure documented in this study, these six categories overlap. Additionally, the labeling of intangibles in the notes is different from the name of intangibles recognized because companies tend to group intangibles by function rather than by nature. This aspect will be investigated further in country-specific features infra.

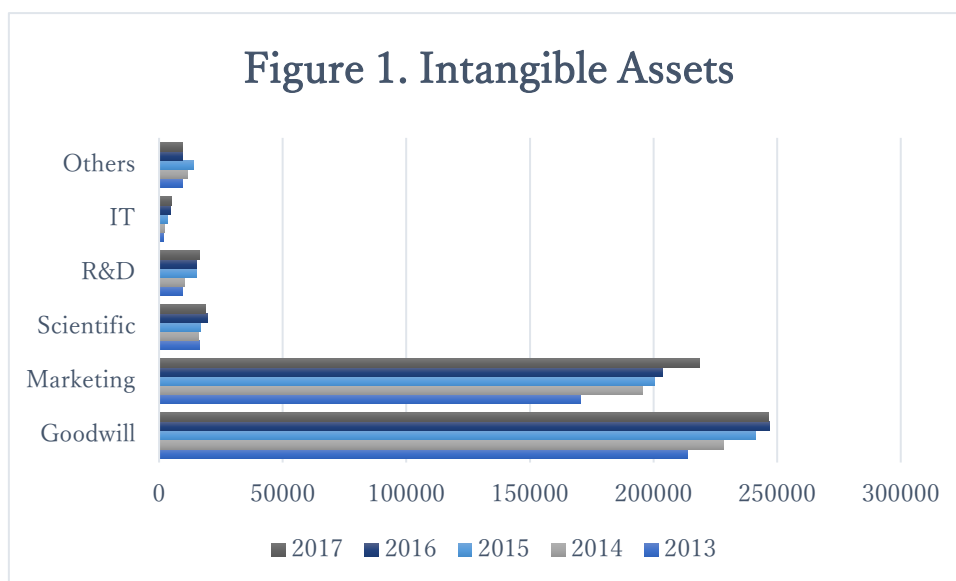
4.2. Quantitative Evolution of Intangible Assets

In 2017, intangible assets were 40.09% of total assets for the sample. Although the magnitude of intangible assets is obvious, this percentage hides great diversity among firms. The highest amount can be found in Sanofi (France) with 63,975 million dollars,

whereas the highest percentage is disclosed by Osmia (Sweden) with 86.87% of assets. On the opposite extreme, large Chinese companies tend to report very low amounts of intangibles.

Between the two extremes, the magnitude and diversity of intangible assets do not seem to follow the common-sense assumption that larger companies report higher percentages of intangibles. From narrative information in the notes to the financial statements, the following aspects are often mentioned when explaining the role and magnitude of intangibles reported:

- Business model (branded medicine versus generics, or specific businesses like biotech)
- Business combinations
- Existence of some specific legal authorizations, which are mostly described as some country-specific circumstances (e.g., cannabis in Canada).



From 2013 to 2017, the global number of intangibles reported increased by 23% (see Table 2 infra). Meanwhile, the number of companies included in the sample increased from 210 to 279, resulting in a lower average per company. This is because some large pharmaceutical companies from China and other developing countries join the sample in the later years. As we will explain in the findings, these companies report very low intangibles.

Table 2. Evolution of Intangibles.

Million dollars	Number of Companies	Goodwill	Marketing Intangibles	Scientific Intangibles	R&D	Information Systems	Others	Total
2013	210	213695	170269	16320	9278	1919	9490	420972
2014	230	228431	195511	15802	10313	2306	11615	463977
2015	262	241201	200370	16782	15036	3233	13776	490398
2016	273	246742	203761	19787	15129	4735	9409	499564
2017	279	246459	218746	18866	16263	5162	9613	515108

In proportion, goodwill is the largest category of intangibles, with a percentage decreasing from 50.52% in 2013 to 47.66% in 2017 (Table 3). The second important item is marketing intangibles, raising from 40.25% to 42.30% over the period. Interestingly, the decline of goodwill coincides with the increase in marketing intangibles. The remaining 10% consist of scientific intangibles, R&D, information systems, and other items.

For a survey of pharmaceutical companies, marketing intangibles are surprisingly much greater than scientific intangibles. Despite the innovation being the core business of the pharmaceutical industry, intangible investments incurred to pursue research and protect intellectual property are not reported, at least in quantitative indicators.

These results reveal a distortion of the “smile curve” of the value chain, representing higher value creation at the beginning and at the end of the business process (WIPO, 2017). In financial reports, marketing intangibles, the assets related to the end of the process are reported for high values. In contrast, R&D and scientific intangibles, that are at the very beginning, are not reported or very understated.

Table 3. Proportion of Intangibles.

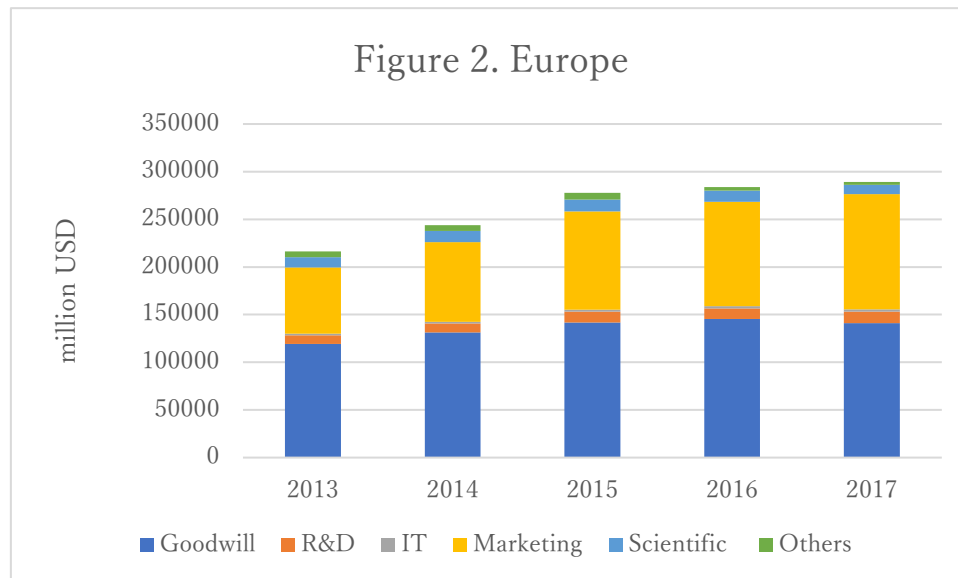
	Goodwill	Marketing	Scientific	R&D	IT	Others
2013	50.52%	40.25%	3.86%	2.19%	0.45%	2.24%
2014	49.02%	41.96%	3.39%	2.21%	0.49%	2.49%
2015	48.98%	40.69%	3.41%	3.05%	0.66%	2.80%
2016	49.19%	40.62%	3.94%	3.02%	0.94%	1.88%
2017	47.66%	42.30%	3.65%	3.14%	1.00%	1.86%

An aspect that deserves clarification in Table 3 is the low percentage of R&D intangibles. In financial reports, many companies do not differentiate internal development costs from in-process R&D costs, acquired from an M&A. From other narrative information in the notes, it can be understood that these R&D costs are almost exclusively purchased ones. Most frequently, these costs are in-process R&D, sometimes payments incurred in R&D outsourcing contracts or joint R&D projects. In the pharmaceutical industry, only a minority of companies capitalized their internal developments costs explicitly.

5. Country-specific features of disclosure

5.1. European Countries: EU, UK, and Switzerland

The European subsample consists of 124 pharmaceutical companies, with great diversity of size and specializations. Indeed, this is the subsample that includes most “Big Pharma” companies: seven of the ten largest observations in this study are from Europe, the remaining three are from Japan. Nevertheless, most companies are middle-sized, often family companies that have kept a strong national focus.



“Big Pharma” companies like Novartis, Sanofi, Bayer, Roche, Glaxo Smith Kline and AstraZeneca are much larger than other companies. Consequently, Sanofi, Novartis, and

Bayer, the three companies that disclose the highest intangible amounts, report more than half of the total intangibles for this subsample.

In terms of disclosure, large companies provide much more details about their intangibles than smaller firms. Some reasons are explicit from the information itself: more business acquisitions, more research sharing agreements with third parties, and more intangible assets are disclosed.

The smaller cases (about 2/3 of the subsample) use a classification by nature when disclosing quantitative information in the notes. Concretely, various categories of assets, such as goodwill, patents, trademarks, and software, are disclosed based on the categories recognized in the accounts. Relatively few items are reported—typically just two or three—so that it is easy for the reader to identify changes, disposals, and new investments. However, the labeling of intangibles is very diverse, which may be harmful in terms of comparability.

For larger cases, approximately the ones that are in the top fifty largest companies worldwide, separate intangible assets are disclosed based on their function. In other words, the categories recognized in the accounts, like patents, licenses, and brands, are reclassified into broader categories that reflect the purpose of intangible investments. For example, Bayer, in the annual reports 2013–2017, used the following categories: “patents and technologies,” “marketing and distribution rights,” “production rights,” “R&D projects,” and indeed “goodwill.”

From the quantity of information about intangibles in the narrative parts of financial reports, intangibles are apparently numerous and cannot be disclosed separately. On top of this practical reason, the disclosure of intangibles by function is an interesting policy because the function of intangible assets indicates their importance in the business and their risks.

For example, “marketing and distribution rights” are at the end of the business cycle, the closest stage to profit realization. In contrast, “R&D projects” are investments incurred at the beginning of the cycle, which can last several decades in the pharmaceutical industry. This is particularly true for in-process R&D, the costs recognized from business acquisitions. Although R&D and patents are undoubtedly the core business of most pharmaceutical companies, the value of intangible assets related to earlier stages of development tends to be understated because of uncertainty regarding the outcome of product development.

In the European subsample, the weight of marketing intangibles (42% of intangibles) contrasts with scientific assets (3%) and R&D costs (4%), most of which are acquired R&D programs. Marketing intangibles included traditional, registered legal rights (e.g., trademarks and licenses), and non-registered intangible assets (e.g., customer relations and customer lists).

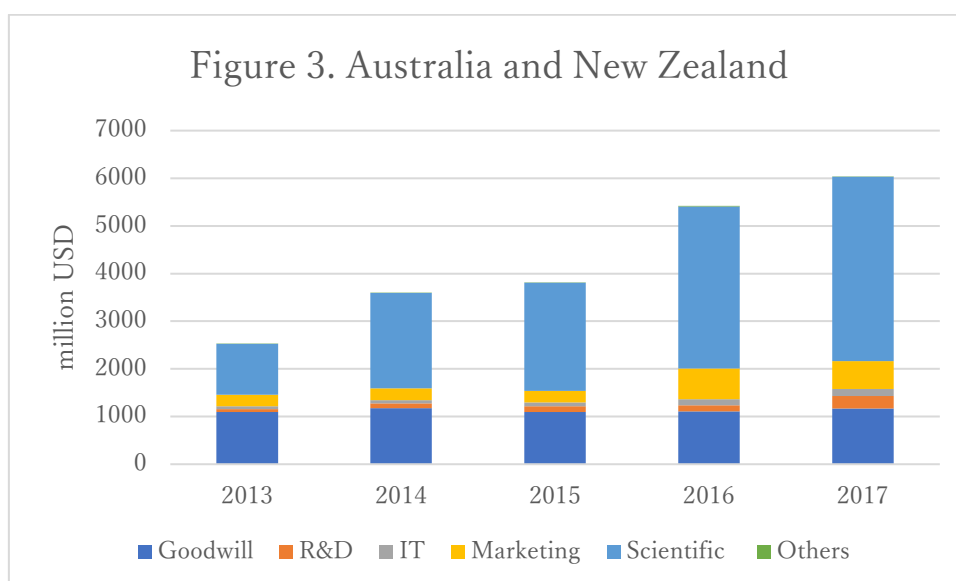
Notably, some companies disclosed amortizable intangibles separately from those with indefinite useful life. In the case of Glaxo Smith Kline, annual reports 2013–2017, brands were separated into two groups, depending on their useful life. This is not a classification by function; however, a classification based on the accounting treatment also provides an indication of risk. Concretely, amortized intangible assets are considered less risky because their acquisition cost is systematically allocated over the period of use. In contrast, permanent retention of intangibles is often criticized for the risk of overstatement of assets.

The disclosure of intangibles depending on whether their useful life is finite or infinite appears in a small minority of cases. In the context of economic uncertainty, providing accurate information about measurement is an interesting way to highlight the risks associated with changes in the value of these intangibles.

5.2. Extra-European Anglo-Saxon Countries: Canada, Australia, and New Zealand

Australia and New Zealand

In this subsample, companies from Australia and New Zealand are presented together because their characteristics are relatively similar. The largest of the 33 companies documented is CSL, an Australian biotech specialist. All other cases are much smaller companies, so that the magnitude of data gathered in Figure 3 is completely different from the European sample.



In the subsample, disclosure about intangible assets is diverse, but globally less detailed than in the European subsample. Several companies, including CSL, disclose separate intangibles as “intellectual property.” The notes and elsewhere in the financial reports provide more evidence on the precise nature of these intangibles, and some descriptions of products and innovations.

In the categories of Figure 3, “intellectual property” was classified as scientific intangibles because there was no evidence that the company relied on marketing intangibles elsewhere, and because the narratives focused on scientific aspects of their business. However, the accuracy of this classification is not evidenced, and information is scarce from a user’s perspective.

Contrasting with the “intellectual property” item, some classifications by nature can be seen in other cases. For example, Asaleo (annual reports 2013–2017) used the categories goodwill and brands. Blackmores (annual reports 2013–2017) disclosed trademarks, capitalized website development, registrations, brands, formulations, patents, royalty stream. These reporting practices are close to the European middle-size cases. However, Blackmores shares the same particularity with Glaxo Smith Kline: the useful life and amortization periods are mentioned for each category.

Regarding internally generated intangibles, several companies used the “developments costs” category, in which the costs were not acquired ones. Internal development costs are more frequent in this subsample than in other areas. The largest case in the subsample, CSL, disclosed internal R&D costs, whereas Blackmores capitalized on some website development cost. However, amounts of development costs capitalized remain extremely

low compared with total intangibles.

Canada

The Canadian sample consists of 25 companies, of which Concordia International is the largest. Over the period 2013–2017, the number of observations tripled due to new businesses specializing in cannabis products.

Concordia International is an interesting case because a large business acquisition (Covis pharma) occurred in 2015. In 2017, intangibles were 75% of its total assets. The largest category of intangibles is “acquired product rights,” which is much greater than goodwill and amortized. Various categories of marketing intangibles were disclosed, including customer lists and distribution contracts. After 2017, Concordia was renamed Advanz Pharma and moved to Great Britain.

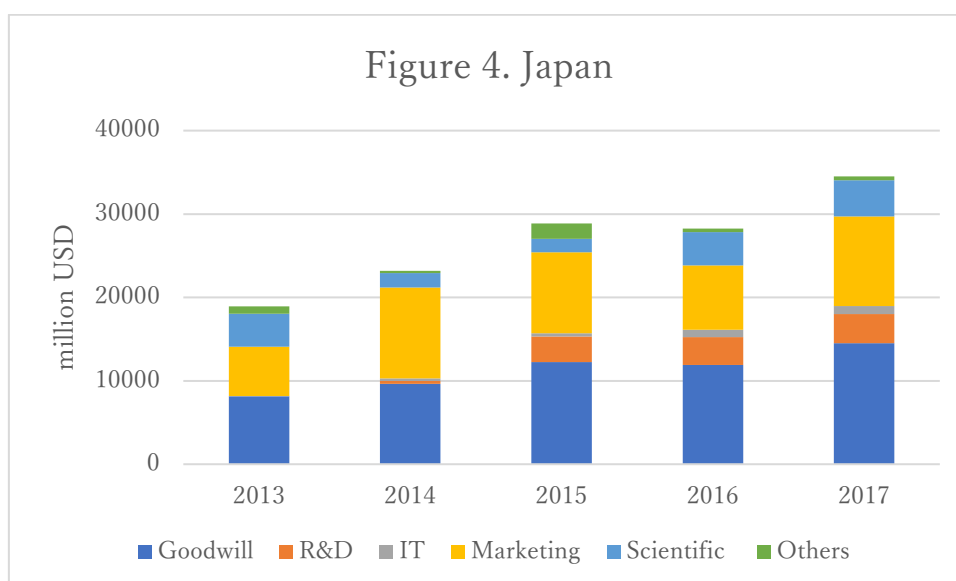
The second largest company, Knight Therapeutics, was spun off from Paladin in 2014. Despite a relatively large size (48th worldwide in our sample), the company reported only some licenses as intangibles, for only 1% of its total assets.

The remainder of cases consists in smaller firms, like Canopy Growth Company (58% of intangibles) Aurora Cannabis (23% of intangibles), Aphria (1% of intangibles) that focus on medical marijuana products. Their intangibles are quite comparable with European pharma companies, despite the particularity of their business.

5.3. Asian Countries: China, Taiwan, Japan, Malaysia

Japan

The Japanese subsample consists of six companies only: Takeda, Otsuka, Daiichi Sankyo, Eisai, Ono, and Santen. These cases are among the largest pharmaceutical companies worldwide, in the top 25 firms in our sample. However, the magnitude of intangibles is significantly lower than European “big pharma,” and disclosure is much less detailed. These findings contrast with the economic literature regarding innovation, in which Japanese firms are described as research-intensive (Corrado et al., 2013).



Japanese companies disclose intangibles by nature in the notes, with categories like patents, trademarks, distribution rights, and software that refer to the traditional categories of registered intellectual property rights. The category “other” is used for items that do not fit into these legal categories, even for large amounts (for example, in Takeda, annual reports 2014–2017)¹. Judging from narratives, we determine that the categories used for disclosure appear to be intricately linked with the underlying classification in accounts.

In the sample, the following are a few exceptions: several items grouped in the same category as “patents and licenses” (Ono, annual reports 2013–2017); and some generic categories like “product-related intangibles” (Takeda and Santen), and “core technology” (Eisai). The naming of these categories is also interesting because the distribution and customer-related elements are not emphasized, unlike in European companies.

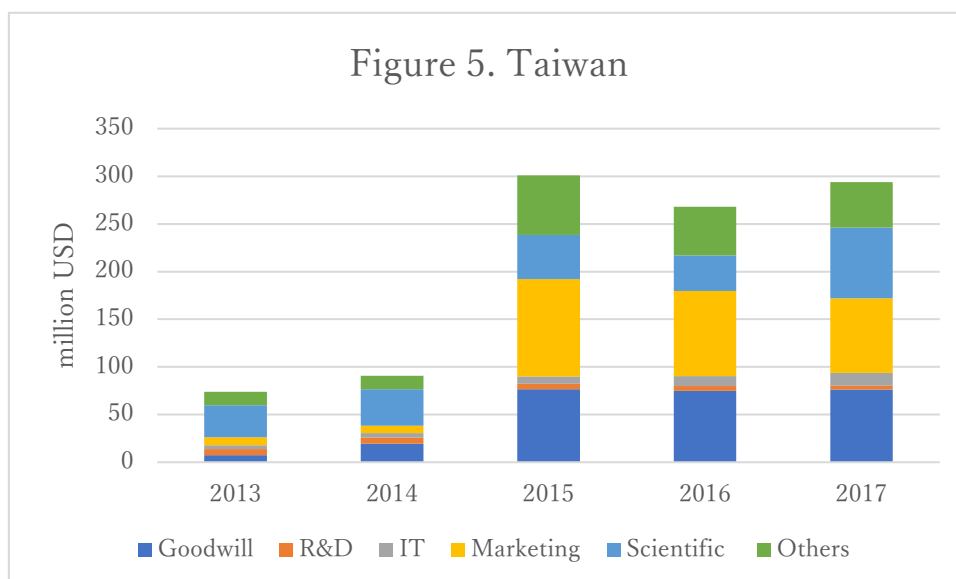
Another Japanese particularity in disclosure is that capitalized development costs are explicitly labelled “in-process R&D.” Otsuka, Eisai and Daiichi Sankyo report relatively large amounts of these costs. In most cases outside Japan, “development costs” are not explicitly referred to as acquired R&D, even if sometimes, one can understand their origin from other explanations about business acquisitions in the notes.

Taiwan

The subsample for Taiwan consists of 30 companies. However, only Center Laboratories report significant intangibles (19% of total assets). Other companies report only

¹ In other subsamples, “other” is used only for negligible amounts that cannot be included elsewhere.

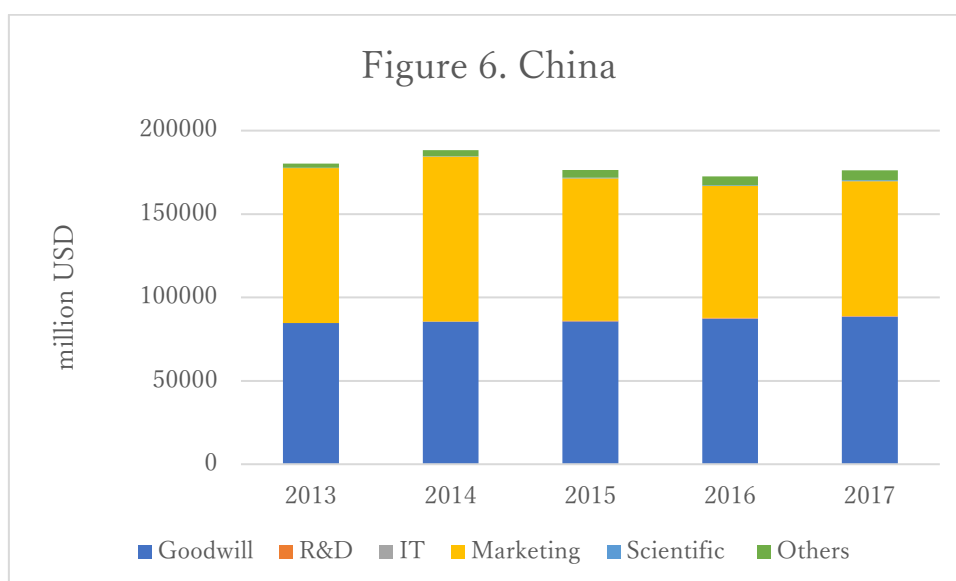
negligible amounts of intangibles.



Center Laboratories is a diversified pharmaceutical company; their products include drugs and infantile nutrition products. In 2015, a large business acquisition resulted in an increase in intangibles shown in Figure 5. Center Laboratories (annual reports 2015–2017) reports intangibles by nature, with the following categories “goodwill,” “technology,” “customer relationships,” “trademarks and brands” and “milk rights.” Other companies in the subsample reported very low intangibles, less than 1% of assets for most cases. The most frequent category was software, and narratives were almost absent.

China

The Chinese sample is made of 34 companies, 22 of which are among the 100 largest in this study. As for the Taiwanese sample, most Chinese companies report few intangibles, based on a classification by nature that is relatively harmonized in the subsample. Narratives are also much shorter than those of European companies of the same size.



Shanghai pharma is the largest case, a manufacturer of both chemical drug and Chinese traditional medicine. After a large business acquisition in 2017 (Cardinal Health), the company became the largest distributor of foreign medicine in China. The categories used are “goodwill,” “business network,” “patents and trademarks,” “know-how” and “computer software.”

As far as R&D costs are concerned, Sino Biopharmaceuticals (annual reports 2013–2017) and Shanghai Fosun (annual reports 2013–2017) report “acknowledged development costs,” whereas 3SBio (annual reports 2014–2017) reports “in-process R&D.” Labelling differences help the users of financial reports to clearly identify the nature of R&D reported.

Malaysia

The subsample consists of eight companies, of which the largest is Goldis. Similarly with the Chinese subsample, the magnitude of intangible assets is very low and disclosure is based on a classification by nature. Categories used in this subsample are very similar to observations in other Asian countries. For example, Goldis used goodwill, software development costs, and license in the notes.

6. Concluding remarks

This survey investigated the accounting practices of pharmaceutical companies in the flexible frame of IFRS. A first observation is the great diversity of intangibles in the sample. Given the importance of these items, a certain level of standardization would improve information comparability. This is already achieved in some Asian subsamples of this study.

Second, we found that most small and middle-size companies reported intangibles by nature, whereas the largest companies adopted classifications by function. IFRS standards do not prescribe any specific format; thus, both approaches are legitimate.

Providing information about the function of intangibles gives an indication about the timeframe of the investment and its role in the business model. This may help assessing uncertainty regarding the value of the intangible. In contrast, disclosure by nature is simpler and more precise when the number of intangible assets is only few.

Returning to the national differences regarding intangibles, the conclusion of this study sounds like cultural stereotypes: reporting is concise in Asia, abundant in Europe, optimistic in Commonwealth countries. Meanwhile, differences in the business model and M&A activity greatly explain the magnitude of intangible assets.

It appears easier to harmonize the disclosure categories than the underlying differences in the magnitude of intangible assets, therefore, it is worth considering harmonizing the disclosure of intangible assets in IFRS.

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