

Discussion of ZGMB (2023)

**“The usefulness of disclosures on unaccounted
intangibles for CFOs and
investors: An international investigation”**

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ZGMB (2023) in a Nutshell

- **What?**
 - To provide **insights** on **preparers** and **users'** view on the **usefulness** of **information** on **unreported intangibles**
- **How?**
 - International **web-based survey** of preparers and users
 - **Focus group interviews** with preparers and users
- **Why?**
 - Directly **contrast preparers and users' views**
 - Explore “**perceptions**” of **unreported intangibles** information **usefulness**

Key Findings

- Preparers and users generally view the **current reporting for intangibles as lacking**
 - Compared to **users**, **preparers** seem to be more “**conservative**” in their **intangible information demands** and in their **attitudes toward change**
- Preparers and users agree
 - Information on intangibles to be reported based on a **combination of KPIs, narrative disclosures, and financial numbers**
 - Need for **auditing**

Theoretical Development: Comments

- Currently, the authors rely on a “**let the data speak**” approach
- **However**
 - The study aims to inform policy and hence cannot be (entirely) descriptive
 - The way in which the questions are structured calls for some **theory** on
 - The **usefulness** of financial reporting information on intangibles
 - The **expected costs and benefits** of intangibles disclosure (e.g., proprietary costs)
 - The different **nature of users** (e.g., equity investors vs. creditors)
 - The **objective** of financial reporting information (valuation vs. stewardship/contracting)
- **Suggestion:** Be more explicit on the theory that informs the survey questions

Theoretical Development: Suggestions

- Build **theoretical framework** around the **economic determinants** of a **potential reform of intangibles reporting**
- As such, the survey could be presented as to provide **answers** to the following **policy-relevant questions**
 - **What do we mean by intangibles?** Do preparers and users share the same views about what constitutes an intangible resource?
 - Have **financial statements become less relevant** because of underlying **changes in the economy** not captured by financial statements?
 - If so, has this led to **suboptimal capital allocation** in the economy?

Research Design: Comments

- Survey design needs **more transparency/discussion**
- Unclear how the authors identify their **initial sample**
 - How many subjects did the survey initially target?
 - Who provided those contacts?
 - What is the survey response rate?
 - 40% of respondents abandon the survey after the initial personal questions—why?
 - How representative is the final sample compared with the underlying population?
- **Focus groups**
 - Sample size fairly small to draw any credible inferences
 - Is there an overlap between the surveyed subjects and the focus group subjects?

Research Design: Comments

- Survey design
 - “*The research mainly focuses on preparers and users and a comparison of their views (**between-subjects design**)*”
 - That is not what it is commonly understood to be a between-subject design
 - “*The survey was **randomly assigned***”
 - I could not understand the nature of the random treatment, if any

Research Design: Further Comments and Suggestions

- Empirical analysis
 - **Univariate comparisons** of responses across preparers and users
 - **However**
 - **Subsamples** of preparers and users likely vary **along several dimensions**
 - As such, **comparing unconditional means** may not be very informative
 - Consider **multivariate analysis** to compare responses while controlling for fundamental differences across preparers and users

Findings: Interpretation

- **Key findings**
 - Preparers are more conservative than users and exhibit a lower demand for change
 - New information on intangibles should entail a mix of KPIs, narrative disclosures, and financial numbers
- **How surprising** are these findings?
- How do they help us **revise our priors** about potential improvements to current intangibles reporting?

Accounting Research for Evidence-Based Policy

- **Descriptive research** provides interesting insights
- **But**
 - It is only a first step
 - It cannot identify causal effects and thus reach conclusions on the costs/effectiveness of a potential regulatory action
 - Descriptive studies should clearly caveat these limitations and be careful with what policymakers can take away

UKEB Intangibles Survey

- **Survey on users' views on the current reporting for intangibles** under IFRS and what may be done to improve it
- Questions include:
 - Whether **current requirements** are useful for investment/lending decisions
 - **If intangibles were capitalized**, which **subsequent measurement** model would be more useful for decision making
- UKEB still seeking user responses:
 - **Link:** https://www.smartsurvey.co.uk/s/UKEB_intangibles_distribution/
 - **Email:** S.Alderighi@endorsement-board.uk

Concluding Remarks

- I very much **enjoyed reading the paper**
 - **Relevant** and **timely research question**
- **Suggestions**
 - **Theoretical development:** Strengthen the theory
 - **Research design:** Be more upfront about the details of the design and do more with your (rich) survey response data
 - Improve the **discussion of the empirical findings**
- **Good luck!**