PUBLIC CONSULTATION ON PROPOSED INTANGIBLES DISCLOSURE FRAMEWORK

Prepared by the Intangibles Disclosure Industry Working Group
14 December 2022

INTRODUCTION

The Intangibles Disclosure Industry Working Group is conducting a public consultation on the proposed Intangibles Disclosure Framework. The public consultation period is from 14 December 2022 to 28 February 2023.

The Singapore Intellectual Property Strategy 2030 ("SIPS 2030") is a 10-year roadmap to strengthen Singapore's position as a global hub for Intangible Assets ("IA"), including Intellectual Property ("IP"), where innovative enterprises can bring their ideas and intangible assets to the market effectively. A key focus is to build a conducive ecosystem for intangible asset commercialisation, transactions, and financing.

Increasing transparency and disclosure around enterprise intangible assets, including their technologies, brands and data, is critical. To this end, an industry working group has worked closely with an inter-agency committee over the last 12 months to co-develop the proposed Intangibles Disclosure Framework. The intention is to provide a standardised and consistent basis for enterprises to disclose and communicate the details of their intangibles, thereby providing stakeholders with comparable information about an enterprise's intangibles, so that more informed assessments of the business and financial prospects can be made. This will facilitate intangible asset commercialisation, transactions, and financing. The proposed Intangibles Disclosure Framework can also serve as a precursor or base for subsequent development of valuation guidelines for intangibles.

The objective of this consultation is to ensure the proposed Intangibles Disclosure Framework helps enterprises in identifying and communicating their intangibles to support business activities, in particular intangible asset commercialisation, transactions, and financing.

The proposed Intangibles Disclosure Framework is set out in this consultation paper.

We invite interested persons to comment on the questions in the next section. Comments are most helpful if they contain a clear rationale and, where applicable, suggestions for an alternative approach. All comments received will be considered. However, we seek the public's understanding that we might not be able to individually acknowledge or address every comment. To maintain confidentiality of feedback contributors, we will anonymise and aggregate the results of this public engagement. Please submit your comments via this FormSG link.

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REQUEST FOR COMMENTS

Part 1 – The Four Thematic Pillars

The proposed Intangibles Disclosure Framework seeks to provide stakeholders with standardised information about an enterprise's intangibles, so that they can make more informed assessments of its business and financial prospects. Accordingly, the proposed framework outlines the key principles that an enterprise should follow when disclosing its intangibles in a report. The principles are anchored on four pillars: Strategy, Identification, Measurement, and Management.

Q1. Do the proposed thematic pillars (SIMM) provide a suitable and sufficient basis for enterprises to provide standardised information on intangibles for stakeholders to make more informed assessment of enterprises' business and prospects?

a. [Strategy pillar] Is the proposed outline suitable and sufficient to explain how intangibles are used by an enterprise to generate long term returns?

b. [Identification pillar] From an enterprise, investor and/or lender perspective, are the six categories of intangibles appropriate and applicable to your business?

c. [Measurement pillar] Do you agree with the proposed value-related (metrics) information to be disclosed for each category of intangibles?

d. [Management pillar] Do you agree that the proposed disclosures adequately communicate information about businesses' risk management approach to intangibles?

Q2. Are there additional topics within the four thematic pillars you would propose to add? E.g., other disclosures that would be helpful to show how intangibles drive business value and growth?

Q3. Please indicate the ease of understanding the SIMM pillars from your perspective (from 1 being complex to 5 being easy to understand). Please provide explanations on your response.

Part 2 – Adoption / Use

The proposed Intangibles Disclosure Framework should be practical in that it helps enterprises in identifying and communicating their intangibles to support business functions and growth. Examples where the proposed Intangibles Disclosure Framework could be applied and/or used include (but are not limited to): (i) annual corporate reporting, (ii) supplements to financial and/or strategic update to Board of Directors, and (iii) prospectus used for capital raising.

Q4. Do you agree that the Intangibles Disclosure Framework can help to close the information gap on intangibles? Why?

Q5. Do you agree that enterprises could rely on their intangibles to raise capital, or grow their market values? If yes, how could the Intangibles Disclosure Framework help enterprises reap such opportunities?

Q6. In your perspective, what are the key benefits of adopting the Intangibles Disclosure Framework?

- a. Enhanced market transparency around intangibles
- b. Better management of intangibles
- c. Greater access to intangibles-based financing or capital raising
- d. Others (please specify)

Q7. If you are adopting the Intangibles Disclosure Framework, are you likely to prepare the disclosures in-house or through a consultant? Why?

Q8. In your view, what may be practical steps or support that could incentivise businesses to adopt the framework?

Proposed Intangibles Disclosure Framework

Nov 2022

Acknowledgements

The Intangibles Disclosure Framework was co-created through a public-private partnership, with the active participation of stakeholders and partners across the business, legal, and technical domains. The Intangibles Disclosure Industry Working Group ("the Working Group") has drawn the experience of persons nominated by eight industry associations. The Working Group is supported by the Intangibles Disclosure Committee, comprising representatives from the Accounting and Corporate Regulatory Authority ("ACRA"), Intellectual Property Office of Singapore ("IPOS"), Inland Revenue of Singapore ("IRAS"), Monetary Authority of Singapore ("MAS"), and Singapore Accountancy Commission ("SAC"). Input was obtained from the Accounting Standards Council ("ASC").

--- INTANGIBLES DISCLOSURE INDUSTRY WORKING GROUP ---

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Executive Summary

Background

In April 2021, Singapore launched the Singapore Intellectual Property Strategy 2030 ("SIPS 2030"), a national roadmap that aims to strengthen Singapore's position as a global Intangible Assets ("IA") and Intellectual Property ("IP") hub. SIPS 2030 will also support a future economy that is vibrant, innovative, and ready to seize new opportunities in intangible assets.[1]

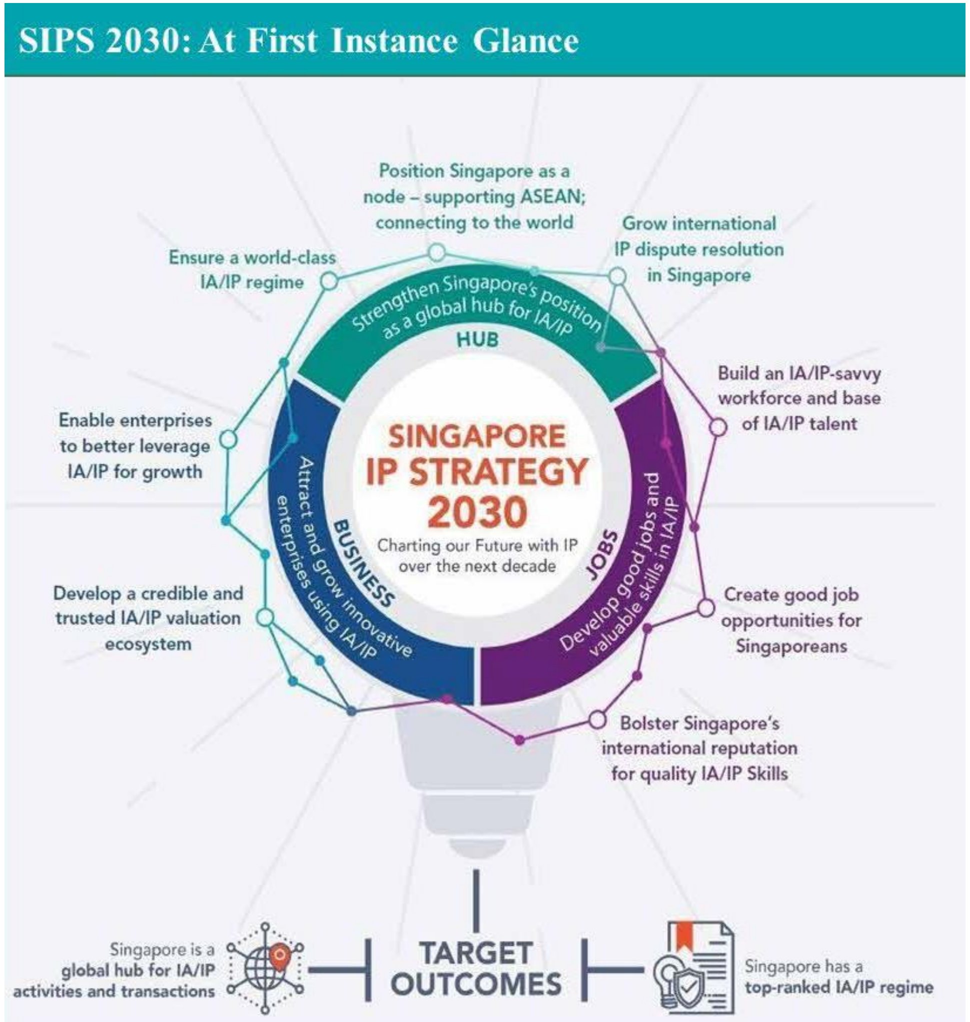
One long-term goal of SIPS 2030 is to build a credible and trusted intangible asset valuation and reporting ecosystem, supporting enterprises in managing and commercialising their intangible assets. In turn, this will help enterprises to unlock benefits from their intangible assets, contributing to their overall business strategy and value.

Globally, the intangible asset valuation and reporting remains at a nascent stage currently. No jurisdiction has developed an intangible-specific disclosure framework, let alone an intangible-specific valuation framework.

SIPS 2030 has therefore sought to take initial steps through the development of an Intangibles Disclosure Framework (the "Framework"). The Framework intends to outline key principles for enterprises to identify and communicate the details of their intangibles.

Standardised information will allow stakeholders to make more informed assessments of the business and financial prospects, thereby facilitating the commercialisation of the intangibles. In addition, harmonised disclosures can help investors and lenders make comparisons, thereby improving the flow of funds into enterprises that invest wisely in intangibles.

Exhibit 1: The Singapore IP Strategy 2030



[1] Government of Singapore and Intellectual Property Office of Singapore (2021). *Singapore IP Strategy 2030 Report*. Available at: https://www.ipos.gov.sg/manage-ip/singapore-ip-strategy-2030

The Framework

The Framework seeks **to provide stakeholders with standardised information about an enterprise's intangibles, so that they can make more informed assessments of its business and financial prospects**.

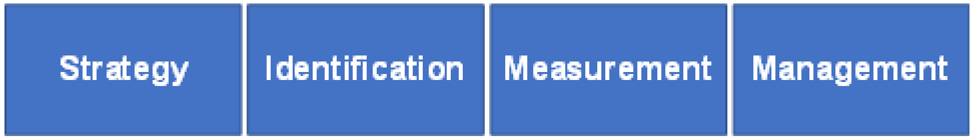
This Framework defines an intangible as "*a non-monetary resource that manifests itself by its economic properties; it does not have physical substance but grants rights and/or economic benefits to its owner*". The intangible assets defined under the prescribed accounting standards in Singapore are a subset of intangibles defined under this Framework.

The Framework outlines the key principles that an enterprise should follow when disclosing their intangibles in a report. By striking a balance between flexibility and prescription, the Framework will increase the comparability of intangibles disclosures across companies.

This Framework is not intended to replace or supersede existing regulatory or accounting requirements. Please refer to **Annexure 1** for guiding principles of the Framework. An enterprise can opt to disclose their intangibles as part of an annual report or in a standalone report.

The key principles in the Framework are anchored on four pillars: Strategy, Identification, Measurement, and Management ("SIMM").

Exhibit 2: The SIMM Pillars



The Strategy Pillar

This Pillar supports the disclosure and communication of how intangibles are relevant to, and used in, an enterprise's overall corporate strategy. This Pillar aims to give stakeholders a better understanding of how an enterprise uses its intangibles to create returns for its investors, and what role intangibles may play in various aspects of business, potentially allowing the enterprise to gain or preserve a competitive advantage in the market.

The Identification Pillar

This Pillar includes the definition of an "intangible", and recommends how an enterprise describes the nature and characteristics of their intangibles. This Pillar also proposes that intangibles be classified into six categories. The purpose of having definitions for the various types of intangibles is to facilitate and improve their comparability.

The Measurement Pillar

This Pillar guides an enterprise on how it should disclose the performance metrics and drivers of their intangibles. This will enable both an enterprise and its stakeholders to better assess and understand the financial health and performance of an enterprise's intangibles. Value-related information to be disclosed should ideally be quantitative in nature and capable of assisting in the valuation of said intangibles, such as metrics and value drivers. This Framework recommends that the disclosure of the monetary value of an enterprise's intangibles should be optional.

The Management Pillar

Lastly, this Pillar provides guidance on how an enterprise may disclose the manner in which it identifies, assesses, and manages the risks and opportunities related to its intangibles. This Pillar also recommends that an enterprise discloses how its processes for the identification, assessment, and management of intangibles-related risks are integrated into its overall group risk management practices.

Rationale of the Framework

It is clear that (1) with digitalisation, value creation will be increasingly driven by intangibles; (2) transparency and standardisation of corporate reporting can propel the development of valuation methodologies for a digital economy; and (3) a robust disclosure and valuation framework can underpin a growth flywheel of value creation from intangibles. While these objectives may seem aspirational, it is necessary to take initial steps towards it now.

1. The role of intangibles in the increasingly digital economy

The global economy is becoming increasingly driven by innovation and intangibles. Certain types of intangibles have been widely recognised to contribute to business value – for example, brands and human capital. Increasingly, emerging technologies are becoming dominant business value drivers. For example, the maturity of blockchain technology and digital assets are unlocking businesses currently referred to as “Web 3.0” or “metaverse” business models.

Advancements in chip manufacturing, green technology, nanotechnology and biomedical technology are examples of rapid advancements in mature and well-understood fields. And on the horizon, there is the promise of business value from technology such as quantum computing hardware deploying new quantum computing algorithms.

As a matter of fact, investments in intangible assets have overtaken those of tangible assets for over two decades.[2] Global payments for the use of IP have increased by 74% over the last decade to US$515.26 billion,[3] and now represents more than 9% of the global import of services.[4] Additionally, the value of intangibles is estimated to hit an all-time high of US$74 trillion, representing more than half (54%) of overall global value.[5] These trends and statistics are expected to continue, and drive the need for a framework that allows for consistent identification, categorisation and disclosure of intangibles.

2. Disclosure permits harmonisation and comparability

For disclosures to be comparable, we must measure and refer to intangibles on a like-for-like basis. Adopting the Framework will be an important step because no jurisdiction has managed thus far to develop such a common language – comprising taxonomy and methodology in a single framework.

While equivalent concepts exist in accounting standards, an enterprise is often prohibited to recognise the entire breadth of its intangibles on its financial statements. For example, the intangibles that are internally generated (and not acquired through acquisition) may not be recognised in the financial statements. This in turn leads to an under-appreciation of intangibles by enterprises, stakeholders and the market as a whole.

By setting key disclosures principles via the Framework, it will lay the foundation for harmonisation of intangibles disclosure by enterprises within similar sectors. Once comparable information can be gathered, new methods can be tested from the available disclosures and data to give rise – aspirationally – to new ways of valuing intangibles.

3. The growth flywheel of value creation

If intangibles can be valued separately as a distinct asset class, like tangible assets, various commercialisation options then become feasible. For example, start-up enterprises with minimal cash flow, but a strong portfolio of intangibles, may be in a better position to raise capital or financing on the back of such intangibles. New financing techniques may become possible backed by the value and security of intangibles. Meanwhile, listed

[2] C. Corrado and C. Hulten (2010). *How Do you Measure a ‘Technological Revolution’?* Available at: https://www.jstor.org/stable/27804971

[3] World Bank (2022). “Charges for the use of intellectual property, payments (BoP, current US$)”. Available at: https://data.worldbank.org/indicator/BM.GSR.ROYL.CD

[4] World Bank (2022). “Service imports (BoP, current US$)”. Available at: https://data.worldbank.org/indicator/BM.GSR.NFSV.CD

[5] Brand Finance (2021). *Global Intangible Finance Tracker 2021*. Available at: https://brandirectory.com/download-report/brand-finance-GIFT-2021.pdf

enterprises may be able to quantify the value contributed from intangibles to better differentiate from peers in the same segment.

Although these are early days, these options and opportunities cannot be captured if enterprises are not sensitive to the need to understand, measure and disclose the contribution of intangibles to their business value and growth. The Framework enables enterprises to better manage and generate value from their intangibles.

The Intangibles Disclosure Framework: the SIMM Pillars

The key disclosure principles in the Framework are anchored on four pillars: Strategy, Identification, Measurement, and Management. This chapter elaborates what each of the SIMM Pillars within the Framework entails and provides guidance for an enterprise on how it should disclose its intangibles. **Exhibit 3** provides a summary of the Framework.

Exhibit 3: The Framework and SIMM Pillars

Purpose: To provide stakeholders with standardised information about an enterprise's intangibles, so that more informed assessments of their business and financial market prospects can be made.

Strategy	**Identification**	**Measurement**	**Management**
Disclose how intangibles contribute to business, strategy, and financial planning where such information is material.	Disclose the nature and characteristics of the intangibles that fit into the definition provided, and categorise them.	Disclose the performance metrics and drivers used to assess an enterprise's intangibles where such information is material.	Disclose how an enterprise identifies, assesses, and manages the risks and opportunities of its intangibles.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
1. Intangibles and their relationship to business activities and value creation 2. Intangibles and value creation from past-to-present 3. Intangibles and value creation from present-to-future 4. Intangibles and their role(s) in attaining a competitive advantage for the enterprise	1. Description of the nature and characteristics of an intangible 2. Categorisation of intangibles	1. Quantitative or valuation relevant metrics/drivers to assess the performance of intangibles 2. (Optional) Monetary value of intangibles	1. Processes for identifying and assessing intangibles-related risks and opportunities 2. Processes for managing intangibles-related risks and opportunities 3. Integration between identifying, assessing, and managing intangibles-related risks and an enterprise's overall risk management strategy

The Strategy Pillar

This Pillar supports the disclosure of how intangibles are used in an enterprise's business operations, strategy, and financial planning. Such disclosures will provide stakeholders with a better understanding of how an enterprise uses its intangibles to create long-term returns for its investors, and what role intangibles may play in assisting an enterprise gain or preserve its competitive advantage in the market.

1. Intangibles and its relation to corporate strategy and value creation

An enterprise should first disclose its corporate strategy and business model, particularly in the activities the enterprise partakes in, what its value proposition is, and the main products/services it offers to the markets. Next, the enterprise should explain how it uses intangibles to deliver its corporate strategy. These disclosures will help stakeholders understand how intangibles are integrated into an enterprise's business model.

2. Intangibles and value creation from past-to-present

An enterprise should disclose areas of focus, investments made, including past track records and successes in, research and development, creation, protection, registration, commercialisation or exploitation of intangibles. The enterprise should also identify the critical factors that contributed to its strategy and success. The analysis should help the enterprise takes stock of its intangibles, understand the potential areas of growth and decline, and lay the foundation for creating new or additional value from intangibles.

3. Intangibles and value creation from present-to-future

An enterprise should disclose the progress made towards achieving its long-term business objectives through intangibles, while identifying trends and factors relevant to the assessment of current and prospective performance of its existing intangibles. This includes explaining the resources available to help attain an enterprise's objectives and how they are managed for value creation of its intangibles, describing principal risks and uncertainties that may impact the long-term value or prospects of its intangibles, and sharing the strategy it plans to adopt for navigating the business environment (whilst expounding on the role its intangibles will play in supporting this strategy). These disclosures should be supplemented by appropriate caveats to reflect the information that was available for making them and the degree of reliance that should be placed on them.

4. Intangibles and its role in attaining a competitive advantage

Where relevant, the enterprise should disclose the role intangibles have played to help gain or preserve competitive advantage in its market. This Framework recommends making disclosures based on either i.) both Porter's generic competitive strategies and the Value, Rarity, Imitability, and Organisation (VRIO) framework, or ii.) any other widely accepted frameworks that can demonstrate how the use of an intangible created a competitive advantage, and whether this competitive advantage is sustainable in the long run.

Porter's generic competitive strategies contains three strategies that a firm can adopt to possess a long-term competitive advantage: cost leadership, differentiation, and focus (which can be broken down into cost focus and differentiation focus). Please refer to **Annexure 2** for more details.[6]

The VRIO framework is a strategic planning tool designed to help an enterprise uncover and protect the resources and capabilities that give them a long-term competitive advantage. The VRIO framework is an acronym for a four-question framework that can be used to evaluate the usefulness of an enterprise's resources. Please refer to **Annexure 3** for more details.[7]

The enterprise should also disclose whether the competitive advantages attained via its intangibles will be sustainable in the long-run or not.

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[6] M. Porter (1985). *The Competitive Advantage: Creating and Sustaining Superior Performance*. Available at: https://www.hbs.edu/faculty/Pages/item.aspx?num=193

[7] ClearPoint Strategy (2022). "Explaining The VRIO Framework". Available at: https://www.clearpointstrategy.com/vrio-framework/

Exhibit 4: Porter's Competitive Strategy Framework[8]

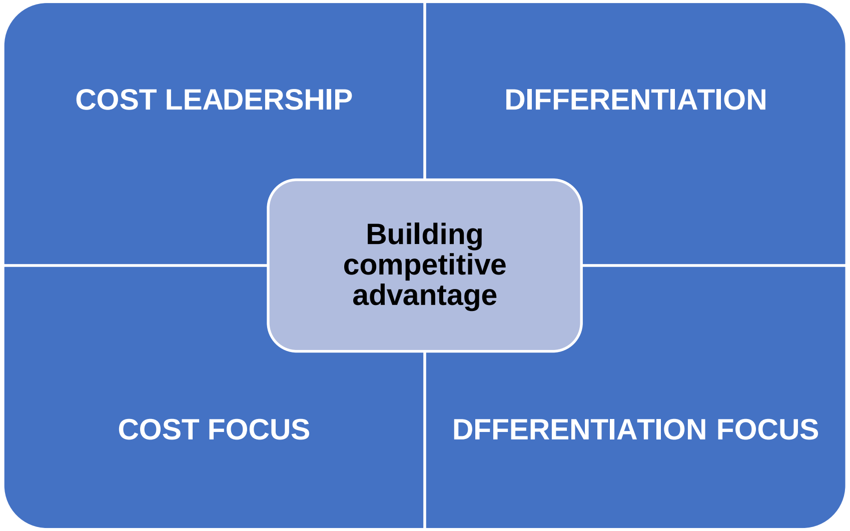
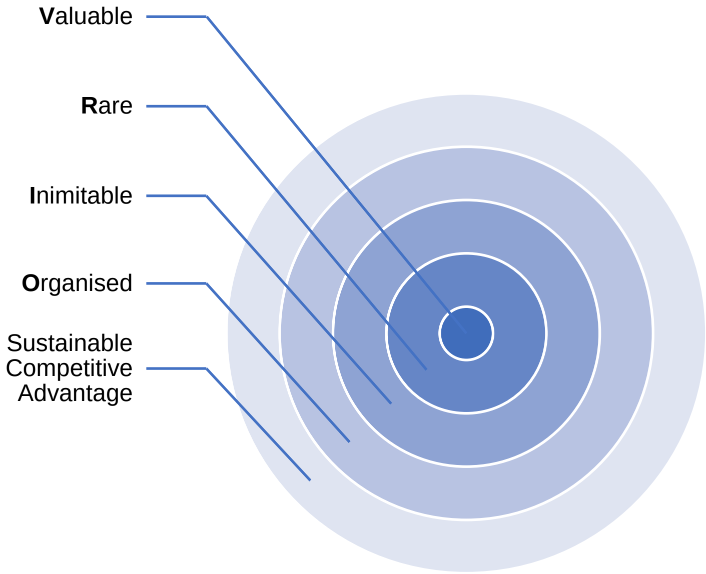


Exhibit 5: VRIO Model[9]



[8] M. Porter (1985). *The Competitive Advantage: Creating and Sustaining Superior Performance*. Available at: https://www.hbs.edu/faculty/Pages/item.aspx?num=193

[9] J. Barney (2005). *Strategic Management and Competitive Advantage*. Available at: https://books.google.com.sg/books/about/Strategic_Management_and_Competitive_Adv.html?id=LxdoQgAACAAJ&redir_esc=y

The Identification Pillar

This Pillar includes the definition of an "intangible" and recommends that an enterprise describe the nature and characteristics of their intangibles. This Pillar also proposes that intangibles be put into six categories to facilitate and improve comparability of disclosures.

1. Describing the nature and characteristics of intangibles

The Framework draws reference to the International Valuation Standards Council's (IVSC) definition of intangible assets in the IVS 210,[10] and defines an intangible as "*a non-monetary resource that manifests itself by its economic properties; it does not have physical substance but grants rights and/or economic benefits to its owner*".

This Framework will apply to all intangibles that meet the above definition, including those that are internally generated. For the avoidance of doubt, intangibles are not required to meet the recognition criteria in accounting standards for them to be included in an enterprise's intangibles disclosure report. An enterprise should also disclose the nature and characteristics of their intangibles, such as a brief description of each intangible and how it was acquired or attained.

2. Categorising of intangibles

This Framework advises intangibles to be categorised in six categories: Marketing-related, Customer-related, Artistic-related, Contract-related, Technology-related, and Human Capital-related.

<u>Marketing-related intangibles</u>

These are intangibles used primarily in the marketing or promotion of products and services. Examples include: -

i.) Trade marks, trade names, service marks, collective marks, and certification marks
ii.) Trade dress (unique colour, shape, pattern or package design)
iii.) Newspaper mastheads
iv.) Internet domain names
v.) Non-competition agreements

<u>Customer-related intangibles</u>

These are intangibles that refer to pre-existing relationships between an enterprise and its customer. Examples include: -

i.) Customer lists
ii.) Order or production backlog
iii.) Customer contracts and related customer relationships
iv.) Non-contractual customer relationships

<u>Artistic-related intangibles</u>

These are intangibles that grant an enterprise the ownership over or the right to use certain creative content. Examples include: -

i.) Scripts for stage plays, dance choreography and other dramatic works
ii.) Books, magazines, newspapers and other literary works
iii.) Musical works such as compositions, operas, song lyrics and advertising jingles
iv.) Drawings, paintings and photographs
v.) Video and audiovisual material, including motion pictures or films, music videos and television programmes

<u>Contract-related intangibles</u>

These are intangibles that provides value to an enterprise through the means of a contractual agreement. Examples include: -

[10] International Valuation Standards Council (2022). *IVS 210: Intangible Assets*. Available at: https://www.ivsc.org/wp-content/uploads/2021/10/IVS210IntangibleAssets.pdf

i.) Licensing, royalty, and standstill agreements
ii.) Advertising, construction, management, service, or supply contracts
iii.) Construction permits
iv.) Franchise agreements
v.) Operating and broadcast rights
vi.) Servicing contracts, such as mortgage servicing contracts
vii.) Employment contracts
viii.) Use rights, such as drilling, water, air, timber cutting and route authorities

Technology-related intangibles

These are intangibles that are technology-related. Examples include: -

i.) Patented technology
ii.) Unpatented proprietary technology
iii.) Computer software and mask works
iv.) Databases, including title plants
v.) Trade secrets, such as secret formulas, processes, and recipes

Human Capital-related intangibles

Drawing reference from the IVSC's definition of Human Capital,[11] these are collective knowledge, skills, and experience that resides within and amongst an enterprise's workforce. Examples include: -

i.) Scientists' capabilities to produce an invention
ii.) Management's key leadership competencies
iii.) Software engineers' skills in developing a computer program

Human Capital-related intangibles will have a nexus with, and may overlap with, other categories of intangibles. This is expected as Human Capital can be seen as the foundation for other intangibles. However, Human Capital-related intangibles should, for the purpose of this Framework, be analysed from an input-output perspective to distinguish it from other intangible categories.

Human Capital-related intangibles are essentially the inputs (knowledge, skills, experience, capabilities or a combination thereof) of a person or workforce, which contribute to the outputs (whether tangible or intangible) that generate economic value.

For example, when a scientist develops an invention that is patented, the knowledge and capabilities of the scientist are the inputs, whilst the invention developed, and patent are the outputs. The same concept can be applied to an artist's expertise (inputs), and the paintings they produce (outputs). Also, an enterprise's management and key leadership competencies can be seen as the input that mobilises the enterprise towards its strategy of maximising value creation into results (output) that create value for stakeholders.

An enterprise should only include in Human Capital-related intangibles the inputs of a person or workforce, and separate their corresponding outputs into other categories to ensure its intangibles are not double-counted.

[11] International Valuation Standards Council (2022). *Perspectives Paper, Time to get Tangible about Intangible Assets, Part 2: Human Capital Introspective*. Available at: https://www.ivsc.org/pdfviewer/perspectives-paper-human-capital/

The Measurement Pillar

This Pillar provides guidance on how an enterprise should disclose the performance metrics and value drivers of their intangibles. Such disclosures will enable both an enterprise and its stakeholders to better assess and understand the financial health and performance of an enterprise's intangibles. The metrics disclosed should ideally be quantitative in nature to facilitate the valuation of said intangibles. Under this Framework, the disclosure of the monetary value of an enterprise's intangibles is optional.

1. The disclosure of quantitative or valuation relevant metrics/drivers to assess the performance of intangibles

An enterprise should disclose the Key Performance Indicators (KPIs) used to assess and analyse the financial health and performance of their intangibles. A KPI measures the success or progress towards a specified goal.[12] The KPIs or metrics provided should ideally be accompanied by historical data to allow for trend analyses. The methodologies used to calculate and estimate the disclosed metrics, especially when not immediately apparent, should also be disclosed.

Table 1 below provides guidance on the possible metrics an enterprise may disclose for each category of intangibles.

2. The optional disclosure of the monetary value of intangibles

This Framework recommends that the disclosure of the monetary value of an enterprise's intangibles be made optional. This is because there may be other considerations involved in deciding whether to obtain and disclose the valuation of intangibles. In addition, valuations may not be critical to understanding how a business is impacted by its intangibles.

If an enterprise chooses to disclose the monetary value of its intangibles, the valuations should be conducted in accordance with the International Valuation Standards (IVS). The following information should also be disclosed:

i.) The purpose of the valuation
ii.) The definition of value
iii.) The date of valuation
iv.) The intangible being valued
v.) The valuation approach(es) and method(s)
vi.) The material valuation assumptions and inputs
vii.) A narrative/description of the valuation sensitivities to changes in unobservable inputs[13]
viii.) Valuation conclusion
ix.) Credentials of the valuer

When a valuation which an enterprise discloses was not done in accordance with the IVS, the enterprise should inform stakeholders and explain their reasons for doing so.

[12] Chartered Global Management Accountant (2013). "KPIs – financial and non-financial". Available at: https://www.cgma.org/resources/tools/essential-tools/kpis.html

[13] Unobservable inputs are inputs for which there is no market data available

Table 1: Examples of Value-Relevant Metrics

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Marketing-related	**Brand / Trademarks / Tradenames / Service Marks** • Customer satisfaction rating • Corporate reputation / External Corporate image	• Independent customer satisfaction or brand rankings such as J.D Power, Brand Finance, etc. • Customer satisfaction / Customer loyalty index
Customer-related	**Customer List** • Turnover generated from existing customers for pre-sale campaign	• Sales generated during pre-sale campaign
Artistic-related	**Books, Magazines, Newspapers, and other literary works** • Investment requirement to commercialise or otherwise exploit the copyright	• Investment costs directly attributable to the specific copyright
Contract-related	**Franchise and License Agreements** • Franchising and licensing terms (Pricing, Contract life, Renewals) • Service level agreements	• Number and different types of franchising and licensing agreements maintained by an entity • Degree of favourable terms in the franchising and licensing agreements
Technology-related	**Patented Technology** • Investment costs in R&D	• Ratio between total R&D and total project costs
Human Capital-related	**Trained and Assembled Workforce** • Average age of employees • Degree of employee satisfaction • Attraction, recruitment, and turnover	• Employee turnover, Management turnover, • Percentage of revenues invested in training and development of employees

Please refer to **Annexure 4** for more illustrations on the above.

The Management Pillar

This last Pillar provides guidance on how an enterprise may disclose how it identifies, assesses, and manages the risks and opportunities related to its various intangibles, and how these processes are integrated into its overall group risk management practices. Such disclosures will provide stakeholders with a better understanding of an enterprise's overall risk and opportunity profile.

1. **Disclosure of the processes for identifying and assessing intangibles-related risks and opportunities**

An enterprise should describe the processes it has in place for identifying and assessing the risk magnitude, risk scope and risk-impact duration of its intangibles, together with those for identifying and assessing the costs and benefits when pursuing intangibles-related opportunities.

Where applicable and material, the processes to analyse how the existing and emerging regulatory requirements may impact the value creation of their intangibles should be disclosed as well.

These disclosures will help stakeholders understand an enterprise's ability to recognise and monitor intangibles-related risks and opportunities arising from its business environment.

2. **Disclosure of the processes in managing intangibles-related risks and opportunities**

An enterprise should describe the processes it has in place for managing identified intangibles-related risks, including how it makes decisions to mitigate, transfer, accept, or control the risks related to its intangibles. The processes they have in place to prioritise intangibles-related risks, including how materiality are assessed should also be included.

The enterprise's evaluation on the effectiveness in its responses to managing intangibles-related risks should be elaborated. For example, a low occurrence of IP infringements could indicate a high-level of effectiveness in management intangibles-related risks.

Lastly, an enterprise should describe the processes it has in place for capturing intangibles-related opportunities, such as internal discussions on intangibles acquisitions and intangibles development plans.

These disclosures will help stakeholders evaluate an enterprise's prospects of keeping ahead of intangibles-related risks and opportunities to achieve its strategic goals.

3. **Disclosure of the integration between identifying, assessing, and managing intangibles-related risks and an enterprise's overall risk management strategy**

An enterprise should describe how the processes in place for identifying, assessing, and managing intangibles-related risks are integrated into its overall risk management strategy.

These disclosures will help stakeholders understand how an enterprise aligns and prioritises the management of its intangibles-related issues within its overall risk management strategy.

Annexure 1: Guiding Principles for the Disclosure of Intangibles[14]

This Framework provides an enterprise the freedom to choose their preferred reporting format when it comes to disclosing their intangibles to both internal and external stakeholders, and this is likely to lead to variations in layout and content. However, there are still guiding principles that should be adopted in order to improve communication of the value creation mechanism of intangibles in an enterprise.

The guiding principles presented in the section are interconnected and interdependent. Nevertheless, a consistent application of these principles will support a meaningful articulation of the value-creation potential of intangibles in an enterprise.

The guiding principles for existing corporate reporting frameworks are already very well established. Hence, instead of attempting to develop an entirely new set of different intangibles reporting principles, this Framework intends to identify only the most important principles when it comes to the disclosure of intangibles.

The principles of materiality, connectivity, conciseness, comparability and future orientation have been considered to be the most important from an intangibles reporting perspective; an interpretation of each principle is provided below.

Principle 1: Materiality

An enterprise should prioritise disclosing the details of intangibles that matters most in its ability to create value over time. Intangibles can be easily overlooked due to their non-physical nature. Therefore, an enterprise needs to carefully select and focus on reporting the intangibles that are deemed to be material and are key in their abilities to generate value.

Principle 2: Connectivity

Intangibles are factors that can influence an enterprise's financial and non-financial performance. Therefore, an enterprise should attempt to create a strong linkage between their overall strategy, business model, and financial performance when it comes to disclosing their intangibles. By providing a narrative and quantitative description of the interactions of intangibles with the rest of the enterprise, stakeholders will be able to make more informed assessments about the ability of an enterprise to sustainably create value over time.

Principle 3: Conciseness

Most of the intangibles that contribute to an enterprise's ability to create value over time are unique and nuanced. Thus, the disclosure of every intangible owned by an enterprise could potentially lead to lengthy reports. Therefore, it is preferable that an enterprise only reports the essential points in manner that is simple and understandable for the most effective communication with stakeholders.

Principle 4: Comparability

The disclosure of intangibles by an enterprise and how it enables them to create value should ideally be comparable with other enterprises. The reporting of metrics and drivers related to intangibles can be comparable if other entities also report on the same or similar metrics and drivers. In addition, disclosures of intangibles should be consistent over time to enable stakeholders to understand the developments in value-creation potential of an enterprise's intangibles.

Principle 5: Future Orientation

An enterprise should articulate how the selected information and figures on intangibles disclosed contribute to its ability to create value in the future. The key elements to be reported are the metrics and drivers that can allow stakeholders to predict the enterprise's capacity to create value in the future through the use of its intangibles.

[14] World Intellectual Capital Initiative (2016). *Intangibles Reporting Framework*. Available at: https://www.wici-global.com/wirf/WICI_Intangibles_Reporting_Framework_v1.0.pdf

Annexure 2: Porter's Generic Competitive Strategy Framework

An enterprise should refer to **Porter's generic competitive strategy framework** when evaluating **how the use of intangibles have helped them to build competitive advantages.**

According to Porter's generic competitive strategy

- **Low cost or differentiation** are two basic types of competitive advantage a firm can possess.
- Three generic strategies for achieving above-average performance in an industry: Cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

	Lower Cost	**Differentiation**
Broad Target	**Cost leadership** • In cost leadership, a firm sets out to become the low-cost producer in its industry. In return, it either helps the business (i) to generate a higher profit margin at a given price, or (ii) to gain an increase in market share. (For business to employ such a strategy, it must be able to achieve and maintain a lower cost structure than its competitors). • Sources of cost advantage could be economies of scale, proprietary technology, preferential access to raw materials	**Differentiation** • In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions buyers widely value. • Through this strategy, firms select one or more attributes that many buyers in an industry perceive as important and uniquely position themselves to meet those needs.
Narrow Target	**Cost Focus** • In cost focus, a firm seeks a cost advantage in its target segment. Target segments must either have buyers with unique needs, or the production and delivery system that best serves the target segment must differ from that of other industry segments.	**Differentiation Focus** • In differentiation focus, a firm seeks differentiation in its target segment.

Source: University of Cambridge (2022). "Porter's Generic Competitive Strategies (ways of competing)". Available at: https://www.ifm.eng.cam.ac.uk/research/dstools/porters-generic-competitive-strategies/

Annexure 3: VRIO Model

An enterprise should take reference from the **VRIO Model** when analysing their intangibles. In addition, the model helps to identify intangibles that have provided **sustainable competitive advantages** in their business activities.

- **Valuable:** Resources are valuable when they enable a firm **to conceive of or implement strategies** that **improve its efficiency and effectiveness**.

  An enterprise should discuss how intangibles have aided them in the formation and/or execution of strategies that enhanced business efficiency and effectiveness.

- **Rare:** If a firm's valuable resources **are unique among a set of competing and potentially competing firms**, those resources will generate at least a **competitive advantage** and may have the potential of generating a **sustained competitive advantage**.

  An enterprise should discuss the rarity of their intangibles in their respective industries. An area of discussion could be providing an understanding of whether other competing firms also hold the same intangibles.

- **Inimitable**: Valuable and rare organisational resources can only be sources of sustained competitive advantage **if firms that do not possess these resources cannot obtain them**. Imitation can occur in at least two ways**: duplication** and **substitution**.

  Duplication occurs when an imitating firm builds the same kinds of resources as the firm it is imitating. In addition, firms may be able to substitute some resources for others. If these substitute resources have the same strategic implications and are not more costly to develop, imitation through substitution will lead to competitive parity in the long run.

  An enterprise should discuss whether their intangibles are imitable through duplication or substitution. Areas of discussion could be (if) the history of the company – as firms evolve, they develop skills, abilities, and resources that are unique to them. As a result, intangibles could be developed using only company-specific information and resources (ii) the numerous small decisions – more often than not, a firm's competitive advantage seems to depend on multiples "small decisions" through which a firm's resources, such as intangibles and capabilities, are developed and exploited.

- **Organised**: A firm's competitive advantage potential depends on the value, rareness, and imitability of its resources and capabilities. However, to fully realise this potential, a firm should be organised to exploit its resources and capabilities.

  An enterprise should discuss how its formal reporting structure, management control systems etc. have helped them to exploit intangibles.

Source: J. Barney (1991). Firm Resources and Sustained Competitive Advantage. Available at: https://journals.sagepub.com/doi/10.1177/014920639101700108

Annexure 4: Recommended Disclosure of Value-Relevant Metrics

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Marketing-related	**Brand / Trademarks / Tradenames / Service Marks** • Customer satisfaction degree • Corporate reputation / External corporate image	• Independent customer satisfaction rankings such as J.D. Power, Brand Finance, etc. can be used • Customer satisfaction / Customer loyalty index • External corporate image index • Ranking in survey results
	• Brand strength (Brand image, reputation, loyalty)	• Calculate brand strength using a balanced scorecard with relevant attributes such as emotional connection, financial performance, and sustainability • Media coverage (both positive and negative) • Website, search engine and/or social media statistics (e.g., following, impressions, engagements)
	• Brand investment over time	• Sales and advertising costs • Number of customers • Units sold or customers serviced • Revenue from exploiting brands • Internal and external branding, sales and marketing costs (e.g., staff and external agencies)
	• Brand contribution to EBITDA (extra margin)	• Additional EBITDA attributable to brand
	• Market share per product/service line	• Percentage of sales invested in marketing and external communication
	• Inclusion in Socially Responsible Index (SRI) funds at the end of year or during the year	• Number of citations / inclusions • Member status in SRI-related categories
	• Lack of negative publicity	• Number of product recalls
	• Longevity	• Age since established (absolute age); Comparative age in relation to competing trademarks (relative age)

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Customer-related	**Customer List** • Turnover generated from existing customers called for pre-sale campaign	• Sales generated during the pre-sale campaign
	• Changes in customer unit price (on premium pricing capability) • Change in per-customer earnings • New customers-derived sale revenues • Revenues acquisition index (new customers) • Customer acquisition cost	• Year-on-year sales value divided by the number of pieces sold • Percentage of sales invested in marketing and external communication • Percentage of sales derived from new clients • Ratio between revenue contribution from key customer relationships and total revenues • Cost of servicing customers (including the relationships of capital expenditures and net working capital requirements to revenues from key customer relationships)
	• Excess earnings, such as level of credit confidence	• Average contracted interest rate in loans or straight bond issuances minus prime rate
	• Customer satisfaction per product/service line • Customer loyalty per product/service line • Penetration index vis-à-vis the most relevant customers	• Customer satisfaction / Customer loyalty index • External corporate image index
	• Historical customer retention and attrition patterns	• Monthly recurring revenues • Attrition/churn rate

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Artistic-related	**Books, magazines, newspapers, and other literary works:** • Copyright term	• Time left to maturity of copyright in years (e.g., remaining legal life of the copyright, expected economic life of the copyright)
	• Copyright rights in use and related arrangements	• Number of active copyright rights currently in use and related arrangements to distribute copies by selling, renting, leasing, or lending the copyright intangible assets
	• Historical customer retention and attrition patterns	• Recurring revenues from copyright rights • Attrition/churn rate
	• Association of the appropriate revenue and expense stream to the specific copyright	• Revenue/expense contribution of the specific copyright to total revenues/expenses
	• Investment requirement to commercialise or otherwise exploit the copyright	• Investment costs directly attributable to the specific copyright

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Contract-related	**Franchise Agreements:** • Franchising terms (pricing, contract life, renewals) • Service level agreements	• Number and different types of franchising agreement maintained by an entity • Degree of favourable terms in the franchising agreement
	• Franchisee's operating performance (turnover, systemwide sales, same-store sales, profits)	• Change in monthly turnover, number of transactions, systemwide sales, same-store sales growth rate and gross profit
	• Success of a visit / Evaluation • Client contact / Leads	• Site inspection evaluation results
	• Franchisee/customer lifetime value; Franchisee/customer acquisition cost	• Length of contracted term (and the associated remaining useful life) • History of renewals (and the premature termination of franchising agreements)
	• Marketing attribution	• Ratio of marketing expenses to sales • Relationship of marketing expenses to change in sales
	• Customer satisfaction	• Customer satisfaction survey results
	Other typical contracts and arrangements (e.g., supply contracts): • Contract terms (pricing, contract life, renewals)	• Number and different types of contracts maintained by an entity • Degree of favourable terms in the contract • Length of contracted term (and the associated remaining useful life) • History of renewals (and the premature termination of contracts • Presence of escalation rates and history of pricing renegotiations
	• Lack of claims against the entity	• Number of instances regarding breach of contract claims and related litigation
	• Level of supplier concentration or diversification	• Herfindahl-Hirschman Index (showing the degree of decentralisation of the share of major products in relation to total sales) • Number of main factories of suppliers of core products • Number of suppliers per product/service line

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Technology-related	**Patented technology:** • Investment costs in Research & Development • Revenues from products derived from last 5 years registered patents	• Ratio between total R&D costs and total project costs • Ratio between revenues from new products and total sales or ratio between net profit from new products and total net profit • Revenues from last 5 years from new products
	• Active patents on registered inventions	• Number of active patents • Number of products in the pipeline covered by patents • Intellectual property owned and its citation index
	• R&D intensity	• R&D costs, including outsourced R&D cost
	Unpatented technology / Technology platforms: • Number of technology platforms • Health of project pipeline	• Number of R&D projects near to application/operational implementation • Number of internal R&D-generated products • Percentage of sales revenues invested in product development/innovative activity • New product ratio (Sales of products or services within 3 years from the initial sales / total sales) • Number of proposed vs. implemented internal improvement proposals • Measures taken to maintain the secrecy of unpatented technology knowhow
	Degree of R&D concentration on products/service lines/families	• Ratio between sales revenues invested in R&D and number of patents in production • Number of innovative projects transferred to application development / Innovation Department workforce
	Software, Applications and Data processing intangibles: • Investment cost	• Amount invested in software/information systems
	• Age of the software and maintenance/enhancement practices	• Economic useful life / Remaining useful life
	• Obsolescence	• Cost of improvements to make replacement more efficient or effective, Maintenance cost
	• Reliability	• Reliability percentage, Number of outages

Categories of Intangibles	Examples of Intangibles and their KPI	KPI Formula
Human Capital-related	**Trained and assembled workforce:** • Average age of employees • Degree of employee satisfaction • Average level of management leadership • Degree of internal consistency with / penetration of management principles • Attraction, recruitment, and turnover	• Employee turnover; Management turnover; Job leaving ratio • Number of training hours per employee • Percentage of revenues invested in training • Percentage of positions filled through internal personnel growth
	• Internal corporate image with the employees	• Survey results
	• Human resource development expenditure per employee	• Workforce strength and desirability
	• Workforce strength and desirability • Parity of compensation and rewards (across gender, minority, etc.)	• Employees' level of education synthetic index • Percentage of women in management • Average seniority of company employees (total employees) • Substitution of key positions index • Value-added per employee
	• Composition and diversity	• Diversity ratios
	Trained and assembled workforce: (Cont.') • Engagement, health, and well-being	• Engagement index score • Rate of participation in wellness programs
	• Training, learning, and development	• Return on investment in talent, total training hours and spend
	• Organisational culture, including alignment with purpose, values, etc.	• Employee engagement scores
	Covenants not to compete / Noncompete agreements: • Terms of the covenant	• Length of noncompete period • Incremental revenue growth and market share, assuming the noncompetition agreement is in place