



**RECOGNITION OF INTANGIBLE ASSETS AND
SCALE OF ACQUISITION ACTIVITY
– a survey**

September 2016

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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1. Introduction

IAASA (Ireland's accounting enforcer) has performed a desk top survey on:

- the nature of intangible assets recognised by Irish equity issuers¹ in their statement of financial position (balance sheet); and
- the scale of acquisition activity undertaken by those issuers as recognised in their 2015 financial reports².

This publication presents the results of that desk top survey.

International financial reporting standards ('IFRS') define an intangible asset as identifiable non-monetary asset without physical substance, for example, computer software, licenses, etc.³ An intangible asset is identifiable if it is either separable, that is, it could be sold separately from the business, or it arises from contractual or other legal rights regardless of whether it is separable.⁴

IAASA's survey is based on the 2015/16 annual financial reports published by all 27 equity issuers falling within IAASA's financial reporting review remit together with Allied Irish Banks plc, a debt issuer (see Appendix).

In undertaking this desk top survey, additional information was not sought from the selected issuers.

2. Purposes of the survey

The primary purposes of the survey were to:

- (a) determine the range and amount of intangible assets that the sampled issuers' have recognised in their financial reports;
- (b) determine the scale of acquisition activity by issuers; and
- (c) provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on the nature of intangible assets recognised by issuers.

3. Intangible assets – range of Intangible assets recognised

IAASA's desk top survey identified eighteen different types of intangible assets recognised by issuers which amounted to €5.7bn (2014/15: €4.2bn). The survey also indicated that the total amortisation charge in the year against intangible assets amounted to €635m (2014/15: €528). Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life⁵. The highest value intangible assets are customer relationships, brands and computer software, which together comprise 87% of all intangible assets recognised by the issuers included in this survey.

Table 1 analyses the types of intangible assets recognised by issuers, together with the total value of each intangible asset recognised by issuers in their most recent annual financial reports. Tables 2, 3 and 4 show the value of customer relationships, brands and computer software intangible assets recognised by each issuer.

¹ The Appendix to this publication details the issuers and financial reports included in the sample

² A similar desk top survey was carried out in 2015 to assess the quantum of business acquisition activity for 2013 and 2014. The results of which were published in IAASA's 2015 *Observations* document. This 2015 *Observations* document can be accessed [here](#)

³ Paragraph 8 of IAS 38 *Intangible Assets*

⁴ IAS 38.12 refers

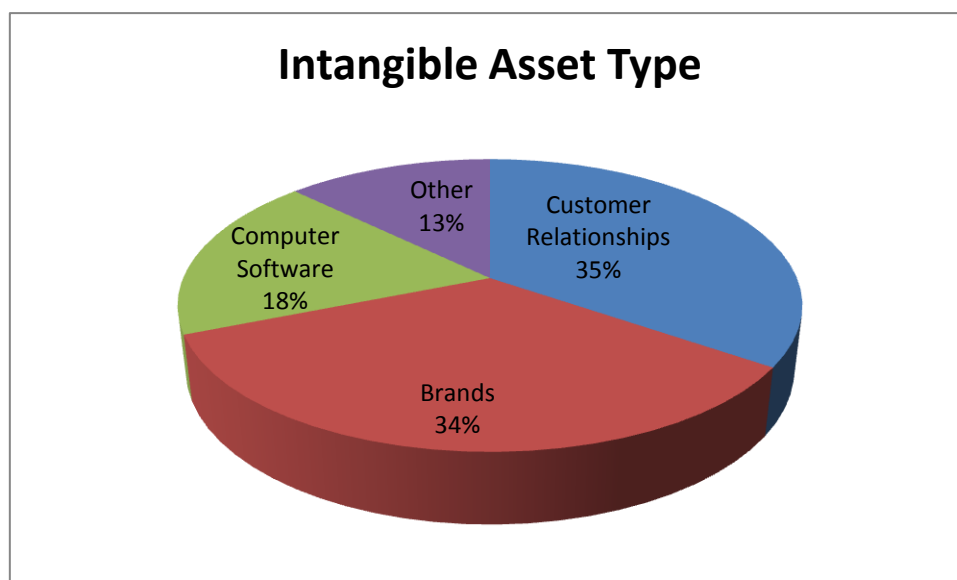
⁵ IAS 38.8 refers

Table 1 – Value of Intangible assets recognised by issuers

No.	Intangible assets	Recognised by number of issuers	Total
			€m
1	Customer relationships	10	1,966
2	Brands	6	1,952
3	Computer software	16	1,041
4	ERP related	1	178
5	Marketing related	2	110
6	Patents and brands	1	69
7	Contract based	2	59
8	Landing rights	1	47
9	Patents	1	44
10	Development costs	1	28
11	Licenses	1	26
12	Mastheads	1	20
13	Trade names	2	15
14	Product development	1	14
15	Core deposits	1	11
16	Purchased client books	1	2
17	Technology	1	1
18	Other	4	102
	Total		5,685

The substantial portion of recognised intangible assets comprises customer relationships, brands and computer software. Figure 1 below illustrates the overall percentage composition of the aforementioned intangible assets.

Figure 1 – Type of Intangible assets



Customer relationships

As noted in Table 1, ten issuers have recognised customer relationship intangible assets amounting to €1.966bn. In terms of value, customer relationship intangible assets are the highest value intangible asset recognised by issuers included in this survey. Table 2 lists the ten issuers who have recognised customer relationships intangible assets, together with the amount recognised in their financial reports:

Table 2 – Value of customer relationships intangible assets recognised by issuer

No.	Customer Relationships	Total
		€m ⁶
1	Aryzta AG	953
2	DCC plc	265
3	CRH plc	264
4	Glanbia plc	185
5	Smurfit Kappa Group plc	124
6	UDG Healthcare plc	78
7	Greencore Group plc	48
8	IFG Group plc	21
9	Grafton Group plc	20
10	Kingspan Group plc	8
	Total Customer Relationships	1,966

⁶ For issuers presenting their financial statements in Sterling i.e. Grafton Group plc, and IFG Group plc, amounts have been translated into euro at £0.73395:€1, DCC plc amounts have been translated into euro at £0.79155:€1 and Greencore Group plc amounts have been translated into euro at £0.73475:€1 c) and for issuers presenting their financial statements in US Dollars (Datalex plc), amounts have been translated into euro at US\$1.0887:€1

Brands

As noted in Table 1, six issuers have recognised brand intangible assets amounting to €1.952bn. Table 3 lists the six issuers who have recognised brand intangible assets, together with the amount recognised in their financial reports:

Table 3 – Value of brand intangible assets recognised by issuer

No.	Brands	Total
		€m ⁴
1	Kerry Group plc	1,039
2	Glanbia plc	337
3	C&C Group plc	233
4	Aryzta AG	172
5	DCC plc	160
6	Paddy Power Betfair plc	11
	Total Brands	1,952

Computer software

As noted in Table 1, sixteen issuers have recognised computer software intangible assets amounting to €1.041bn. Computer software intangible assets were recognised by the most number of issuers included in this sample. Table 4 lists the sixteen issuers who have recognised computer software intangible assets, together with the amount recognised in their financial reports:

Table 4 – Value of computer software intangible assets recognised by issuer

No.	Computer Software	Total
		€m ⁴
1	Bank of Ireland	431
2	Allied Irish Bank plc	289
3	Kerry Group plc	95
4	Paddy Power Betfair plc	45
5	Smurfit Kappa Group plc	37
6	Greencore Group plc	27
7	Permanent TSB Group Holdings plc	26
8	Glanbia plc	25.5
9	Grafton Group plc	21
10	Aryzta AG	15
11	UDG Healthcare plc	10
12	Independent News and Media plc	9
13	IFG Group plc	9
14	Irish Continental Group plc	0.9
15	Datalex plc	0.5
16	Cairn Homes plc	0.1
	Total Computer Software	1,041

4. Issuers that have no recognised intangible assets

The following issuers have no intangible assets recognised in their financial reports:

- (a) FBD Holdings plc;
- (b) Irish Residential Properties REIT plc;
- (c) Mainstay Medical International plc;
- (d) Kenmare Resources plc;
- (e) Aminex plc;
- (f) Green REIT plc; and
- (g) Hibernia REIT plc.

5. Scale of acquisition activity

As part of the desk top survey IAASA assessed the quantum of business acquisition activity by the selected issuers and noted that:

- (a) eleven issuers had acquisition activity during 2015 (2014: 14);
- (b) the total consideration paid by issuers for acquisitions amounted to €10.6bn (2014: €1.8bn). However, two substantial acquisitions by CRH plc during 2015 accounted for €7.6bn of the 2015 consideration paid;
- (c) following the acquisitions, issuers recognised goodwill amounting to €4.5bn (2014: €897m) equating to 43% (2014: 50%) of the total consideration paid;
- (d) €18.6bn (2013: €14bn) of cumulative goodwill was recognised in issuers' statements of financial position which equates to 66% (2014: 59%) of total equity; and
- (e) cumulative goodwill being carried on issuers' statements of financial position equated to 38% (2014: 38%) of total non-current assets.

6. Conclusions

Given that €5.7bn of intangible assets, together with €18.6bn of goodwill is recognised on the statements of financial position of 28 of the largest issuers in Ireland, IAASA will continue to focus and will engage with issuers on:

- (a) directors' judgements as to why certain intangible assets have not been recognised in a business combination;
- (b) directors' key assumptions used in determining the fair value measurement of intangible assets;
- (c) significant factors used to determine the useful lives of material intangible assets;
- (d) methods used to amortise intangible assets;
- (e) required disclosures for intangible assets with indefinite useful lives; and
- (f) acquisition related liabilities including debt like items and contingent consideration

IAASA's [2015 Observations](#) document reminded directors and Audit Committees to:

- (a) give careful consideration to the key judgements applied in the recognition and measurement of the fair value of intangible assets, together with the disclosures related to same; and
- (b) closely examine the basis upon which intangible assets acquired in a business combination are recognised and measured.

Issuers included in this survey

The issuers falling under IAASA's financial reporting examination remit which were selected for inclusion in this intangible asset and scale of acquisition activity survey are listed below.

No.	Issuer	Reporting date
1	Allied Irish Banks plc ⁷	31 December 2015
2	Aryzta AG	31 July 2015
3	Aminex plc	31 December 2015
4	Bank of Ireland	31 December 2015
5	C&C Group plc	29 February 2016
6	Cairn Homes plc	31 December 2015
7	CRH plc	31 December 2015
8	Datalex plc	31 December 2015
9	DCC plc	31 March 2016
10	FBD Holdings plc	31 December 2015
11	Glanbia plc	2 January 2016
12	Grafton Group plc	31 December 2015
13	Green REIT plc	30 June 2015
14	Greencore Group plc	25 September 2015
15	Hibernia REIT plc	31 March 2016
16	IFG Group plc	31 December 2015
17	Independent News and Media plc	31 December 2015
18	Irish Continental Group plc	31 December 2015
19	Irish Residential Properties REIT plc	31 December 2015
20	Kenmare Resources plc	31 December 2015
21	Kerry Group plc	31 December 2015
22	Kingspan Group plc	31 December 2015
23	Mainstay Medical International plc	31 December 2015
24	Paddy Power Betfair plc	31 December 2015
25	Permanent TSB Group Holdings plc	31 December 2015
26	Ryanair Holdings plc	31 March 2015
27	Smurfit Kappa Group plc	31 December 2015
28	UDG Healthcare plc	30 September 2015

⁷ Allied Irish Banks plc is a debt issuer