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Identifiable intangible asset disclosures, stock prices and future earnings

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Abstract

As a consequence of regulatory reforms currently being initiated as part of international convergence, it is likely that the recognition and disclosure of identifiable intangible assets by Australian firms will cease. This study provides empirical evidence on how this will impact financial reports. First, evidence is provided of a positive association between stock prices and voluntarily recognized and disclosed identifiable intangible assets. Second, evidence is provided of a positive association between identifiable intangible assets and realized future period income. This provides insights into the nature of the information provided by intangible assets, and identifies a basis for the association between stock prices and identifiable intangible assets. This leads to the conclusion that identifiable intangible assets disclosures are value relevant, and that with the application of the restrictive recognition rules in AASB138 these disclosures in financial reports will be greatly diminished.

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