ACCOUNTING FOR INTELLECTUAL PROPERTY IN BANKS IN ACCORDANCE WITH THE REQUIREMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Akhmetova Nasiba Akhmetovna
Student of Tashkent State University of Economics

Abstract: *One important but frequently disregarded component of financial reporting is how banks handle intellectual property (IP) in their accounting. Software, patents, and trademarks are examples of intellectual property that is becoming more and more important to financial organizations' value propositions. In accordance with the International Financial Reporting Standards (IFRS), this article examines how banks identify, quantify, and disclose their intellectual property assets. It looks at how important IFRS standards, such IAS 38 and IFRS 3, affect the way intangible assets, including intellectual property, are accounted for. The difficulties banks have valuing intellectual property, particularly when it comes to acquisitions or internal development, and the consequences for financial statements and performance indicators are also covered in the article. Through a detailed analysis, this paper highlights the importance of transparent and consistent reporting of intellectual property to provide stakeholders with accurate insights into a bank's financial health.*

Key words*: intellectual property, banks, IAS 38, intangible assets, bank financial statement, intangible asset measurement.*

Introduction:

Intangible assets differ from tangible assets, which have physical forms such as buildings or office furniture. For businesses, an intangible asset includes patents, goodwill, and intellectual property. Intangible assets are generally considered long-term and their value can increase over time. An intangible asset like a brand name can be critical to a company's long-term success. Businesses can create or acquire intangible assets. For example, a company may create a mailing list of clients or establish a patent. It can write off the expenses from the process, such as filing the patent application, hiring a lawyer, and paying other related costs.

The idea of intellectual security:

The process of turning intellectual property assets or the rights to future payments originating from IP into marketable securities is known as intellectual property securitization. Despite not having physical characteristics in the traditional sense, intellectual property is unquestionably an asset, and there are ways to obtain funding by using it as collateral. The process of turning an asset or a stream of cash flows into tradeable securities is known as asset securitization, and it has become a well-known phenomenon in the financial industry. However, its implementation in the field of intellectual property is still relatively new.

Valuation of intellectual property:

The process of figuring out the monetary value or worth of intellectual property assets is known as intellectual property valuation. It entails examining and evaluating the market value and economic potential of the intellectual property assets. It necessitates taking into account elements including the intellectual property's distinctiveness, legal protection, market demand, prospective income sources, competitive environment, and the capacity to uphold and profit from intellectual property rights.

When deciding whether or not securitization is practical, valuation is a crucial factor. The particular situation, the intellectual property asset's attributes, the state of the industry, and the valuation's goal all influence the method of valuation that is chosen. A variety of methods are frequently combined to provide a more thorough and precise evaluation of intellectual property value. There is generally accepted types of valuations: cost approach, market-based approach and income approach.

Literature review:

According to Saragih and Widiarty on their article about intellectual property rights, they stated that Since intellectual property rights are frequently used as collateral for bank loans, they are essential to a nation. However, not all forms of intellectual property can be utilized as guarantees for banks. Copyright is one kind of intellectual property right that can be pledged as security for bank loan; the creator's exclusive right, which develops naturally on the basis of declaratory principles following the concrete realization of work without lowering constraints in accordance with legal and regulatory provisions.

According to the viewpoint of Ali and Zelalem Abebe, the literature has extensively documented the relationship between financial performance and intangible assets. One of the key concepts in traditional accounting is cost reduction, which can raise a company's worth by strengthening its customers' equity leadership and directing attention toward strategies. They used ROA, a financial metric of the companies, to analyze the impact of intangible assets (R&D spending) on the financial performance of listed IT companies in Hong Kong. According to the study, sales training and R&D expenditure improve the financial performance of the companies. investigated the connection between Indonesian corporate performance during the 2006–2011 financial crisis and market value, dividend policy, solvency ratio, and intangible value.

Methodology:

The research is relational, descriptive, and empirical. The research philosophy is inductive, and the time reference is longitudinal (2017–2020). Data sources include published audited yearly reports and secondary sources. The study collects and analyzes data using a quantitative research methodology. All 17 Ethiopian commercial banks with four years of data make up the unit of analysis.

ROE and ROA are important components in banking for measuring corporate performance. Return on equity (ROE) helps investors gauge how their investments are generating income, while return on assets (ROA) helps investors measure how management is using its assets or resources to generate more income. Here is some formulas to calculate this indicators, which are related to intangible assets:

Model 1:

$$ROA = f\ (IA, AS, LR)$$

1

$$ROAi,t = \alpha + \beta 1IAi,t + \beta 2ASi,t + \beta 3LRi,t + \sum i,t$$

Where:

ROA = Return on asset, IA = Intangible assets, AS = Asset size, LR = Liquidity ratio, and ∑ = Error term

Model 2:

$$ROE = f\ (IA, AS, LR)$$

2

$$ROEi,t = \alpha + \beta 1IAi,t + \beta 2ASi,t + \beta 3LRi,t + \sum i,t$$

Where:

ROE = Return on equity, IA = Intangible assets, AS = Asset size, LR = Liquidity ratio and ∑ = Error term

Analysis:

Investing in IPR can come in many forms. It may be as simple as an investment into a holding company by licensing or transacting with an operative company wherein the beneficiary gets a right on increases to the IP valuation through earnings or royalty schemes. Figure 1 shows investment in intangible assets conducted by the United States Bureau of Economic Analysis (BEA). In 2012, the investment in intellectual property accounted for 655.7 billions. And continued to increase until it reached its peak in 2018, 938 billion US dollars.

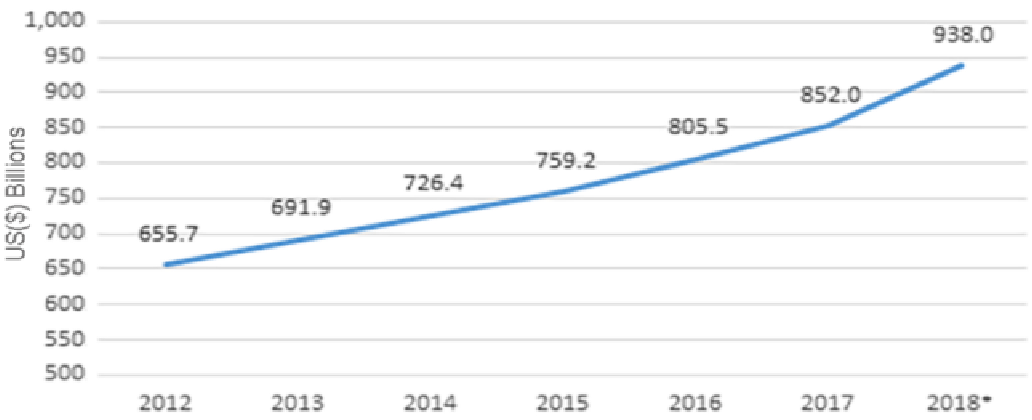

Figure 1:
Investment in Intellectual Property Products

Conclusion:

In conclusion, how banks handle intellectual property (IP) in their financial reporting under the International Financial Reporting Standards (IFRS) is crucial since it has a major impact on the long-term viability and financial health of financial institutions. To provide accurate and honest financial reporting, it is now essential to recognize, measure, and disclose intellectual property assets in accordance with standards like IFRS 3 and IAS 38. Even while valuing intellectual property can be difficult, especially when it comes to acquisitions and internal development, improvements in IP valuation techniques and the increasing significance of IP in protecting financial transactions have highlighted the necessity of sound accounting procedures. The article highlights the expanding significance of intellectual property in the banking industry, particularly its potential for securitization and its use as loan collateral. A transparent and uniform approach to IP accounting is crucial as banks continue to leverage and invest in intangible assets. Furthermore, since it has a direct influence on the decision-making process for risk management and investments, the significance of transparent reporting for stakeholders, regulators, and investors cannot be emphasized.

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