

OPINION

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The Importance of Promoting Non-Financial Disclosure of Intellectual Property for Corporate Value Enhancement

The importance of intangible assets, including intellectual property (IP), in corporate value has grown significantly due to technological advancements and the increasing sophistication of industrial structures. However, traditional financial information is limited in adequately reflecting the value of companies' intangible assets. This exacerbates information asymmetry, making it difficult for external investors to accurately assess firms' innovation capabilities or future growth potential, and could lead to the undervaluation of corporate value.

To mitigate these issues and enhance corporate value, this paper emphasizes the importance of promoting disclosure of IP-related non-financial information. Among various intangible assets, IP has unique advantages in terms of legal protection and identifiability, which make it particularly well-suited for strategic and credible disclosure. Accordingly, IP-related non-financial information could serve as an effective means of indirectly revealing the value of intangible assets.

While the current level of IP disclosure by listed companies in Korea is often criticized as limited and fragmented, major foreign countries have already established institutional frameworks to strengthen disclosure of intangible assets including IP. Promoting IP disclosure is expected to reduce undervaluation risks, lower capital costs, and improve access to growth capital—leading to a virtuous cycle. To enhance corporate value and the efficiency of capital markets, it is necessary to explore ways to promote IP disclosure that reflect Korea's institutional context.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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Importance of intangible assets and intellectual property

With advances in technology and the increasing sophistication of industrial structures, the importance of intangible assets,¹⁾ including intellectual property (IP),²⁾ has continually expanded, positioning them as key drivers of corporate value creation. From 2008 to 2023, global investment in intangible assets grew at a pace nearly three times faster than investment in tangible assets. This trend is not limited to major advanced economies but is widely observed across some emerging markets as well.³⁾ The significance of intangible assets is growing not only in technology-intensive industries but also in sectors that traditionally relied on physical capital,⁴⁾ and the average share of intangible assets among Korean firms has also steadily increased.⁵⁾ For S&P 500 companies in the US, the portion of market capitalization attributed to tangible assets like plants and equipment plummeted from 83% in 1975 to a mere 10% by 2020 (Figure 1). Korea has followed a similar trajectory: for KOSDAQ-listed firms, the tangible asset share fell from 62% in 2010 to 43% in 2020. These structural changes indicate the growing contribution of intangible assets—such as knowledge, technology, brand equity, and organizational capital—to corporate value.⁶⁾

1) In this paper, intangible assets refer to non-monetary assets that lack physical substance but are expected to generate economic benefits.

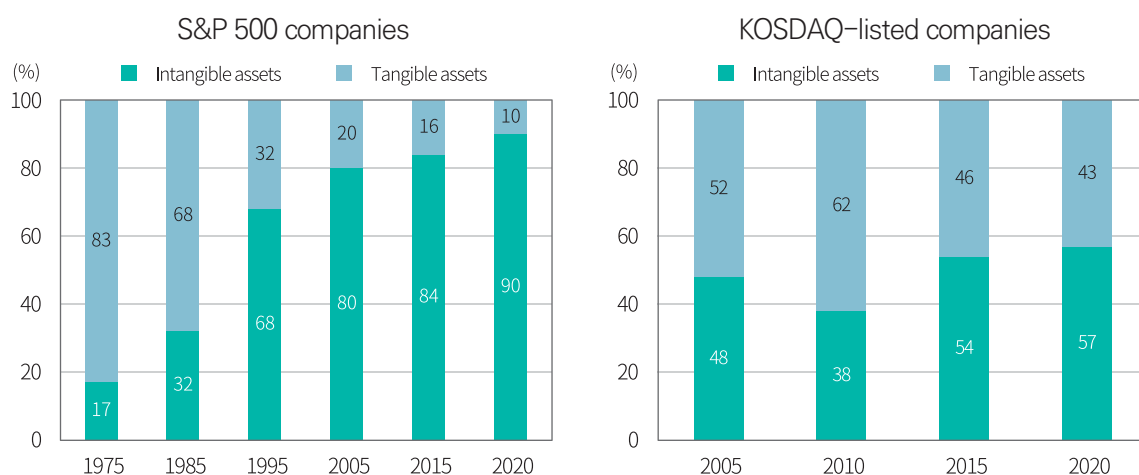
2) In this paper, intellectual property is defined as industrial property rights—primarily patents, trademarks, and designs—along with copyrights.

3) WIPO, June 25, 2024, World Intangible Investment Highlights.

4) Haskel, J., Westlake, S., 2017, *Capitalism without Capital: The Rise of the Intangible Economy*, Princeton University Press.

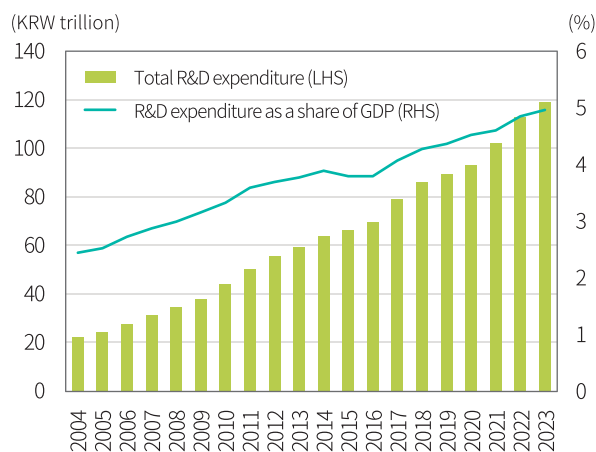
5) Park, Y.R., 2018, The rise of intangible assets and shifts in corporate financing demand, Korea Capital Market Institute Issue Papers 18-13.

6) Several studies, including Ocean Tomo (2020), interpret the residual portion of market capitalization not accounted for by tangible assets as the value of intangible assets. However, there are limitations to equating this entire residual value with intangible assets, as it also reflects a combination of other factors—such as market expectations regarding future growth.

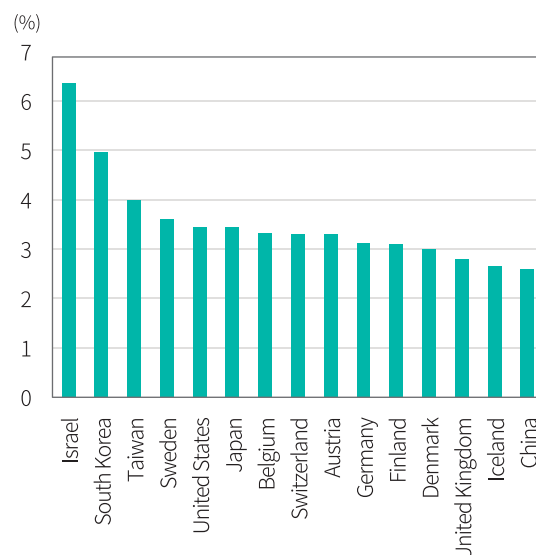
Figure 1. Share of asset value in market capitalization

Source: Ocean Tomo, 2020, Intangible Asset Market Value Study

As the importance of knowledge and technology grows, Korea's investment in research and development (R&D) has also expanded significantly. Over the past two decades, total R&D expenditure in Korea increased more than fivefold, from KRW 22.2 trillion in 2004 to KRW 119.1 trillion in 2023 (Figure 2). During the same period, the ratio of R&D expenditure to GDP rose from 2.4% to 5.0%, which, as of 2023, is the second highest among OECD countries (Figure 3). With the expansion of R&D—one of the key sources of IP creation—the foundation for IP generation has also strengthened. As a result, the number of industrial property rights applications has steadily increased. Domestic applicants' filings for industrial property rights have nearly doubled over the last 20 years (Figure 4), and the number of applications per capita ranks first globally (Table 1).

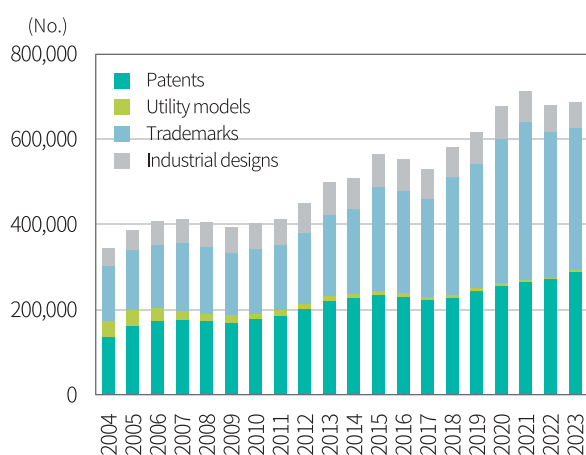
Figure 2. Trends in Korea's R&D expenditure

Source: Ministry of Science and ICT; Korea Institute of S&T Evaluation and Planning, Survey of Research and Development Activities (various years)

Figure 3. R&D expenditure as a share of GDP by country (as of 2023)

Note : For countries without available data for 2023, the most recent available year is used.

Source: OECD Main Science and Technology Indicators Database

Figure 4. Trends in industrial property right applications by Korean applicants

Source: WIPO IP Statistics Data Center

Table 1. Global ranking of industrial property right applications by Korean applicants (as of 2023)

	Patents	Trademarks	Designs
Number of applications	4th	11th	5th
Applications per capita	1st	1st	1st
Applications per GDP	1st	9th	2nd

Source: WIPO IP Statistics Data Center

The rise of intangible assets and the deepening of information asymmetry

As the proportion of intangible assets in corporate asset composition and value creation expands, the importance of related information for evaluating corporate value also grows. However, due to limitations in the accounting recognition of intangible assets, information asymmetry between firms and investors is likely to deepen. Under current accounting standards, expenditures on internally generated intangible assets are mostly expensed as incurred, except when they meet the capitalization criteria for development costs within R&D expenditures.⁷⁾ In other words, the capitalization of internally generated intangible assets is restricted by accounting rules, and thus the knowledge and technologies a company has accumulated are only partially reflected in its financial statements. Moreover, expenditures that contribute to future revenue generation are recognized as current expenses, resulting in a mismatch between revenues and expenses across different periods.⁸⁾ This accounting treatment is intended to preserve the reliability of financial information, given the challenges in identifying and valuing intangible assets, as well as the inherent uncertainty surrounding the future benefits intangibles may generate. Nevertheless, it may also create a disconnect between a firm's actual value-creation efforts and what is conveyed in its financial statements.

As a result, firms with a higher proportion of intangible assets are more likely to face deeper information asymmetry between themselves and external investors. As the share of intangible assets in the corporate sector increases, the value-relevance and investor usefulness of financial information may also deteriorate.⁹⁾ These informational constraints limit the market's ability to appropriately value intangible-intensive firms, potentially leading to negative outcomes such as undervaluation of such firms, higher external cost of capital, and distortion of resource allocation in capital markets.¹⁰⁾ Moreover, empirical research suggests that high information asymmetry in intangible-intensive firms is associated with greater stock price crash risk.¹¹⁾

7) Korean International Financial Reporting Standards (K-IFRS) No. 1038.

8) Lev, B., Zarowin, P., 1999, The boundaries of financial reporting and how to extend them, *Journal of Accounting Research* 37(2), 353-385.

9) Lev, B., 2018, The deteriorating usefulness of financial report information and how to reverse it, *Accounting and Business Research* 48(5), 465-493.

10) Zéghal, D., Maaloul, A., 2011, The accounting treatment of intangibles—A critical review of the literature, *Accounting Forum* 35(4), 262-274.

11) Wu, K., Lai, S., 2020, Intangible intensity and stock price crash risk, *Journal of Corporate Finance*, 64, 101682; Park, S.Y. & Ha, S.T., 2021, Intangible value intensity and stock price crash risk, *Korean Accounting Review* 46(5), 131-163.

Importance of non-financial information related to intellectual property

Although intangible assets have become a key driver of corporate value creation, traditional financial information has limitations in adequately reflecting their value. Disclosing non-financial information on intangible assets can be an effective way to supplement this. Prior studies have shown that non-financial disclosures related to intangible assets positively influence firm valuation. For instance, contextual information about R&D activities provided through narrative disclosures has been found to play a significant role in mitigating information asymmetry.¹²⁾ Similarly, empirical evidence suggests that narrative disclosures regarding intangible assets in annual reports can convey value-relevant information about the successful creation of such assets.¹³⁾ Furthermore, non-financial indicators related to industry-specific operational characteristics have been shown to complement financial data and significantly influence firm valuation, particularly in technology-intensive sectors.¹⁴⁾ These studies suggest that non-financial information—especially narrative disclosures—plays a critical role in helping investors understand firms’ future growth potential and make more informed decisions.

IP holds particular importance of disclosure among intangible assets due to its distinctive characteristics. While other types of intangibles—such as know-how, organizational capital, and human capital—also contribute significantly to corporate value, they often lack objective identifiability, legal ownership, and clear control. As a result, disclosures related to these assets may raise concerns about objectivity and reliability. By contrast, intellectual property rights—such as patents, trademarks, and designs—are legally protected and clearly identifiable, enhancing their objectivity as corporate assets. These characteristics may make non-financial disclosures on IP more credible and allow for greater comparability across firms. Consequently, narrative disclosures and other non-financial information related to core IP assets could serve as a highly effective means of conveying a firm’s innovation capabilities and future growth potential to external investors.

12) Merkley, K. J., 2014, Narrative disclosure and earnings performance: Evidence from R&D disclosures, *The Accounting Review* 89(2), 725-757.

13) David, A., Hosseini, A., Srivastava, A., 2024, Is intangibles talk informative about future returns? Evidence from 10-K filings, working paper.

14) Amir, E., Lev, B., 1996, Value-relevance of nonfinancial information: The wireless communications industry, *Journal of Accounting and Economics* 22(1-3), 3-30.

Current state and limitations of intellectual property disclosure by listed companies in Korea

There have been concerns that the level of IP disclosure among listed companies in Korea remains limited.¹⁵⁾ Critics argue that many companies only provide fragmented and superficial information, such as the number of IP rights held or an overview of R&D organization, falling short of offering meaningful information that external investors would need to properly assess corporate value.

According to the current Guidelines for the Preparation of Corporate Disclosure Forms (effective as of June 30, 2025), companies are required to include the following in the "Business Overview" section of their annual business reports: major business contracts such as technology partnerships and licensing agreements (Article 4-2-10); an overview of R&D activities, including organizational structure, expenditures, and outcomes (Article 4-2-11); and information on key IP rights held by the company (Article 4-2-12). However, in practice, many companies either omit such disclosures entirely or provide only a superficial list without substantive explanation.

Furthermore, the current guidelines require companies to report both major business contracts and R&D activities under a single subsection titled "Major Contracts and R&D Activities" within the Business Overview section, while information on key IP holdings is separately listed under the "Other Reference Matters" subsection. The category of major business contracts includes not only technology-related agreements but also non-technical contracts such as share transfer agreements and lease agreements. As a result, information related to R&D and IP tends to be dispersed across multiple sections of the annual report or presented alongside unrelated information, thereby undermining the contextual clarity and consistency of the information. To address this issue, it is necessary to restructure the disclosure categories so that information on R&D activities, core technologies, and IP can be presented cohesively within a single section. Such reform would enhance the communicative value of IP-related information and help investors better understand firms' innovation capabilities.

15) The Financial News, June 24, 2025, Corporate IP is a key investment indicator – Korea needs a disclosure regime like Japan's (기업의 IP는 핵심 투자지표... 이처럼 공시제 도입해야); The Electronic Times, April 30, 2025, Korean Association for IP Services proposes introduction of a Korea-style corporate IP disclosure framework (IP서비스협회, 한국형 기업 IP 공시 제도 도입 건의 추진)

Current status of intellectual property and intangible asset disclosure regimes in other countries

In recent years, major economies—including the United States, Japan, and Singapore—have recognized the growing economic importance of IP and other intangible assets, and have strengthened institutional frameworks to promote more systematic and transparent corporate disclosure of related information.

In 2020, the U.S. Securities and Exchange Commission (SEC) amended Regulation S-K to require the disclosure of material cash requirements under the Management’s Discussion and Analysis (MD&A) section. The purpose of this revision was to expand the scope of disclosure to include not only expenditures related to physical capital but also those concerning intangible assets—such as human capital and IP—reflecting their growing importance. The SEC emphasized that enhanced disclosure of such information is expected to reduce information asymmetry between companies and investors, lower firms’ cost of capital, improve market liquidity, and enhance access to capital markets—ultimately benefiting both firms and investors.

In Japan, the Corporate Governance Code was revised in June 2021 to require listed companies to disclose information on investments in human capital and IP in connection with their corporate strategy. The revised Code also specifies that boards of directors should effectively oversee such investments to ensure that they contribute to the company’s sustainable growth. Subsequently, in January 2022, the Japanese government issued the Guidelines on Disclosure and Governance of Investment and Utilization Strategies for Intellectual Property and Intangible Assets to promote voluntary disclosure of intangible asset information by companies.¹⁶⁾ These guidelines were revised in March 2023 to reflect practical challenges and lessons identified during the initial phase of implementation.¹⁷⁾

In Singapore, as part of the Singapore IP Strategy 2030, the government developed the Intangibles Disclosure Framework, which was released in September 2023. This framework outlines classification categories for intangible assets and proposes principles for their disclosure based on their alignment with corporate strategy and value creation processes.¹⁸⁾

16) https://www.kantei.go.jp/jp/singi/titeki2/tyousakai/tousi_kentokai/governance_guideline_v1.html

17) https://www.kantei.go.jp/jp/singi/titeki2/tyousakai/tousi_kentokai/governance_guideline_v2.html

18) IPOS, 2023, *Intangibles Disclosure Framework*.

Conclusion and policy implications

Despite the growing importance of intangible assets, including IP, in corporate value creation, traditional financial information has limitations in adequately capturing and conveying their value. This shortcoming exacerbates information asymmetry between companies and investors, potentially resulting in negative outcomes such as the undervaluation of firms, higher external costs of capital, and inefficient allocation of resources. To mitigate these issues and enhance corporate value, improving non-financial disclosure of IP would offer a promising solution. Given its legal enforceability and identifiability, IP is more likely to be disclosed in a reliable manner compared to other types of intangible assets, making it a highly promising asset for strategic disclosure purposes.

Major advanced economies such as the United States, Japan, and Singapore have already recognized IP and other intangible assets as core drivers of corporate value, and have taken steps to strengthen institutional frameworks for their systematic and transparent disclosure. While their specific approaches differ, there is a clear consensus on the importance of intangible assets and information surrounding them.

Korea ranks among the global leaders in terms of R&D intensity and industrial property rights applications. Nevertheless, concerns have been raised that the level of IP disclosure by listed companies remains limited. It has been pointed out that many firms provide only fragmented and superficial information, falling short of what is necessary for investors to make informed assessments of firm value. In addition, R&D and IP-related information is dispersed across various sections of the annual report, resulting in a lack of contextual clarity and consistency.

If companies were to provide more structured and meaningful disclosures on their core IP and its linkage to value creation, this could help reduce information asymmetry. With improved transparency, investors would be better equipped to assess a firm's innovation capabilities and future growth potential. This, in turn, is expected to lead to more accurate valuation, reduce the risk of undervaluation, and lower the cost of capital—ultimately enabling innovative firms to access growth financing and creating a virtuous cycle. To enhance corporate value and promote the sustainable development of capital markets in Korea, it is essential to seriously consider how to promote IP disclosure that reflect Korea's institutional context.