

CAPITAL EFFICIENCY THROUGH DATA

ACCOUNTING TREATMENT UNDER THE DATA ASSET FOUNDATIONS FRAMEWORK

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EXECUTIVE SUMMARY

Banks generate and manage enormous volumes of valuable data, yet current accounting rules prevent most of this value from appearing on the balance sheet. Under IAS 38, internally developed data is treated purely as a cost, limiting capital efficiency and masking the true economic potential of these assets.

The Data Asset Foundations framework could offer a structural way to change this. By placing data into a legally defined, independently governed entity, the Data Asset Foundation could create the conditions for data to be recognised, valued, and used productively—without altering existing accounting standards.

This concept paper outlines how Data Asset Foundations could support compliant asset recognition, enable defensible valuation, and open pathways for new forms of financing and capital optimisation. It sets out the accounting logic, the operational mechanics, and the potential impact on a bank's balance sheet and capital position.

THE ACCOUNTING PROBLEM

Under International Accounting Standards (specifically IAS 38 Intangible Assets), banks currently face a significant barrier to recognising data on the balance sheet.

THE RULE

Internally generated intangible assets (like proprietary datasets) are generally prohibited from being capitalised. They are expensed as incurred because they fail to meet three strict criteria: identifiability, control and reliable measurement.

THE RESULT

Banks sit on hidden assets. Data development costs hit the P&L (reducing profit), while the resulting asset value is invisible on the Balance Sheet (reducing capital ratios).

THE DATA ASSET FOUNDATIONS SOLUTION: CONVERTING 'DATA' TO 'PROPERTY'

The Data Asset Foundations framework could transform data from an internally generated expense into a recognisable asset. Potential scenario:

SATISFYING 'IDENTIFIABILITY' (SEPARABILITY)

Current State: Data is often entangled with legacy IT systems and processes, making it inseparable.

DAF Unlock: The Foundations (Amendment) Bill 2025 enables a formal Data Asset Register. When data is registered, it receives a unique ID and clearly defined boundaries (metadata, lineage and other attributes).

Legal Weight: Registration vests a personal property right in the Data Asset Foundation. This statutory definition makes the data legally separable from the bank. It creates a distinct vehicle that can be sold, transferred, licensed, rented or exchanged (the IAS 38 definition of separable).

SATISFYING 'CONTROL'

Current State: Control is vague when data can be copied infinitely (non-rivalrous).

DAF Unlock: The DAF structure creates a legal container to create a unique, rivalrous asset. The Data Asset Dedication Instrument formally transfers rights to the Foundation. The Data Enforcer and Council provide the legal mechanism to restrict access. The data is no longer "free-floating" but is locked inside a statutory structure that has the legal standing to sue for infringement. This demonstrates the power to obtain economic benefits and restrict access, satisfying the control test.

SATISFYING 'RELIABLE MEASUREMENT' (VALUATION)

Current State: Valuations are mark-to-model, which auditors reject for capitalisation.

DAF Unlock: Because the DAF isolates the specific costs of managing the data (accreditation report fees, stewardship costs), it allows for the reliable attribution of costs to the asset, creating a defensible cost basis for initial capitalisation.

SUMMARY OF POTENTIAL ACCOUNTING IMPACT

The DAF framework has the potential to reframe data from a cost that erodes profit into an asset that strengthens a bank's balance sheet. By meeting the core tests of IAS 38, data could transition from an expensed item to a capitalised, auditable asset with a clear cost basis.

The table below summarises how this shift could change recognition, valuation, and financial presentation compared to traditional accounting treatment.

Concept	Traditional Approach	DAF Approach (IAS 38 Aligned)
Asset Recognition	Expense. Costs are sunk; value is invisible.	Capitalisation. Data is a financial investment (in the DAF) or a separable intangible with a reliable cost basis.
P&L Impact	High Volatility. All dev costs hit P&L immediately.	Smoothed. Costs are capitalised and amortised over the asset's useful life.
Balance Sheet	Under-leveraged. Book value is far below Market value.	Optimised. Hidden value is brought on-book, improving price-to-book ratios.
Audit Defence	Weak. Management estimates are easily challenged.	Strong. Statutory Register, Accredited Assurance and Data Enforcer oversight provides verification, transparency and confidence.

BUILDING THE BALANCE SHEET: POTENTIAL SCENARIO

How the data asset could potentially look on the DAF's balance sheet versus the current bank's P&L:

Action	Traditional Treatment (No DAF)	DAF Treatment (IAS 38 Cost Model)
1. Ingest Data	Expense: IT storage cost buried in infrastructure.	Capitalise: Invoice from cloud provider to DAF for data storage.
2. Clean Data	Expense: Data Scientist salaries (payroll).	Capitalise: Invoice from Bank to DAF for "Data Preparation Services".
3. Verify Data	Expense: Internal assurance (overhead).	Capitalise: Invoice from External Accredited Assurance Provider for Data Asset Accreditation Report.
4. Register Asset	N/A: No asset exists to register.	Capitalise: Registration Fee paid to Data Asset Registrar.
End State	P&L: £1m Costs (Lost) Balance Sheet: £0 Asset	P&L: £0 (Costs capitalised) Balance Sheet: £1m Intangible Asset

The accounting reality – cost vs future value:

Scenario	Balance Sheet Impact (The Asset)	P&L Impact (The Income)
Day 1: Creation	£1m Asset (Cost Basis). We capitalised the setup, cleaning and assurance bills.	£0 Income. (Cash has left the bank to pay for the asset creation).
Day 2: Licensing Deal	£1m Asset	Revenue Recognition. As you deliver the data feed, you book revenue (e.g. £200k/year).
Year 5: Mature Asset	£0.5m Asset (Amortised).	Accumulated Profit. The £1m cumulative income now sits in Equity (Retained Earnings).

This could move data from a "speculative hope" to a "verified asset", potentially satisfying the rigid requirements of modern accounting standards.

THE CAPITAL EFFICIENCY STRATEGY

Since IAS 38 makes it difficult for a bank to simply write up the value of data on its own balance sheet – the DAF could enable a structural capitalisation strategy. Instead of capitalising the data directly, the Bank could create a Data Asset Foundation (a separate legal entity) and invest in it. Potential scenario:

STEP 1: THE TRANSFER (CRYSTALLISING VALUE)

The Bank dedicates (transfers) the data rights to the Data Asset Foundation.

Accounting View: If structured correctly, this can be treated as an investment in a subsidiary/associate or a financial asset (rights to the Data Asset Foundation's output).

Benefit: Financial assets (investments) are recognised on the balance sheet, whereas raw data is not.

STEP 2: DEBT ISSUANCE

The debt issuance is backed by the contractual cash flows generated by the data, rather than a theoretical valuation of the data itself.

The Asset (The Data): The DAF holds the data with a book value of £1m.

The Catalyst (The Licence): The DAF signs a binding licensing agreement (e.g., £10m total contract value).

The Valuation (DCF): A third-party firm (e.g., Big 4) values the contract's future cash flows – for example, an NPV of ~£8.5m.

The Debt Issuance: The DAF issues a bond backed by these receivables.

Issuance: £7m bond (over-collateralised against the £8.5m NPV).

Proceeds: £7m flows to the Bank as Founder/Service Provider.

This approach could separate the accounting view of the data from the financial value of the contract, which is a common feature in structured finance.

Capital Efficiency – Potential Impact: the Bank has effectively raised £7m in cash against an asset that cost £1m to build. The "gap" (£6m) represents the Economic Value Added (EVA) of the data, which has been unlocked without selling the IP.

STEP 3: RISK-WEIGHTED ASSET MITIGATION

By holding a secured position against the DAF (if the bank lends to it) or holding the investment note:

Collateral Recognition: if the Bank lends to a corporate borrower who pledges a DAF-registered asset as collateral, the Bank may be able to apply a lower Loss Given Default metric because the collateral is verifiable, separable and liquid (it can be sold/licensed if the borrower defaults).

Potential Result: Lower RWA = Higher Capital Ratios = More capacity to lend.

THE ISLE OF MAN

A self-governing nation in the heart of the British Isles, the Isle of Man is renowned for its political stability, forward-looking regulation, and collaborative business environment. As home to one of the world's most agile digital economies, it is the ideal jurisdiction to pioneer the future of data.

DIGITAL ISLE OF MAN

Digital Isle of Man is an Executive Agency within the Isle of Man Government, driving the Island's digital future by creating the environment for business success, shaping policy, and leading innovation. It empowers businesses to grow and lead globally, positioning the Isle of Man as a hub for digital excellence.

EDM ASSOCIATION

To deliver the Data Asset Foundations initiative, Digital Isle of Man has partnered with the EDM Association – the world's leading global association for data management, standards and analytics. With more than 700 member organisations spanning financial services, technology, government, and numerous industries, the EDM Association sets the global standards for data best practices, governance, and value realisation.



JOIN THE FUTURE OF THE DATA ECONOMY

This is your opportunity to shape global standards, pioneer new business models, and unlock the full commercial power of your data.



www.digitalisleofman.com/data-asset-foundations



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IMPORTANT DISCLAIMER

The strategies, structures, commercial models and functionality outlined in this document are hypothetical and illustrative and are intended to support discussion of potential Data Asset Foundation use cases in the context of the proposed Foundations (Amendment) Bill 2025 and associated programme in the Isle of Man. These measures are proposed only and remain subject to parliamentary approval, amendment and Royal Assent. Any operational mechanisms – including Data Governance Frameworks, controls, standards, assurance processes and any functional specifications for a Data Asset Register – remain in draft/development and may change materially as legislation, regulations, procurement and system design are finalised.

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