



One Accounting Professor's Perspective on MASB's Objectives

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Disclaimers

FASRI is funded by the Financial Accounting Foundation, and is overseen by Staff and Board members of the FASB

I receive a stipend for my efforts as Director of FASRI

However, none of my remarks today reflect official positions of the Financial Accounting Standards Board.

Official positions of the FASB are reached only after extensive due process and deliberation.

Many of my professional and academic colleagues are likely to disagree with me on many points.



Points of Departure

Vision Statement

- Laying the measurement foundations for marketing professionals to realize full accountability and strategic status in the Boardroom as reliable forecasters and achievers of consistent growth in customer revenues, earnings and cash flows quarter-to-quarter and year-to-year.

Mission Statement

- Establish marketing measurement and accountability standards across industry and domain for continuous improvement in financial performance and for the guidance and education of business decision makers and users of performance and financial information.



Points of Departure

GC I: FASB/MASB Partnership for Aligning GAAP and MMAP

- Become FASB's partner for changing the accounting & reporting rules related to marketing expenditures such that financial returns from corporations will be driven and measured by buyer behavior in markets over time




My Responses

The MASB draws a reasonable causal relationship between accountability, accounting and the influence and status of marketing

MASB can best achieve its goals by framing questions in terms familiar to standard setters

Academic researchers can advance MASB's goals by building and testing frameworks that can address key concerns

MASB faces daunting political hurdles in changing longstanding attitudes and policies governing accounting for marketing expenditures




Mission of the Financial Accounting Standards Research Initiative

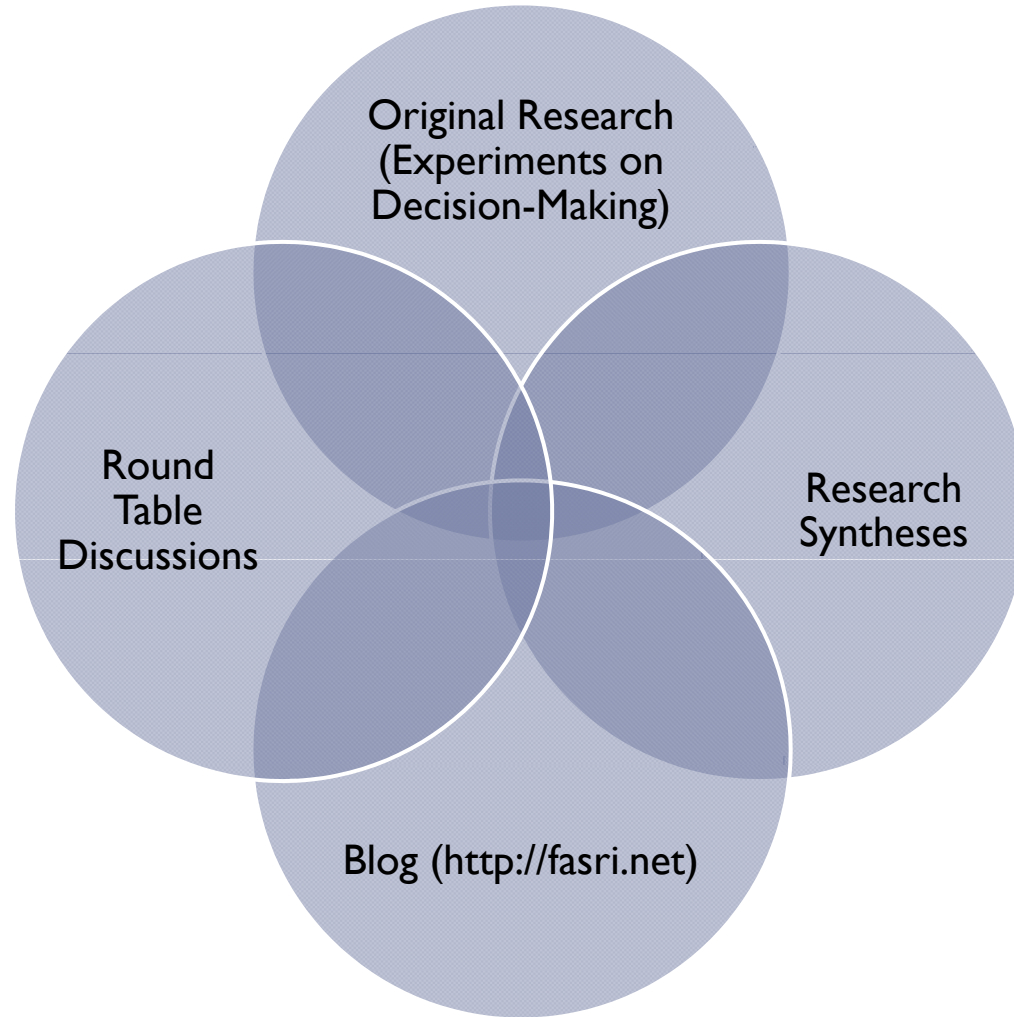
To help FASB achieve its standard-setting mission by

- Raising awareness of standard setting issues that may be of interest to the research community;
- Working with researchers to facilitate the design and completion of research that can inform Board deliberations; and
- Facilitating communication between researchers and the FASB Board and Staff

As a byproduct of pursuing our mission, FASRI indirectly supports the educational mission of the FASB.



Key FASRI Activities



General Observations On Capitalization and Disclosure

Purpose of Financial Statements

OB2 from SFAC 8.

- **The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit.**



Possible Financial Reporting Outcomes

Filing Disclosure: The information is disclosed in an SEC filing

Footnote Disclosure: The information is disclosed in footnotes to financial statements (or as a parenthetical on the face)

Recognition: The information is included as an element of a financial statement

High-Value Presentation: Recognized information is presented on the balance sheet or as an element of net income



Conditions for Capitalization

There is an identifiable transaction

The transaction results in an identifiable asset or liability (benefits or claims beyond the current period)

The asset or liability can be measured at the time of recognition and remeasured in subsequent periods




Conditions for Disclosure

The disclosure would materially alter users' assessment of firm value or managerial stewardship

- Non-financial performance indicators
- Risks and uncertainties
- Competitive position
- Business strategy

The disclosure would clarify information recognized on financial statements?

- Key assumptions underlying recognition
 - Uncertainties in measurement (sensitivity analysis)
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Issues on Which to Establish Consensus

Existing and Timing of Benefits

Does a marketing expenditure result in benefit to the firm beyond the current period?

How long is the benefit period? Is it definite or indefinite?

How will the benefit change simply with the passage of time?

What events (other than the passage of time) will alter the benefit?

How should changes to the carrying value be reflected on the income statement? Revenue, expense, gain loss?



Methods of Measurement

How should one measure (and remeasure) the value of marketing expenditures?

- Theoretical framework
- Key inputs
- Sensitivity analyses
- Methods of comparison over time and across entities
- Methods of measurement
- Ex post measures of successful measurement



Employee Stock Options: A cautionary tale

Theoretical framework for valuation was established in the 1970s

Users urged expensing long before FASB mandated such treatment

Preparers opposed expensing by

- Disputing theoretical framework
 - Raising doubts about measurement
 - Predicting dire economic consequences
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Stakeholder Perspectives on Capitalizing Marketing Expenditures

Preparers

- Increased income for firms with growing marketing expenditures
- Increased ability to manage earnings

Users

- Increased concerns about earnings management and comparability

Auditors

- Increased exposure to litigation risk
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Questions & Answers

