MASB
Standards Project

Improving Financial Reporting (IFR)
Project Review and Status

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August 2012
Chicago

MASB **Marketing Accountability Standards Board**
of the Marketing Accountability Foundation

Objectives of IFR Project

Partner with the Financial Reporting and Investment communities for improving the accounting and/or reporting rules related to marketing such that financial returns from corporations will be driven and measured by buyer behavior in markets over time.

Ensure marketing is at the table when reporting of Brand Value is required for internally developed brands.

Expected Results

Partnering to improve financial reporting will

- **Require firms to apply marketing measurement & accountability standards consistently & comprehensively**
- **Achieve discipline & rigor in investment decisions & budgeting**
- **Position marketing as masters of their own territory & destiny**
- **Avoid external intervention (e.g. from government)**
- **Create value for all, including**
  - **Better/more transparent reporting**
  - **Increase in Marketing ROI**
  - **Predictable & consistent organic growth**
  - **Improvement in corporate profitability**
  - **More/better offerings at less cost to meet needs of society**

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IFR Team Action Plan (August 2012)

I. Frame-Up Project, open debate /approval by MASB Directors (April –May 2010)*
II. Form Exploratory Team (June - August)
III. Lesson from FASB as to how the rules are changed (August)
IV. Review ISO 10668 (Scholz) & POV FASRI Director (Bloomfield) (Feb 2011)
V. Review What is Known & Address Feedback so far (Feb – April)
VI. POV from CFAi speaker (Pirie) at Summer Summit (Aug)
VII. Rename/Reposition Project/Revise EI (Oct)
VIII. Submit Comments to IASB for 2011 agenda (Nov)
IX. Line up speakers for Feb/Winter Summit (Nov – Jan)
X. MD&A "notes" drafted, reviewed, revised & approved by MASB (Feb – June 2012)
XI. Broader feedback on "MD&A notes" @ Summer Summit (August)
XII. Further engagement w/Financial & Investment Communities
→ **CFOs (CFO Magazine Paper) (July-Sept)**
TBD
XIII. Approach Appropriate Partner(s) based on Feedback & Relationships (TBD)
XIV. Partnership Agreement (s) & 1st Project Designated* (TBD)
XV. Revisit ANSI/ISO Option (TBD)
XVI. Reporting rules changed (2014)

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* Explicitly approved by majority of MASB Directors & Chair

Submission Highlights

- Current Accounting Treatment
- Criteria for Capitalizing Expenditures
- Accounting Treatment for Acquired Intangibles
- Fair Value Accounting
- Some Significant Hurdles
- Weakness of Not Using Fair Value Accounting for Marketing Assets
- The Prospects for Fair Value Accounting for Marketing Assets
- On the Other Hand
- MASB Proposal
- SEC MD&A Objectives
- Example of Disclosure for Product Brand Values
- Example of Disclosure for Corporate Brand Values
- Benefits of the Approach
- Additional Benefits
- Conclusion

Current Accounting Treatment

- Under Financial Accounting Standards Board (FASB) or International Accounting Standards Board (IASB) rules, the costs of marketing intangibles are usually expensed as incurred
- Thus, the cost of internally developed intangibles are not usually reported on the balance sheet

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Criteria for Capitalizing Expenditures

- Assets are only if probable future economic benefits are anticipated
- Marketing assets are expensed (along with many other intangibles) because it is assumed that the benefit period is presumed short or the amount of economic benefit cannot be determined

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Accounting Treatment for Acquired Intangibles

- Recording assets at fair value under GAAP or IAS is generally limited to intangible assets acquired in a business combination or otherwise purchased
- Purchased intangibles are recorded at historical cost (market at the time of purchase) and are adjusted down by amortization or impairment and never written up to market

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Fair Value Accounting

- Assets are written up or down depending on market-based measurement (not entity specific)
- Valuation methods are market approach, income approach and/or a cost approach
- The other side of the adjustment is to an income or loss account either in the income statement or Other Comprehensive Income, an equity account

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Some Significant Hurdles

- The Public Companies Oversight Board (PCAOB) examined 250 audits for 2010 performed by Big Four accounting firms
- 234 audit deficiencies were found of which 92 related to fair-value estimates and 31 related to asset impairments
- Problems for the auditors with management forecasts and assumptions and methodologies that went in to modeling used by corporate pricing services

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Weakness of Not Using Fair Value Accounting for Marketing Assets

- Balance sheet does not adequately reflect the fair value of marketing assets or in most cases even their existence
- Treatment falls short of providing information for evaluation of marketing effectiveness, investment and portfolio optimization, asset management and benchmarking

The Prospects for Fair Value Accounting for Marketing Assets

- Recording marketing assets on the balance sheet seems years in the future
- Developing a model for recording internally developed marketing assets that measures fair value is critical to its acceptance by FASB and IAS
- Brand Investment Valuation Model (BIV) Project is a great start

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On the Other Hand

- **MASB accepts that fair value reporting of marketing assets on the balance sheet is likely years in the future**
- **Nonetheless, there is a strong need for a consistent dashboard measure for management and investors who need to know if a firm is creating value through investments in advertising and other marketing activities**

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MASB Proposal

- MASB is proposing that disclosure be made in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of the firm's annual report
- The MD&A disclosure seems to be a solid first step in encouraging development of marketing expenditures and results as seen through the eyes of management

SEC MD&A Objectives

1. Provide a narrative explanation of a company's financial statements that enables investors to see the company through the eyes of management
2. Enhance the overall financial disclosure and provide the context within which financial information should be analyzed
3. Provide information about the quality of, and potential variability of, a company's earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance

Example of Disclosure for Product Brand Values

- "As of June 30, 2012, the senior management of Gadget Corporation values the Widget Brand at $2.9B, up 7% from a year ago, and 20% over the past 3 years. We estimate this value using the methodology provided by ValuePack LLC, a MASB Qualified Brand Valuator"

Example of Disclosure for Corporate Brand Values

- "We, the senior management of Alpha Corporation, believe the value of our corporate brand as of December 31, 2011, is $26.4 billion, up 2.7% from a year ago, and down 3.8% over the past 3 years. We estimate this value using the methodology provided by TopBrand, LLC, a MASB Qualified Brand Valuator"

Benefits of the Approach

- Both valuations will use continuous quantitative research study models based on how investments in the product and corporate brand impact future cash flows
- Expected impact of marketing without disruption of current accounting procedures
- Unification of finance and marketing toward common goal of increasing enterprise value

Additional Benefits

- Consistent diagnostic evaluation of the long-term financial health of a company
- Provides dashboard measure by which company management, investors and employees alike would be able to determine if investments in marketing provided the company with an effective return

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Conclusion

- **MASB's ultimate goal is to reliably tie marketing actions to customer impact, to market outcomes and to financial returns**
- **MASB's ongoing projects are geared to meet this ultimate goal**

Q & A

Thank-you!