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# **MASB**

## **Accountability Standards**

**Valuing & Reporting Brands as Assets:  
Post IFRS3 Preparer Review**

**Plotting a course for MASB**

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**Chicago**



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

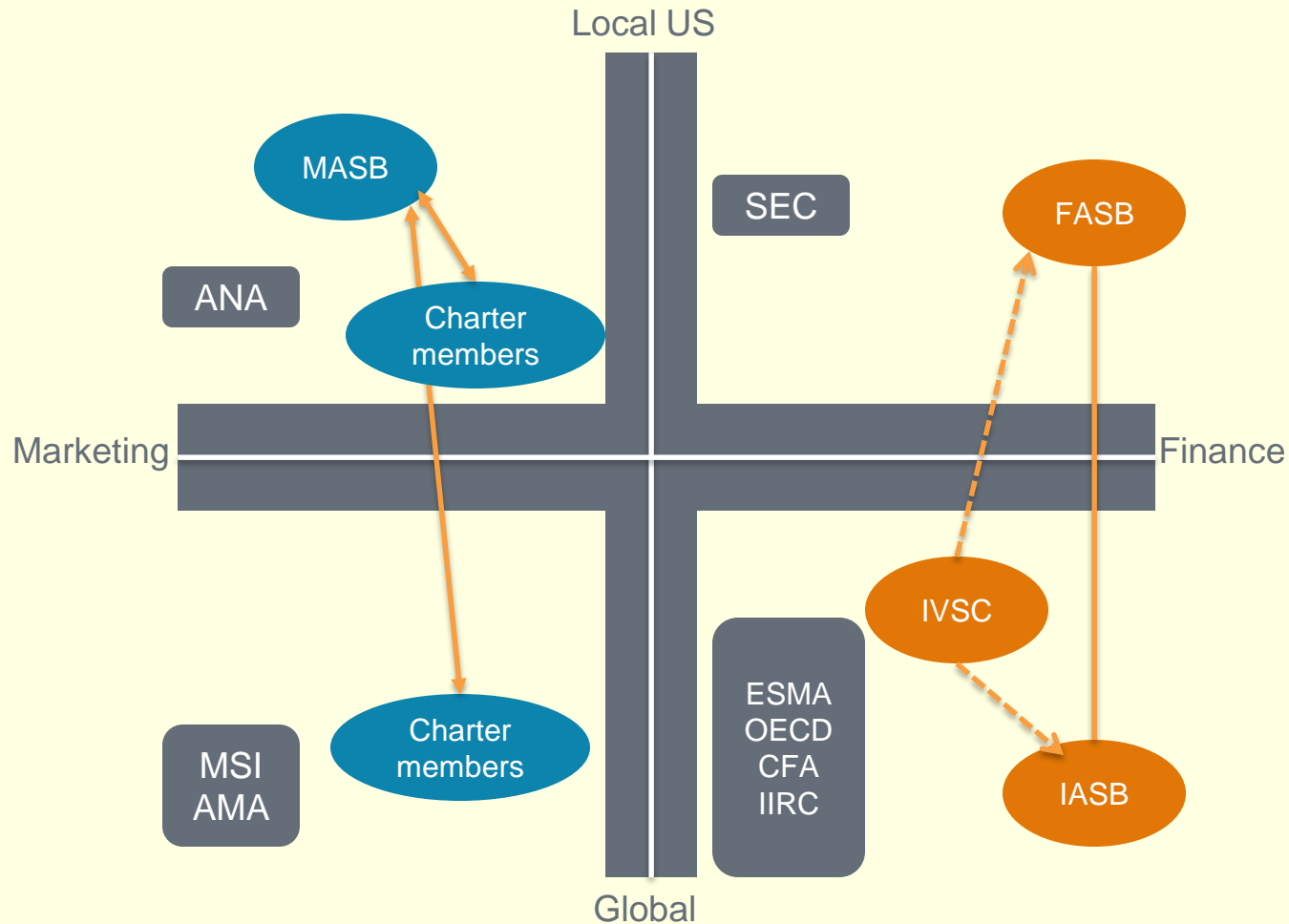
# What we will cover

## Welcome to MASB

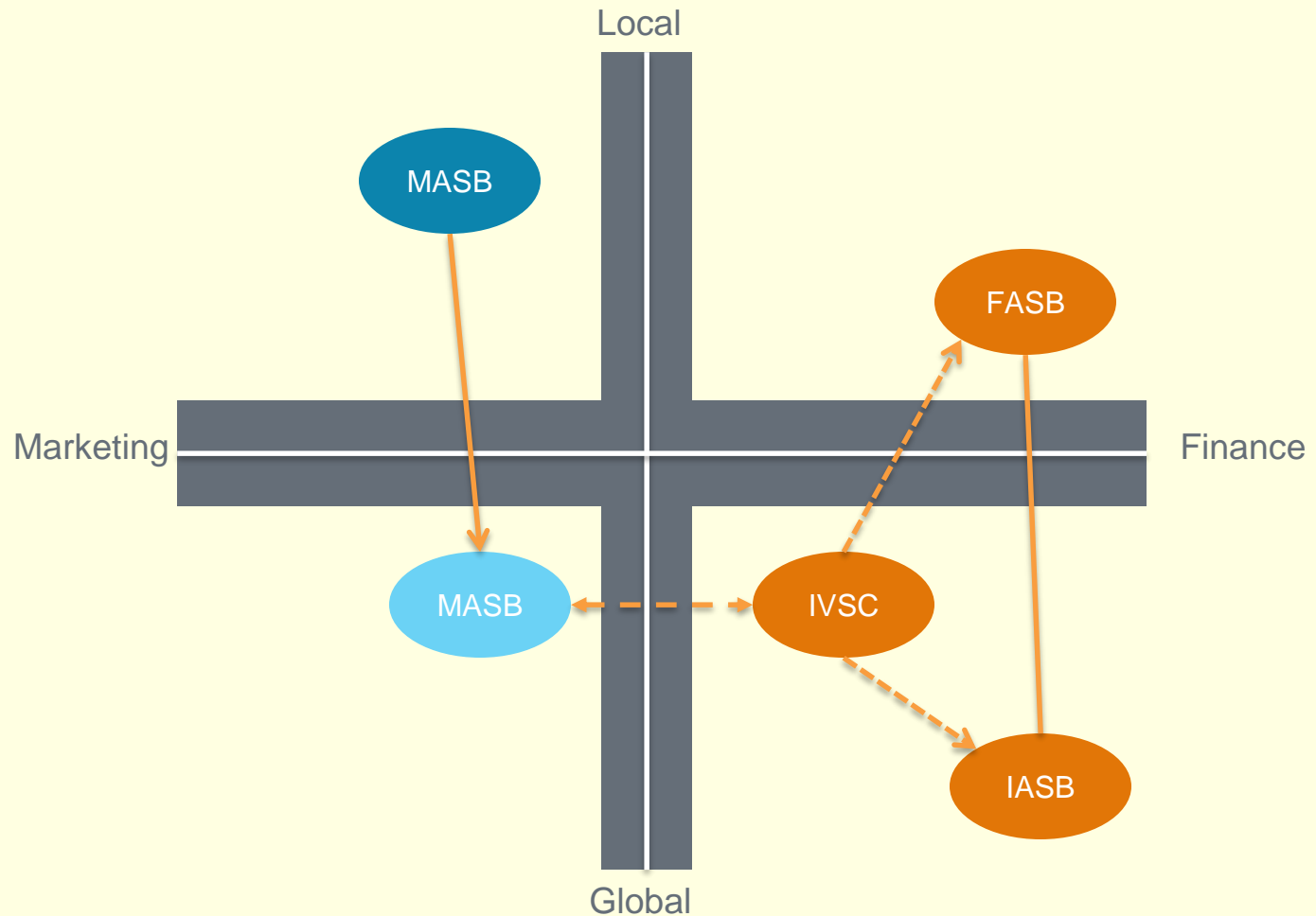
*where marketing and finance agree on measurement for creating value*

- A gap in the market – made for MASB
- Research shows ...
  - The need is global; bridging the marketing/finance divide
  - MASB is positioned to fill it
- Why and how MASB should seize the moment

# At the Crossroads – MASB is global



# The action & need is global: Shall we cross the line?



# Euclid's fifth

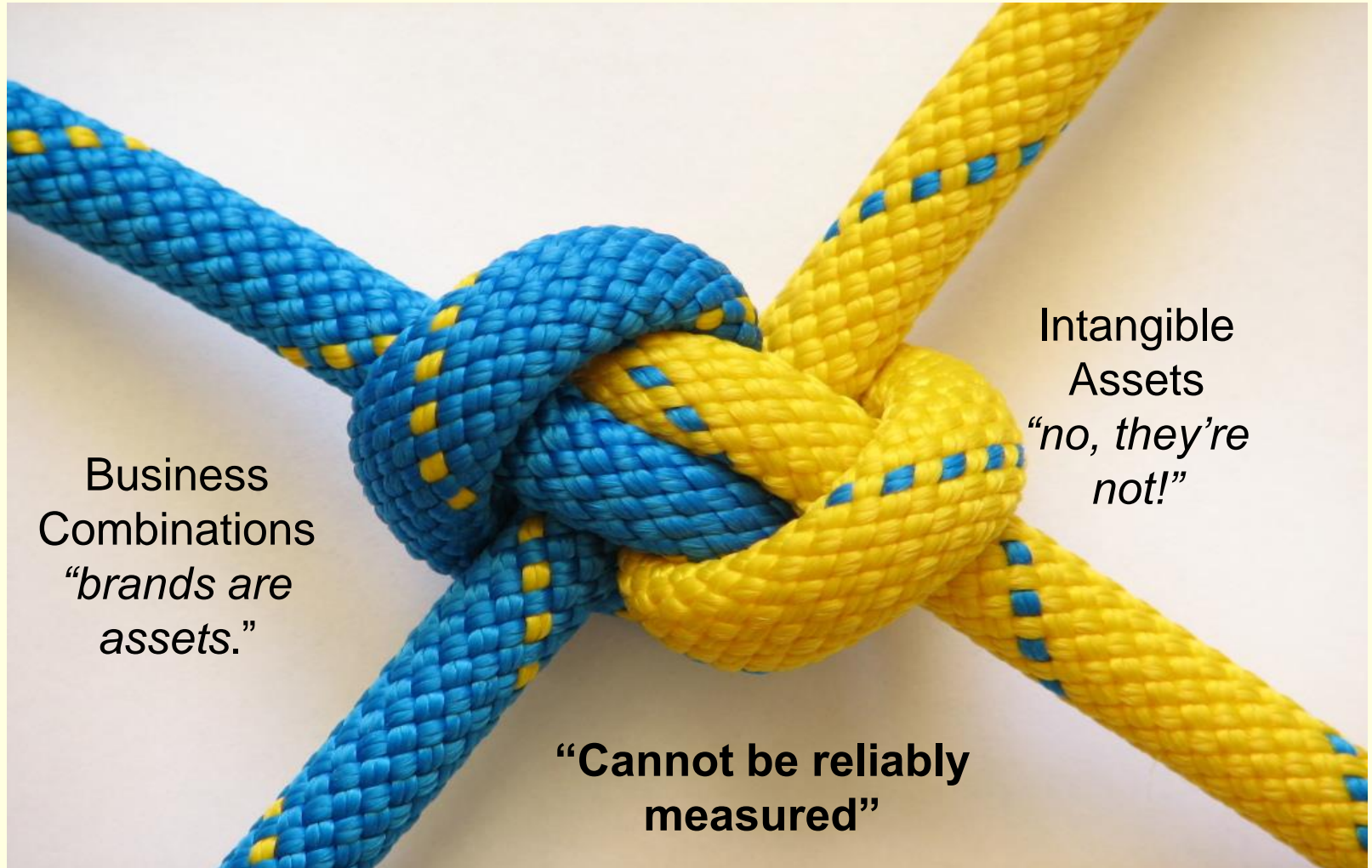
marketing



Sooner or later?

finance

# The tangled knot – keeping convergence at bay



Business  
Combinations  
*“brands are  
assets.”*

Intangible  
Assets  
*“no, they’re  
not!”*

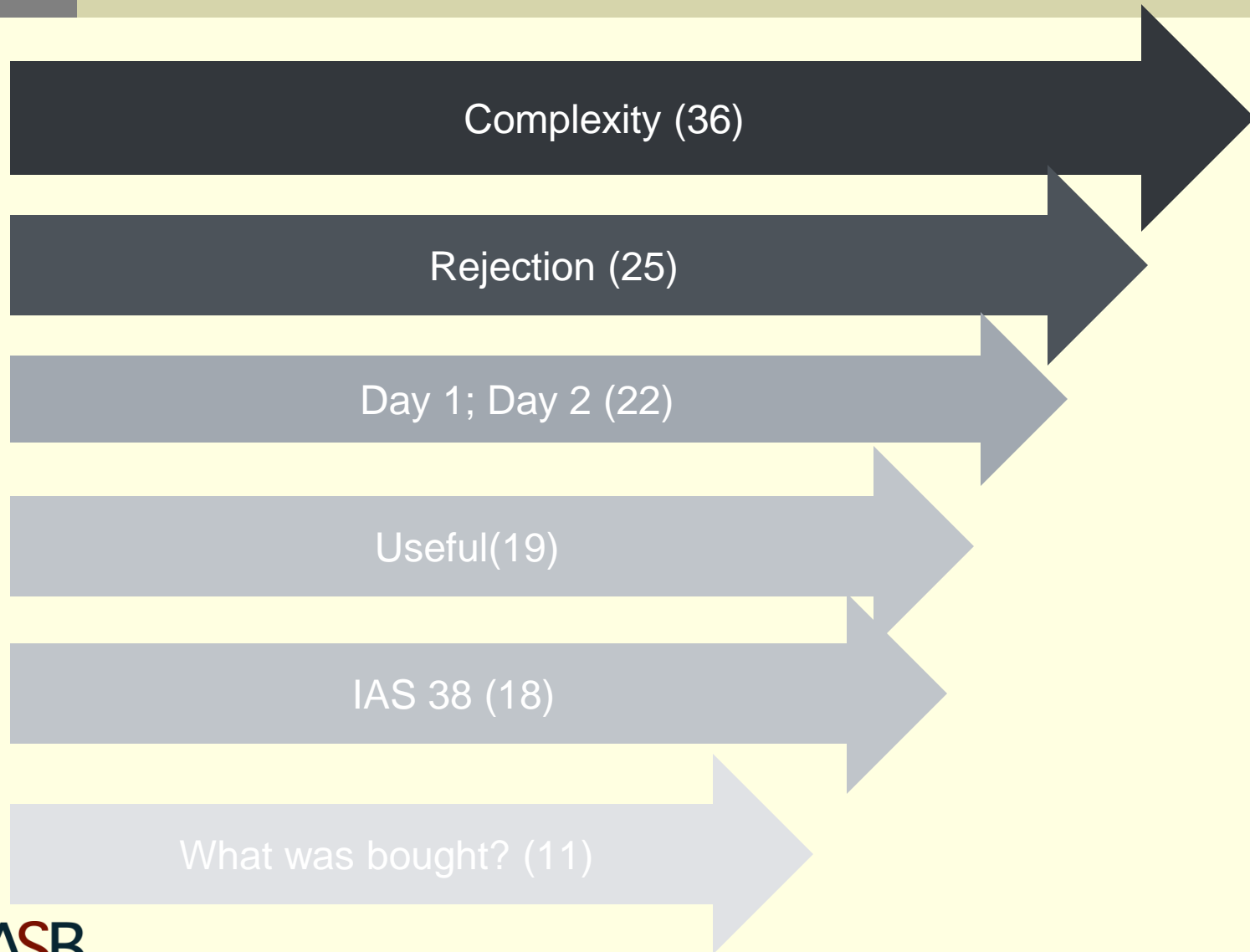
**“Cannot be reliably  
measured”**

# IASB Post Implementation Review (PIR) IFRS 3\*

- Open for comment: January to May
- > 90 letters received from
  - Regulators; professional bodies and organizations; companies, academics and individuals
  - From 26 countries from all continents (excluding USA)
  - Most prepped with survey of members
- Truly global
- Now to be analyzed by IASB staff and reported to the Board
- Directional decision some time next year

*\*Business Combinations*

# Roger's independent analysis – six trends





# What this might mean - 1

- **Complexity (36):** Takes too much time; too expensive (outside experts); too subjective (judgment) and varying techniques equal lack of consistency and reliability.
- **Rejection (25):** Fair value is useful at the time of the business combination (Day 1) and to expose why a premium was paid. The goodwill portion should no longer be subjected to impairment but be amortized. Little explicit rejection of intangibles on the balance sheet.
- **Day 1; Day 2 (22):** IFRS 3 is good for the immediate post-transaction period. In accounting language the goodwill is then *gradually consumed and replaced by internally generated goodwill* which is not recognized under IAS 38.

\* Numbers in brackets are numbers of mentions

# What this might mean - 2

- Useful (19): Those who claim IFRS 3 to be useful support their view with comments such as: *“provides a more accurate picture and useful classification of assets “, “the information is relevant and important,” “a business is more than the sum of its parts”, “identifying customer relationships is not useful, recognizing trademarks (brands) is”, “It is useful and important and allows management stewardship of intangibles to be monitored.”*
- IAS 38 (18): The conflict (paradox) was frequently mentioned and seen as an obstacle to IFRS 3 being useful.
- What was bought: From ESMA: in European post-transaction balance sheets, the two most frequently identified intangibles were customer-related\* (58%) and marketing-related\* (54%). Others found it useful to know what justified the premium paid.

\* two of the five categories listed in IFRS 3 & FASB Topic 805 under which identifiable intangibles will be found

# Conclusion from PIR analysis

- No demand that IFRS 3 be scrapped
- Fair value requirements are complex, time consuming, judgmental and expensive
- Goodwill should be amortized
- Day 1; Day 2 (phenomenon) opens the debate for rationalization of the two standards
- A global valuation approach; simple and valid would solve most obstacles
- Customer-related and marketing-related could be the same thing because one is the cash flows to acquire the other. A DCM based model would encompass them both

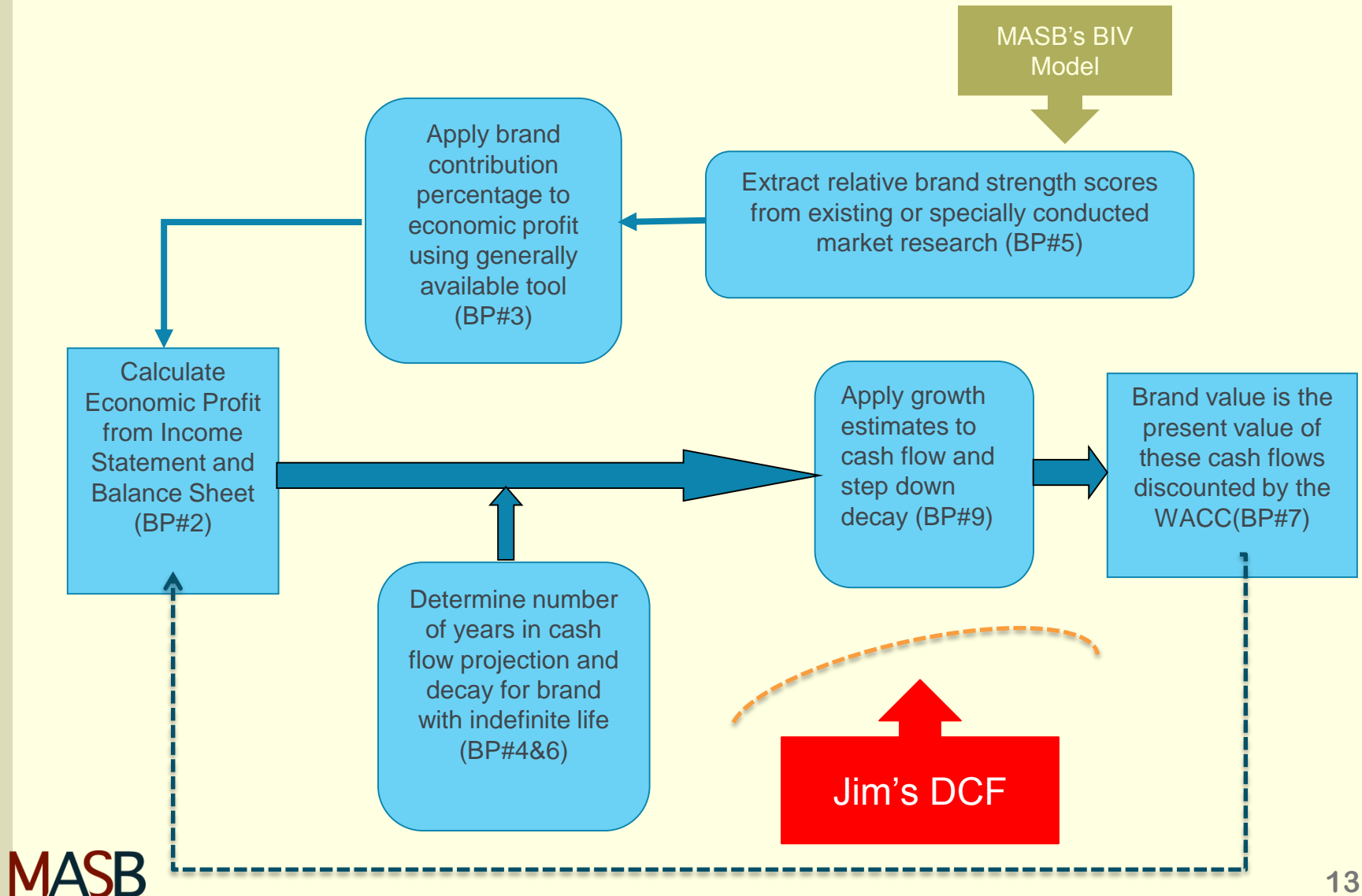
# The opportunity for MASB

- MASB *de facto* is global
- is finalizing a BV approach
- has publically/globally announced intention (The Paradox paper)
- can tie up with IVSC

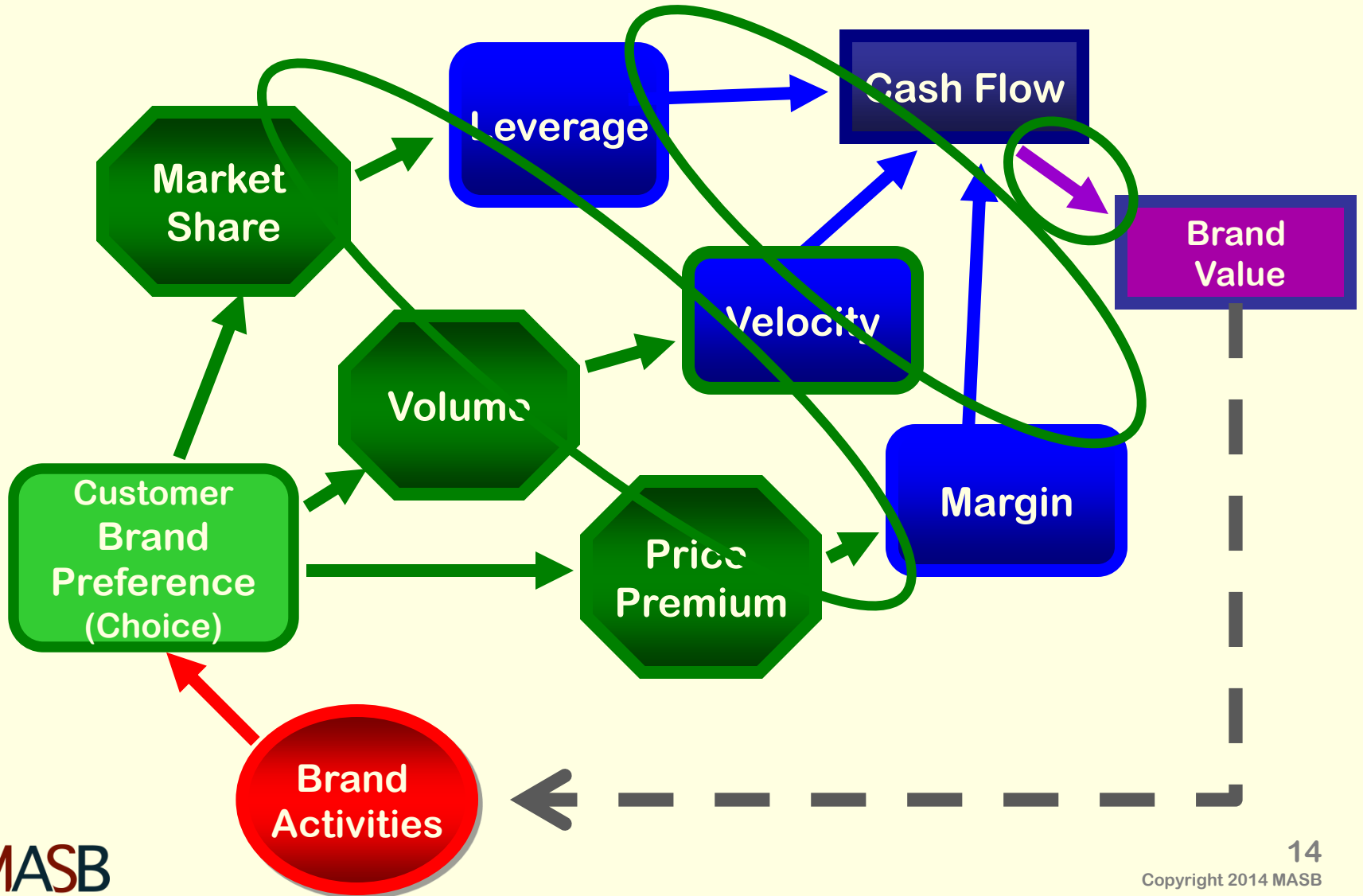
## First: the BIV model

- Uncomplicated
  - Easy to apply
- Conform to financial norms
  - Inexpensive to apply

# Principles-based conceptual framework for model



# MMAP: Brand Investment/Valuation Model (Build Bridges to Financial metrics & Brand Value)



# How ...

- **MASB should initiate an urgent investigation of implications in standard harmonization (internal management, taxation etc)**
- **Adopt a policy on the accounting for brands**
- **Multi-national members should lobby FASB and IASB for harmonization of Business Combinations with Intangible Assets**
- **Keep developing the BIV model to tested completion**
- **Forge a relationship with IVSC**
- **Make the model universally available to generate a single, easy to use, inexpensive solution to brand measurement; that would become trusted and consistent through weight of usage**

# ... and why?

Because:

- The model provides finance with an easy to apply, inexpensive, credible measurement method;
- Consistent brand values will help preserve the notion that brands are major contributors to company wealth (IFRS 3):
  - *About 30,000 trademarks/brands are estimated to be valued each year for business combination requirements (Markables)*
- A global database of brand values and input variables becomes feasible with normative metrics and a real Top Brands table
- It's what we intimated in the "Paradox" paper
- It elevates marketing to a measured contributor of shareholder equity



# Lead the world

**MASB has a once-off opportunity  
to create a universally accepted  
approach to the ultimate  
measurement of marketing while  
solving a pressing  
finance/accounting conundrum**

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# Thank you!



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