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# **MASB** **Standards Project**

## **Improving Financial Reporting (IFR) Project Review and Status**

**Jim Gregory, Founder & CEO  
CoreBrand**

**Michael Moore, Professor of Accounting  
University of California Riverside**

**MASB Advisors  
Co-Leads IFR Project**

**February 2013  
Las Vegas**



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

# The MASB Game Changers

<b>Project</b>	<b>Brand Investment &amp; Valuation (BIV)</b> (Analysis)	<b>Improving Financial Reporting (IFR)</b> (Reporting)
<b>Issue Addressed</b>	Brand represents great Value (but how much)	Intangibles >80% of Corp Value (need better info)
<b>Project Objective</b>	Establish “generally accepted brand investment & valuation standards”	Marketing at table when reporting of Brand Value is required for all brands
<b>Expected Outcome</b>	Empirically proven model for valuing brands & guiding investment decisions	Brand Value as KPI and/or MD&A Notes... better info for capital providers
<b>When</b>	2015	2015

# Overall Intent

- Financial reporting of Brand Value is required for acquired brands
- In time, a similar treatment for internally developed brands will be required
- MASBs intent is that we are prepared (BIV Team)
  - With “generally accepted brand investment & valuation standards”
  - Including “principles”, standards/methods & examples
  - That provide consistency, comparability, credibility and actionability
- And are seated at the financial reporting table (IFR Team)
  - Working in partnership with the reporting bodies
  - As they move further in this direction
  - To guarantee that there is marketing input (metrics)
- It makes no sense that brand valuations have no marketing input
  - Brand Value lies in the hearts, minds & hands (choices) of customers
  - Finance has believed that marketing is art & can’t be measured
  - With outcome metrics that relate to/predict market & financial results
- Perfect time to step up...and move up the food chain

# 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

# In dialogue with



## ***The FASB and Accounting Standards-setting***

Sue Bielstein, Director of Planning and Support  
FASB  
Presentation to MASB (August 2010)



## ***One Accounting Professor's Perspective on MASB's Objectives***

Robert Bloomfield, Cornell University  
Director, Financial Accounting Standards Research Initiative (FASRI)  
Presentation to MASB (February 2011)



## ***ISO 10668: Brand Valuation***

Christopher Schotz, Chairperson  
ISO Committee on Brand Valuation  
Presentation to MASB (February 2011)

# In dialogue with (cont)



## ***Brand from the Investor Side***

Wendy Pirie, Director Curriculum Projects  
Education Division at CFA Institute  
Presentation to MASB (August 2011)



## **Fair Value Measurement & IFRSB Agenda**

Hilary Eastman, Leader Investor Liaison Program  
IFRSB  
Various emails & guidance (May 2011 – Feb 2012)



## ***Communicating Value in the 21st Century***

### ***Change in Requirements for Reporting Intangible Assets***

Bob Laux, Sr Director Accounting & Reporting  
Microsoft Corporation

Working Member, International Integrated Reporting Council (IIRC)  
Member of the Global Preparers Forum (IFRSB)  
Presentations to MASB (February 2012)

# In dialogue with (cont)



***Integrated Reporting: What it is and Where it Stands***

**Lisa French, Head of External Relations**

**International Integrated Reporting Council (IIRC)**

**Keynote Presentations to MASB (February 2013)**

# IFR Team Action Plan (January 2013)

- 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 IFRSB 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. Engagement w/Financial & Investment Communities**
  - Publish Papers**
    - *Valuing Brands (CFR Nov/Dec 2012); Intangibles Paradox*
  - Ongoing Dialogue w/Potential Partners**
    - ✓ IIRC, IFRSB, CFA, SEC, FASB, ISO, Conference Board
- ✓ **XIII. Keynote Speakers at Summits**
  - FASB, ISO, FASB, CFA, IIRC, IFRSB, SEC, Conference Board
- XIV. Approach Appropriate Partner(s) based on Feedback & Relationships (TBD)
- XV. Partnership Agreement (s) & 1<sup>st</sup> Project Designated\* (TBD)
- XVI. Revisit ANSI/ISO Option (TBD)
- XVII. Reporting rules changed (2014/15)



# Highlights of Paper

**“Aligning Marketing and Finance with  
Generally Accepted Standards for Valuing  
Brands: Opportunities and Obstacles”  
Corporate Finance Review (November  
December 2012)**

# Current Accounting Landscape

- **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 not reported on the balance sheet**

# Criteria for Capitalizing Expenditures

- **Assets are only recorded 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**

# Accounting for Acquired Intangibles— The Paradox

- Recording assets at fair value under GAAP or IFRS is generally limited to intangible assets acquired in a business combination or otherwise purchased
- Internally developed intangible assets are never written up to fair value
- Acquired intangibles are recorded on the balance sheet while internally developed are not
- Roger Sinclair of our IFR Team is preparing a paper examining this paradox

# 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**

# 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**

# Weaknesses in 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

- **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 IFRS**
- **Brand Investment Valuation Model (BIV) Project is a start but there are still many hurdles**



# On the Other Hand We Need Better Reporting Soon

- **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**

# 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 this Approach

- Both valuations will use continuous quantitative research study models based on how investments in the product and corporate brand impact future cash flows
- Expect and impact on 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**

# SEC Position on MD&A Disclosure

- **Mixed signals about extensive disclosure in MD&A**
- **One view is that intangibles can be discussed in the context of competitive position but dollar value not disclosed**
- **Another view from former SEC Chief Accountant is that disclosure requirements are not bound by the recognition and measurement rules of GAAP**
- **More investigation is in the works**



# 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**

# IFR Team

## Team Leaders



Jim Gregory  
CoreBrand



Michael Moore  
UCR

## Team Heroes



Roger Sinclair  
At-Large



Dave Stewart  
LMU



MJ Tisor  
Kearney



Leigh McAlister  
UTA



Dave Reibstein  
Wharton



David Haigh  
Brand Finance

## Admin



Meg Blair  
MAF/MASB



Allan Kuse  
MMAF Center

Team Meets: 4<sup>th</sup> Friday at 11:00 ET

# Fit with MASB Mission

**Brand Investment &  
Valuation (BIV)  
(Analyzing)**

## **Mission**

**Establish marketing measurement &  
accountability standards across  
industry & domain for continuous  
improvement in financial  
performance...**

**...for the guidance & education of  
business decision makers & users of  
performance & financial information.**

**Improving Financial  
Reporting (IFR)  
(Reporting)**

# Q & A

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# Thank-you!



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