

# MASB Board Meeting & 2022 Spring Summit

## Responding To An EFRAG Consultation

*Discussion led by*

**Neil Bendle**

**Associate Professor of Marketing  
University of Georgia, Terry College of Business  
Chair, MASB Advisory Council**

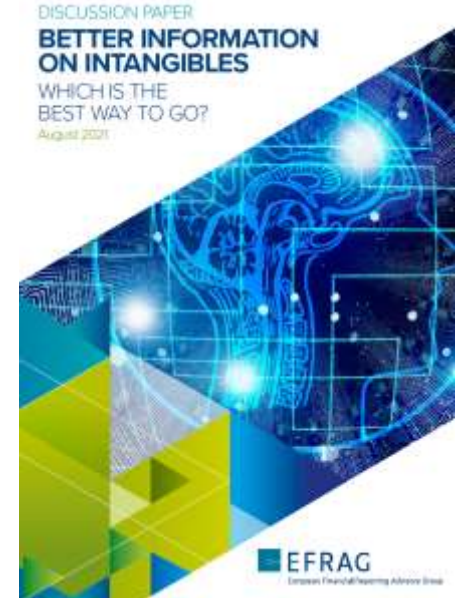
**April 7, 2022**

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



# Chance To Comment On Intangible Accounting

- European Financial Reporting Advisory Group (EFRAG) has a consultation request
  - “Better Information On Intangibles: Which Is The Best Way To Go?”
- Covers how to account for intangible assets
- Includes many “marketing” assets
  - e.g., brand, customer relationships etc...
- Request follows their 2020 literature review
  - Which is available and, though not what a marketer would do, is reasonable
- Deadline for comments is June 2022



# Why Is EFRAG Looking for Input?

- ES4: ...literature review... identified academic studies showing that the **value relevance of financial statements is decreasing** and that this could be due to **financial statements not reflecting information about intangibles** ...[becoming] more important for more entities than previously.  
Insufficient information on intangibles could affect the company's market value....
- ES5: ..review also underlined the **difficulty for users to compare entities that grow organically with those growing by means of acquisition**, as current IFRS Standards generally require acquired intangibles to be recognised, while internally generated intangibles can only be recognised in specific circumstances.

# Relevance To MASB

1. **MASB members and guests will be interested in topic. You may wish to read the EFRAG documents.**
  - <https://www.efrag.org/News/Project-522/EFrag-Discussion-Paper-Better-information-on-intangibles--which-is-the-best-way-to-go>
  - <https://www.efrag.org/News/Project-403/Literature-review-on-intangibles>
2. **MASB members and guests may want to submit responses.**
  - <https://www.efrag.org/News/Project-567/Comment-on-EFRAGs-Discussion-Paper-Better-Information-on-Intangibles--Which-is-the-best-way-to-go>
3. **Some may wish to endorse a shared position.**
  - *Open endorsement:* Volunteers can endorse a shared response and refer to MASB but with no official MASB position
4. **MASB could attempt to develop a formal position**
  - *MASB position* would involve putting MASB's name behind response

# My Thoughts On EFRAG Document

- EFRAG lays out problem well.
- They understand challenge.
- But they will not be too radical.
- They give 3 options
  1. More intangible recognition in the primary statements,
  2. More disclosure of intangibles in management reports (notes), &
  3. Providing more information on future-related expenses.
- I have drafted a response to EFRAG that I think conveys the thoughts of many marketers.

# More Recognition Of Intangibles

- **Intangibles are divided into three categories (section 3.1)**
  1. **Controlled & well-defined legal rights, incl. “trademarks” & “brand names”**
  2. **Controlled but without well-defined legal rights, incl. R&D in process**
  3. **Control less clear, includes relationship based intangibles.**
    - **I read to include customer values & brand values (beyond basics, e.g., trademark)**
- **EFRAG largely rule out balance sheet recognition for category C**
  - **“3.2: Control is a fundamental concept in the definition of any asset in IFRS ... Therefore, focusing on possible improvement to the accounting (that is, recognition and measurement) of intangibles in categories A and B seems the more promising and realistic approach.”**
- **My reading is that there is little point in trying for balance sheet recognition for most marketing intangibles.**
- **Some progress might be possible, e.g., on “brand names” but this is likely to modest and won’t really address the problem**

# Information On Future-Related Expenses

- **May be openness to breaking out marketing expenses on P&L.**
- **Expenses could be broken out by market and brand (5.21 c) and even customer group, where appropriate**
  - **Would represent some progress in explaining what marketing does.**
  - **But does not solve core problem.**
  - **Will not show value of intangibles or contribution of marketing to firm.**
- **Such information can equally well be provided in notes to the accounts, which might be easier than changing P&L.**

# Disclosure Of Specific Intangibles

- **Disclosure of marketing intangibles in notes (or management commentary) seems a reasonable ask.**
- **Could fit with EFRAG's parameters.**
  - **We could suggest firms report either brand or customer relationships (depending upon firm).**
  - **But not both (to avoid double counting issues).**
  - **We would ask for both metrics that make up the valuation and valuation itself (in the currency of the accounts).**
- **Disclosures in a marketing-related intangibles section.**
- **Must not be voluntary if we want information to be widely reported.**
- **Value disclosed should be based upon valuation of the intangibles.**
  - **Not the cost incurred in developing them.**
  - **Should encourage more regular valuation, a key ISO recommendation.**



# Additional Points

- **Regardless of whether MASB chooses to make a formal response we can also emphasize key points to EFRAG.**
  - **Common language dictionary can help provide definitions and improve standardization.**
  - **Suggest they look further to understand available expertise in the field of the management of marketing intangibles.**
  - **We can emphasize that marketing assets are valuable even when control of asset is less than complete.**
  - **That marketing assets (largely) are not commercially sensitive.**
    - **If you have a secret brand it probably isn't worth that much.**

# What Should MASB Do? >Questions

1. Is it desirable to have a MASB position?
2. Is development possible by June?
  - We would not want aim of creating a MASB position, if seen as desirable, to preclude timely action.
3. If MASB are to have position does concentrating on disclosure of value of marketing assets in notes to accounts seem reasonable?
4. Who is generally in favor of the idea of open endorsement?
5. Who might be interested in endorsing a position along lines outlined?
  - You don't need to commit without reading the full response.
  - This will be shared with everyone who can opt in as they see fit.

# Thank You!



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