

Prophet

Brands on the Balance Sheet – is there a choice?

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*“Cooking, like treason, is just
a matter of timing.”*

Elizabeth David
British cookery writer

An Illuminating Time-line

1989

The Barwise Commission in the UK declared it to be: “impossible to separate the brand (value) from the rest of the business.”

No brands on B/S

2001

SEC Chief Accountant (corporate finance) called for mangers to disclose the nature of their intangible assets; and how they develop, protect and exploit them. (March)

2001

FASB launches SFAS 141 which turns Barwise on his head; calling for acquired brands to be on the balance sheet (June). Embarks on a modification to SFAS 142 Intangible Assets to allow internally generated brands on the B/S

2004

FASB removes SFAS 142 project from research agenda. Australian Government funds a similar development for IASB (IAS 38)

An Illuminating Time-line

2005

IASB introduces IFRS 3 (similar to SFAS 141) recognizing acquired brands as assets

2007

The Australian Accounting Standards Board is encouraged by the chairmen of the IASB to continue work on revisions to IAS 38. “with particular focus on ... internally generated intangible assets” (updated July, 2010).

2008/9

Draft revisions to IAS 38 are discussed at two successive meetings of the National Standard Setters (NSS) in London and Paris. Point made: If brands can be valued for business combinations; they can be valued for IAS 38 too. Then put in abeyance

2011

SEC issues Work Plan for incorporating IFRS in U.S financial reporting system. Uses IAS38 as example (May).

Will IAS 38 become a research project in November?

Is the trend inexorable?

- Acquired brands are assets – internally generated brands are not. That is an anomaly and accountants don't like loose ends.
- There are powerful bodies who want brands on the balance sheet, possibly including the SEC.
- A draft revision to IAS 38 is near completion because of the FASB work followed by AASB at the behest of IASB.
- The IASB board will consider proposals for new research projects after the open period ending November, 2011. If IAS 38 is adopted, it could move quickly through the process.

I predict:

brands will be on the balance sheet within two to three years

Implications

- Valuation of brands for balance sheet purposes will be conducted by IP specialists, banks and accountants – not marketers. Unless ...
- ... the MASB standards are developed and adopted. Marketers will then conduct many of these valuations and draw magnitudes of value *viz*:
 - It will be marketing brand values that are discussed round the board room table and by investors
 - Marketing expenditure will be judged and allocated according to the returns it generates in brand value
 - Consumer brand strength will be a crucial input to sustaining the asset value
 - Collections of brands as cash generating units will be used to judge the worth of an enterprise
- There will be no capitalization of marketing expenses because the valuation approach will be income, not cost.

THANK YOU

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