EFRAG survey on its Discussion Paper: Better Information on Intangibles - Which is the best way to go?

2. General information

First name:

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Profession:

Standard-setter

Please describe your profession:

Role in your organisation:

Executive Director

Name of your organisation:

Marketing Accountability Standards Board (MASB)

Industry of your organisation:

Marketing

Country where you are located:

United States

Your email address:

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Can we contact you in case of any follow-up questions?

Yes, I want to be contacted.

Please note that your comments (except for your email address and whether you can be contacted) will be posted on EFRAG's website unless you request confidentiality. Such requests will not normally be granted unless supported by good reasons, for example, that the information that you provide is commercially sensitive. Please see our website for details on this and how we use your personal data here.

If you want to request confidentiality, please indicate this below and provide your reason. Otherwise, please skip the next question.

Do you want to request confidentiality?

Please provide your reason for requesting confidentiality:

3. Introduction

Issues with the current information

Chapter 2 of the DP summarises issues put forward with current information on intangibles.

1. Which of the following issues with the current information on intangibles do you consider relevant and valid?

Financial statements do not reflect the underpinning drivers of value for intangible intensive businesses;
Performance measures are distorted since return on assets ratios do not provide useful information as the 'assets' part is not properly reflected;
Performance measures are distorted since the statement of performance is 'hit twice' in the same period if an entity acquires an intangible asset (which is capitalised and amortised) and replaces this over time with an internally generated asset which cannot be recognised and for which the costs are therefore recognised in the financial statement at the same time as the amortisation costs of the acquired intangible assets;
Comparability is adversely affected as most intangible assets are not recognised if they are internally generated, but they are recognised if they are acquired;
Comparability is adversely affected as intangible assets acquired outside a business combination are only recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. For intangible assets acquired in a business combination these criteria are always considered to be met; and/or
Information (also narrative information) on intangibles is difficult to compare and use as the boundaries between different intangibles are not (well) defined and are interpreted differently.

Please explain your view:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

We are strongly of the opinion that the issues EFRAG examine are critically important. We recognize that the purpose of financial statements is not to explain the market capitalization of an entity and know that there is no perfect solution to intangible measurement. That said, we believe that current financial reporting approaches limit users understanding of the value of investments in intangibles. We are also concerned that this creates a lack of a level playing field between small and professional investors. We firmly believe it is possible to provide information on intangibles much more effectively without undermining the integrity of the reports.

Many of the concerns about reporting of marketing-related intangibles can be easily solved, e.g., by providing clearer definitions of what is meant by the value of a customer. Other concerns are more challenging. Yet, even here, significant progress is possible. We do not expect to see a solution that addresses all possible concerns but we believe it is possible to greatly improve the quality of accounting information shared regarding marketing-related intangibles.

We are grateful for the opportunity to comment on intangible reporting. We believe that the current system is not serving the primary users of information well. Users of the financial statements cannot tell much about entity's vital marketing activities from the accounting information provided. We acknowledge that there are many challenges related to intangibles but firmly believe that there is potential to make significant strides to making financial reports more value relevant without compromising their integrity or causing undue challenges.

We would be happy to illuminate our thoughts further should that be useful.

Are you aware of additional issues with the current information on intangibles that are not listed?

Yes

Please explain what these issues are:

A "Moribund Effect" results from established accounting practices by which the value of a brand that is acquired, measured and added to the balance sheet by a company cannot be increased no matter how well the brand might perform after its acquisition. According to the Oxford English Dictionary, "moribund" can mean "lacking vitality or vigor." That is the sense in which the word is being used; i.e. the recorded brand value can be misleading as it can make a growing brand appear stagnant. Please see: Journal of Brand Management, Brand value, accounting standards, and mergers and acquisitions: "The Moribund Effect", Sinclair/Keller, Jan 2017.

Which way to go?

Chapters 3, 4 and 5 of the DP present possible different approaches to provide better information on intangibles (namely recognition and measurement; disclosure of information on specific intangibles; information on future-oriented expenses and risk/opportunity factors) and, within each approach, different alternatives to provide better information on intangibles.

For further background information please see ES4-ES8 of the DP.

2. Do you think there is room for improvement regarding information on intangibles in financial reporting?

Yes

Please explain:

Do you think the different approaches described could be combined in a manner that could meet (most of) the needs of users and for which the benefits would exceed the costs?

Yes

Please describe such a combination:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

Our experience suggests that most marketers would like to see recognition of marketing-related intangibles and we can see the considerable value in greater recognition. That said, for reasons we appreciate, the actions likely to be embraced by the accounting community regarding recognition of intangibles are unlikely to be sufficient to fundamentally impact the problem of lack of information on the value of marketing-related intangibles.

As such, we have concluded that disclosure (rather than recognition) of the financial value of marketing-related intangibles can improve the understanding of primary users of financial statements while minimizing the challenges generated. (The discipline that greater disclosure of intangibles brings may improve practice. This might eventually generate lessons sufficient to allow for recognition but that would be many years off). Instead, we are keen to emphasize that disclosing information on marketing related intangibles is practically achievable now. Disclosure is consistent with accounting practice and adds only a modest burden to firms. (This is because organizations should already be actively managing and valuing their material intangibles. The numbers being disclosed should be created as part of responsible management of valuable assets and so the additional reporting burden is relatively modest).

The alternative of sharing information on future-oriented expenses is less informative about intangibles actually created than disclosures of the financial value of marketing-related intangibles. Future-oriented expenses are, therefore, not the central focus of our recommendation. Still, greater clarity in reporting marketing-related expenses would be beneficial. Improved notes to the accounts detailing current period versus future-oriented marketing expenses would complement greater disclosure of intangibles in the management report. For example, a firm that shares its brand building activity in the notes, and also disclosures the brand's financial value, will provide users with an important gauge of investments in, and return on, brand building activities.

Two broad classes of marketing-related intangibles are especially critical to consider.

The first common form of marketing-related intangible is brand. The relevant conception of brand is based upon economic impact, not legal designation. A brand has value because of the associations held in a customer's mind, a classic example being Volvo and safety. Thus, brand is not something that the firm can formally control. (We believe this means that most of the value of brands sits firmly in Category C from section 3.1). Although a trademark might be part of a brand, the value of a brand is significantly more than its legally defensible trademark. The lack of formal control does not mean financial values cannot be estimated for brands. For example, brand value may be associated with the ability to price at a premium. Commercial providers also value brands.[1] We will recommend disclosing brand values. This will be of greater value when accompanied by the metrics that underlie the values, and a clear explanation of the valuation methodology used.

Customer relationships are a second key form of marketing-related intangible. Again, while the firm has a significant influence on the value of customer relationships they do not have formal control. (A subset of customer might have signed legally enforceable contracts but this is not true for most). There is a significant literature on customer valuation primarily using a method known as customer lifetime value (CLV) [2] and efforts to extend usage are well underway.[3] (We would be happy to recommend significant additions to your literature review if helpful). Using a CLV approach each customer has a financial value based upon projections of future revenues and costs associated with the customer. These values, at their most convincing, can be linked to identifiable customers and are exclusively based upon cash flow projections. This is valuable information to understand the firm's financial activities.

To improve the information shared about customers we recommend disclosure of a projection of the aggregate value of the customer base and values for specific groups of customers. In addition, firms should disclose the metrics that allow for creation of the overall valuation, e.g., customer numbers and discount rates for future cash flows, as well as the exact methodology used.

[1] For example, Brand Finance creates brand valuations based upon royalty rates paid for comparable licensing agreements.
[2] See Marketing Metrics: The Managers Guide To Measuring Marketing Performance, 2021, Pearson, By Neil Bendle, Paul Farris, Phillip Pfeifer and David Reibstein
[3] Customer valuation as a route to understanding firm value has already made it into popular business advice, see Rob Markey (2020) Are You Undervaluing Your Customers? Harvard Business Review

If you do not think the different approaches described in the DP could be combined in a manner that would meet (most of) the needs of users - which of the described approaches do you think could be worth investigating further with the objective of getting better information on intangibles?

Please explain:

4. The three accounting approaches

Please indicate whether you want to provide input on all three accounting approaches or not:

I want to provide comments on all three approaches.

If you do not want to comment on all of the three approaches, please select to which of the three approaches you want to give input: (please note that more than one choice is available)

5. Recognition and Measurement

3. Do you consider that IAS 38 *Intangible Assets* should be amended to permit the recognition of certain internally generated intangible assets (in addition to development costs)?

Yes

Please explain:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

That the current system involves differential treatment of assets depending upon historical factors (internally generated versus acquired) that are not directly relevant to future value is a major weakness of financial reporting. That said, we appreciate the challenge that recognition of intangible assets brings. As such, we expect greater disclosure of information about, including financial valuations of, marketing-related intangibles to be a more realistic aim than balance sheet recognition for most marketing-related intangibles. As such, we would not expect significant movement on recognition but we are, however, happy to give some thoughts on recognition.

Concerning the categorization of intangibles (3.1), we agree that some of the value of marketing-related intangibles would fit in Category A (controlled with clear ownership rights). For example, there are, as you suggest, elements of a brand name that can be defended in court. There are also contracts with customers that represent a legally defensible source of future revenue. Additionally, some marketing-related intangibles may fall into Category B (controlled but with less clear ownership rights). Yet, the bulk of the value of marketing-related intangibles would fall in Category C (limited control by the reporting entity).

Paragraph 3.26 of the DP explains that IAS 38 Intangible Assets currently includes an explicit prohibition to recognise some types of internally generated intangible assets such as internally developed brands, mastheads, publishing titles, customer lists and similar items, staff training and marketing.

Do you consider that the explicit prohibition to recognise some types of intangible assets that exists in IAS 38 should be removed?

Yes

Please explain:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

Concerns in respect of control (3.2) or uncertainty will always be present for most marketing intangibles. If this means that recognizing only a greater number of intangibles in Category A and B is feasible this represents little improvement on the current situation. The bulk of value associated with marketing-related intangibles would still be omitted. We think more improvement is likely to occur from disclosure of all intangibles, including those in Category C, in a management report than recognition of the relatively modest value of Category A and B intangibles. Category A and B intangibles are a small fraction of marketing-related intangibles, so recognizing them in the primary statements risks creating the challenges that come with change while delivering only a relatively modest improvement. In essence, we worry that the cost of recognizing category A and B intangibles will be higher than the benefit given it will not address the fundamental problem that the financial statements omit many valuable firm assets.

Paragraphs 3.10 to 3.71 of the DP explore four possible approaches regarding the recognition of internally generated intangibles.

Which of the following approaches would you prefer?

Recognise (as an asset) all defined intangibles; with no specified thresholds or conditions (see paragraphs 3.15 - 3.35 of the DP);

Please explain your preference for the selected approach:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

If marketing-related intangibles were to be recognized we believe that they should be recognized regardless of criteria or thresholds (approach 3.11a). The idea of thresholds and conditions seems unwieldy and is not especially relevant for marketing-related intangibles. Consider what happens with investments in brand building advertising. There is, for example, no point where a brand tips from being not valuable to being valuable 1) over time or 2) when a threshold of spending is reached. Any thresholds or criteria, beyond any standard assessment of materiality, will largely be arbitrary.

Please describe such an approach:

Which specific approach would you prefer?

Please explain your preference for this conditional recognition approach:

Which criteria would you consider for recognition?

Please explain your preference for this/these recognition criteria:

Please explain such a combination:

Please describe these criteria:

Possible measurement bases

[Paragraphs 3.72 to 3.100](#) of the DP consider possible measurement bases for internally generated intangibles without suggesting a preferred approach.

Which of the following measurement approaches suggested in the DP would you support?

Initial and subsequent measurement at fair value (‘Fair value model’); and/or

Please explain your selection:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

We believe any information shared should use a fair value basis for marketing-related intangibles. We would push back on the idea that cost-based measurement is necessarily cheaper and less subjective (3.93). One of the challenges with cost-based approaches are allocations between short-term and long-term aims. In marketing such allocations can be challenging and subjective. Determining whether advertising activity was run to create a long-term brand asset or to drive immediate sales can have significant subjectivity. What is more after you have capitalized the spending then assessing impairment creates an additional process that can be expense and is certainly subjective.

The costs of valuation are a valid consideration. That said, we would note that well-managed firms should be creating valuations for their intangibles in order to run their firms effectively. For instance, ISO (the International Organization for Standardization) advice on brand monitoring (ISO 20671) recommends brands be regularly valued for management purposes. Such systems, with suitable guidance and oversight, could be relatively easily adapted to external reporting. The costs generated by increased disclosures of the value of marketing-related intangibles are less than might be anticipated if valuation of intangibles were completely novel. As such, we believe disclosures built on current valuations might even prove less expensive and burdensome than an entirely new system built upon cost allocation and impairment monitoring.

Of your options were IAS 38 to be amended we would support a fair value model. Many intangibles are material. The deteriorating lack of value relevance of accounting information, as noted by your literature review, suggests evidence of this. Organizations should be actively managing their valuable intangibles. As noted, best practice is already to periodically value marketing-related intangibles.

6. Information relating to specific intangibles

4. To the extent that information relating to specific intangibles should be provided - do you agree that the information should be limited to the intangibles that are key to an entity's business model?

No

Please explain:

We support the inclusion of marketing-based information relating to specific intangibles that are material in nature.

Preliminary feedback received from some users of financial reports indicates that an entity's fair value estimate of a specific intangible would generally not be particularly relevant information.

Do you agree that disclosing the fair value of an intangible is less helpful for users than disclosure of quantitative and qualitative information that could assist them in forming their own views on the value for an entity of the specific intangible?

No, disclosure of fair value is more helpful.

Please explain:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

Although we recognize the importance of other intangibles, e.g., those related to R&D and employee development, we would suggest that the two most significant marketing-related intangibles are brand and customer relationships.

Both brand and customer relationships are more wide-ranging than might be perceived from a traditional accounting view. While a brand is simply defined as a logo, trademark, or masthead, its contribution to cash flow is more substantial than is often recognized. It houses a set of mental associations that create value for the firm. A firm like Nestle is valuable often because of the associations consumers have with all of its branded products. While mental associations may sound amorphous such associations can be quantified. A customer will pay more for branded products than its unbranded imitators. Such a differential willingness to pay can be the basis of a valuation. Objectively demonstrable factors can allow for a financial value to be placed on the brand and a methodology shared.

Similarly, the customer relationship intangible is much more than just the customer list. It is much more than what you could charge third party mailers to rent the contact details. (Assuming that were legally permissible). A firm such as Netflix has value largely because of the stream of payments expected from its customers. Such payments, and their associated costs, can be projected over time and the value of an individual customer quantified given assumptions about future customer lifetimes which can be based upon auditable historical customer retention data.

A challenge with these marketing-related intangibles relates to double counting. Brands and customer values are often two sides of the same coin and influence each other. For example, brand strength increases customer values while positive customer relationships are a factor in brand strength. Accounting independently for brand and customer relationships thus brings significant challenges. While brand and customer relationship intangibles in theory exist for all firms we suggest that firms make a simple choice which of these to disclose.

Many traditional marketing-focused firms, e.g., consumer packaged goods firms, sell through intermediaries, e.g., supermarkets. These do not have a database of their customers. This often means that valuing individual customers is infeasible. As such, these companies may find brand value a more appropriate intangible to disclose. Other firms speak more directly to their customers. This would typically include Business-to-Business and subscription-based business models. Such firms know who uses their service, how much they pay and cost the firm, and can use observed past behaviors to relatively accurately predict the length of the future customer relationship. Such information makes disclosure of the value of the customer relationship as the marketing-related intangible possible and, indeed, desirable. Finally, firms in some industries, e.g., extraction, may even find that neither of these marketing-related intangibles need to be disclosed if neither speaks materially to their source of value creation.

Disclosures about the value of intangible assets can use standard approaches, such as CLV and Brand Preference, and give their methodologies. Methods and data can be audited and information on them shared which would facilitate comparison (4.15). We believe that this would be a major step towards professionalizing marketing accountability.

There are, of course, challenges to reporting future oriented valuations. We advise disclosing both the individual inputs to the model and the model output (financial valuation). For instance, in the case of a customer relationship valuation the individual inputs might be predictions of numbers of customers, revenue per customer per period, cost per customer per period, retention rate over time, and discount rate. The model as a whole would give the CLV (Customer Lifetime Value) for any customer in a specified group. The financial value of the intangible is simply the aggregation of CLVs in the group.
When the individual model inputs are disclosed investors will have the data to conduct their own analysis as they see fit. The aggregate financial values will also be available for the less expert investor who can use these to make sense of managerial claims.

The value of mandating many of these disclosures will rise over time as investors see trends. While the best model available should be adopted there is no such thing as a perfect model of the future. Waiting for this to appear is to preclude giving information on the financial value of marketing-related intangibles. The good news is that with consistent disclosure of the same model and inputs over time investors can learn from changes over time. The information is highly informative even though it will never be perfect. (Of course, that they are not perfect but, hopefully, useful is true of all accounting numbers).

Note that we believe that obtaining a financial value of customers can be possible. As such, we wish to make a clear distinction between inputs to CLV (that help create a financial value) and other customer-based metrics (that inform about customers but do not help create a value). Given this, we believe that the table following 4.19 could usefully distinguish metrics that allow for valuation of the customer relationship intangible, such as 'customer attrition', from metrics that inform about the customer base but are not part of a customer valuation, such as 'customer concentration'. We would also distinguish both of these types of customer metrics from generally informative but non-customer specific business measures. The table contains 'market share' which is an interesting metric yet we would argue is not specifically related to customers but to the market as a whole. We make this distinction because it is important to understand that we are proposing a specific form of customer valuation that gives a specific financial value, not merely a more general list of informative metrics. Here marketers can help accountants as work has already been done to solve some of the challenges that will rightly be raised. Customer lifetime value (CLV) is a practical way to see the value of a customer relationship intangible. This is not as well-known in the accounting world, including in academia, as it might be but it is based upon simple, clear processes. We believe that CLV should feature heavily in any discussion of accounting for marketing-related intangibles. Brand Preference is a measure that while similar to market share in structure, provides the relative indication of a brand's strength independent of other, non-customer related market factors. It has been shown predictive of future financial outcomes in numerous studies.

We would also highlight the literature in marketing that describes the importance of understanding customer heterogeneity (differences amongst customers).[4] This suggests it would be helpful to disclose customer values by group rather than simply as a total as there can be substantial variability with the customer base. Exactly how many groups and the basis of the groups would vary by firm. We would be happy to support you in creating advice, and are very willing to connect you to relevant marketing scholars, if that would be helpful.

Brands are an important intangible to many firms. When a firm discloses brands as a marketing-related intangible we would expect to see valuations of specific brands. Firms that are a 'House of Brands', e.g., Unilever which controls Ben & Jerry's, Hellmans, Domestos, Dove etc…, should disclose individual values for each material brand rather than merely an aggregate value. This will help statement users understand the individual performance of the firm's portfolio of brands.

Management commentary and discussion of marketing is useful, as are the sharing of specific marketing metrics. Yet, we believe financial valuation is an appropriate goal and other information should not distract from this. For example, Net Promoter Score (NPS) is a popular metric and many believe it to be informative. Yet, it gives a simple -100 to 100 number that does not directly relate to any financial value. Supplying more information, such as NPS, while valuable and welcome, should not be confused with disclosure of the financial value of a marketing-related intangible. We would be keen to emphasize that marketing-related intangibles have value and that a specific financial value can be given in the currency of the disclosing entity.

[4] For example, Fader, Peter S., Bruce GS Hardie, and Ka Lok Lee. "RFM and CLV: Using Iso-value Curves for Customer Base Analysis." Journal of Marketing Eesearch 42, no. 4 (2005): 415-430.

Do you agree with the advantages and disadvantages of information relating to specific intangibles as identified in Chapter 4 of the DP compared to recognition and measurement (see Chapter 3 of the DP) and information on future-oriented expenses (see Chapter 5 of the DP)?

A table with the advantages and disadvantages identified in the DP can be accessed here.

Yes, I agree with the advantages and disadvantages.

Please explain which aspects you disagree with:

Do you have identified additional advantages and disadvantages that should be included?

No

Which additional advantages/disadvantages should be added?

7. Information on future-oriented expenses

5. Do you consider that requiring such information could be useful?

No

Why is the information not useful?

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

We commend suggestions to break out more clearly marketing spending, especially in the notes to the accounts. Expenses by market and brand (5.21 c) and even customer group, where appropriate, would be very welcome. A break out of marketing spending into what management thinks is future oriented (long-term brand building) versus immediate sales driven would be valuable.

That said, any division is likely to be imprecise and significantly less informative than the financial valuation of marketing-related intangibles. More detail on marketing spending in itself is useful, yet, we do not think this alone can solve the problem of users having little idea of the value of the intangibles generated. We would echo your assessment that this would not really be a substantial contribution to improving stewardship. The value of marketing-related intangibles would remain a mystery and users of statements would not be able to assess any effective or ineffective use of such intangibles.

Should the information mainly complement information on specific intangibles (see Chapter 4 of the DP) or should requirements on future-oriented expenses be introduced instead of requirements on information on specific intangibles?

Please explain:

Should the information mainly:

Please explain:

Do you agree with the advantages and disadvantages of information on future-oriented expenses identified in Chapter 5 of the DP?

A table with the advantages and disadvantages identified in the DP can be accessed here.

Please explain which aspects you disagree with:

Do you have identified additional advantages and disadvantages that should be included?

Which additional advantages/disadvantages do you have identified?

Information on risk/opportunity factors affecting intangibles

Chapter 5 (paragraphs 5.28 to 5.32) of the DP proposes that information included in the financial reports on factors affecting intangibles should be limited to disclosing risk/opportunity factors linked to the key intangibles (whether or not specified) according to the entity's business model. The disclosure should include a description of the risk/opportunity, relevant measures reflecting the risk/opportunity, if relevant (for example, KPI's used to measure it), and how the risk is managed and mitigated. It should include an assessment of the materiality of the risk/opportunity factors based on the probability of their occurrence and the expected magnitude of their impact.

6. Do you agree with this proposal?

No, I disagree.

Please explain what information on risk/opportunity factors affecting intangibles should be provided instead:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

There exists a role for increased disclosures on risks. Further textual statements while potentially useful are not what we think would be most valuable. We suggest that details can be in the form of KPIs. For example, a firm with a subscription-based model should give details of customers retained and acquired in a given period to aid in customer valuation. Over time, these will give an insight into the changing customer base. The inputs driving brand valuation can also give early warning signs of declines.

We believe that greater disclosure of key marketing metrics and valuations of marketing-related intangibles will help to illustrate the importance of marketing activities. This may seem to be of most interest to marketers but we would argue that such a position is a relatively simplistic view. The primary users of the financial statements are currently not well informed as to marketing performance. This helps create a culture of a lack of accountability for marketing activities. We believe that improved information on marketing should help create a better understanding of the marketing (and growth) function, and through this the firm, for the primary users of the accounts. Such increased knowledge will not be welcomed by all marketers. Individual marketers may find themselves having to justify their activity given it will be better understood. This is better for entities, primary statement users, and society more generally.

Such improved understanding will help reveal risks to the firm regarding the marketing activities. A firm reliant on its brand is clearly at risk if there is a brand crisis or the entity simply stops investing sufficiently in the brand. (If Coca-Cola stopped advertising its brand this might show a short-term increase in profits but could be devastating for the company's long-term health). Such information about the business is often currently unclear in financial statements.

8. Additional considerations

7. Do you consider that it would be useful to introduce a common terminology on intangibles?

Yes

Please explain:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

We are keen to advocate for a common terminology in respect of marketing-related intangibles. MASB, the marketing accountability standards board, have created a dictionary and would welcome input to ensure that it is consistent with the needs of accountants (https://marketing-dictionary.org/). Experts in accountable marketing are available and would be keen to assist in efforts to create a common terminology with accounting.

Do you agree that preparers of financial statements should not be required to disclose information on intangibles that would be (very) commercially sensitive?

No

Please explain:

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

While we recognize some concerns about commercial sensitivity, we worry that such objections can undermine the role of any form of reporting. Accountability, indeed any external oversight, is hard to achieve if managers can opt-out of reporting by simply citing commercial sensitivity. Furthermore, we would argue market-related intangibles present relatively limited concerns in the area of commercial sensitivity. The importance of brand is not a secret. By its nature a brand has to be recognized by people outside the firm if it is to be valuable.

Turning to customer valuation the value of specific customer groups could be commercially sensitive information but one cannot judge the value of a firm reliant on its customer base without such data. Robust disclosure is vital to allowing primary financial statement users to see what is happening within the firm. We would counsel against allowing many, if any, exceptions for commercial sensitivity. We would also argue that merely suggesting voluntary disclosure is not a solution. This will lead to a patchwork of incomparable disclosures that have potential to confuse investors, especially small investors.

There are several issues on providing better information on intangibles listed in Chapter 6 of the DP:
Terminology (see paragraphs 6.5 to 6.6)
Sensitivity of the information provided (see paragraph 6.7)
Placement of information (see paragraphs 6.8 to 6.13)
Relevant and comparable information (see paragraph 6.14)
Potential effects on the ability to receive finance (see paragraph 6.15)
Removal of some of the current requirements (see paragraph 6.16)

Do you think there are additional issues that should be taken into account when considering how to provide better information on intangibles?

No

Which issues?

Placement of the information

Chapter 6 (paragraphs 6.8 to 6.13) of the DP presents an approach under which information discussed in Chapter 4 and Chapter 5 of the DP would be placed in the notes to the financial statements if the information is related to an item that meets the definition of an asset or to an item recognised in the statement of financial performance. In other cases, the information would be placed in the management report. However, it is noted that such an approach would result in information about intangibles to be spread between the notes to the financial statements and the management report.

8. Where do you think the different types of information that would follow from the approaches discussed in Chapter 4 and Chapter 5 of the DP should be placed? Do you think all of the information should be placed in the same section or in different sections of the financial report and why?

Note: the following is an official position of the Marketing Accountability Standards Board (MASB).

Assuming that full recognition of marketing-related intangibles is not pursued then we see a role for greater detail on marketing-related activity. It would be useful to break apart planned short-term expenses from planned 'long-term investments' in the notes to the account.

For financial valuations, and the supporting metrics to create the valuations, we would welcome the information in a specific intangibles section of the management report. This could detail all marketing-related intangibles in the same place. This would help readers understand the drivers of value for the firm and get a better understanding of risk factors. For example, a firm with material brand values should be able to share a plan to maintain those values.

9. Thank You!

Thank you for taking our survey. Your response is very important to us.