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UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

Seminar

Creation, Recognition and Valuation of Intellectual Assets

Draft Programme

United Nations, New York, 13 – 14 July 2006

Background

1. In the knowledge-based economy, the creation of value can precede the occurrence of transactions as observed with today's accounting systems. Successful research and development (R&D) and other business activities create considerable value in products and intellectual assets (IA), but the mismatch between the recognition of these values and the investments into R&D and other activities is a major reason for the growing disconnect between market values and financial information. There is therefore, a need to explore best practices and infrastructures that support the asset creation, the recognition and the valuation of R&D and IA.

2. There have been many proprietary attempts to address R&D and IA values and standards for valuation, but, the elusive nature of the effects of R&D and IA on corporate growth and value has defied definition. Such definition is critical and can best be obtained through a program that seeks to bring a better understanding of how value is created in the knowledge economy and explore ways to improve reporting on value creation from R&D and IA.

3. In this respect the OECD's Directorate for Science, Technology and Industry convened workshops on IA valuation and exploitation and its Corporate Affairs Division works on the value creation of intellectual assets (IA) and taxonomy of terms and definitions. In the valuation of assets, the Corporate Affairs Division identifies value drivers such as indicators obtained from non-financial reporting systems. They are particularly interested in the application of indicators in strategic business decisions on R&D and the valuation of IA including the determinants of when to recognize R&D and IA. The World Intellectual Property Organisation (WIPO) has also taken substantives steps to promote IP as a tool for economic, social and cultural development. This role has been clearly defined by the Director General of WIPO. In addition WIPO actively seek to demystify the notion of IP and demonstrate the link between welfare creation and IP.

4. The accounting world is also embracing the valuation of R&D and IA, evident in disclosure rules accepted by the International Accounting Standards Board (IASB) on the

impairment of goodwill (IASB36) and the capitalization of development costs (IASB38) and their national counterparts such as Financial Accounting Standard Board (FASB) statement 141 and 142. The American Institute of Certified Public Accountants (AICPA) started an initiative on enhanced business reporting on R&D and IA. Moreover, industry specific developments are shaping the valuation of R&D and IA in industries such as aviation, telecommunication, pharmaceuticals and automobiles. Best practices are emerging in identifying revenue streams from product lines that can be linked to R&D and IA. Cost accountants for internal reporting purposes already develop detailed databases on R&D and allocate the cost of intellectual and fixed assets to particular product lines. However, accountants responsible for external reporting are more hesitant to report on R&D and IA for purposes of secrecy, volatility and other considerations. This difference in reporting underlines the need for a "good matrix" for consistency between internal and external reporting of financial and non-financial information on R&D and IA.

5. Furthermore, in the update process of the 1993 System of National Accounts (1993 SNA) it was recognized that the compilation of R&D estimates of sufficient quality is feasible in the national accounts. Important work has been initiated by the OECD to revise the Frascati Manual: "A Proposed Standard Practice for Surveys on Research and Experimental Development" and to develop a bridge table to link data from these R&D surveys to the concepts of the SNA. A taskforce consisting of R&D statisticians and national accountants will be formed at a meeting in Berlin during May 2006. The aim of this taskforce is to develop guidelines for the compilation of R&D statistics in the national accounts. These guidelines, along with those already developed for software, will be published in an OECD manual at about the same time as the updated SNA.

6. The United Nations Statistics Division after consultation with the experts in the business and accounting community agreed to arrange a two-day seminar on 13 and 14 July 2006 at the United Nations in New York. The aim of the seminar is to bring together leading experts in the academic circles, international organisations, countries, accounting and corporate sector to explore existing best practices and infrastructure that support IA creation recognition and valuation.

7. This seminar forms part of a process to develop coordination and exchange mechanisms for information sharing on the developments of business accounting standards and standards on macroeconomic accounts. In particular, in this context, between the capitalization of R&D at cost as recommended by the Advisory Expert Group on National Accounts in the update of the 1993 System of National Accounts and the fair value/market valuation of R&D and IA such as patents, databases, brands and goodwill in the international accounting standards.

8. The following themes can be identified as relevant in the discussion on the asset creation, recognition and valuation of R&D and IA:

- R&D and IA and economic growth
- Business accounting standards and corporate reporting practices on R&D and IA
- Best practices on measurement and valuation of R&D and IA

Draft Agenda

1. Opening
Introduction of objectives and the role of business accounts and the SNA.

2. Key note
A perspective on the magnitude and importance of R&D and IA and its affect on economic developments and its value in capital markets.

3. R&D and IA and economic growth
A growing share of economic activity today consist of exchanges of ideas, information, expertise and services that drives profitability and wealth creation more by organizational capabilities than control over physical resources. To systematically identify the relationship between R&D and IA and economic performance, it is necessary the have a clear understanding of the principles driving the development, acquisition and enforcement of IA. In this process of the recognition of R&D and IA assets the identification of changes or transactions that affect R&D and IA and the incentives and motives to invest in R&D and IA are important. Moreover, the definition, measurability, relevance and reliability of the asset should be clearly described. The understanding of the importance of IA in corporate values confronts businesses, users of business reporting information, standard setters and regulators how best to understand and communicate the differences between values expressed through the market capitalization of corporations, and accounting book values. To attribute the entire difference to some notion of intangibles provides little feedback on information to users of financial and business reporting.

4. Business accounting standards and corporate reporting practices on R&D and IA
As regulators seek greater clarity in asset values to be more transparent in financial disclosure, corporations are compelled to improve their reports on R&D and IA value creation. This necessitates consistency in internal and external reporting matrices and the development of an infrastructure to accommodate reliable and relevant reporting. In this respect the migration from a rules-based accounting standard to principles-based methodology facilitates the reduction of the complexity involved in R&D and IA valuation. Accounting rules also require a break down of assets that were previously lumped together under a single item such as goodwill.

5. The measurement and valuation of R&D and IA
In order to assess changes in the scope and strength of R&D and IA, the relationship between R&D and IA and financial performance should be measured, monitored and disclosed. The purpose to value R&D and IA stems from the need to comply with financial reporting, to determine values for transactions and to protect ownership rights in litigation. Valuation methods to support R&D and IA value recognition can be based on a market approach (comparing asset values in the market), cost approach (the cost to obtain the asset) and income approach (the ability to produce income). In addition, the decisions on the capitalization and amortization of R&D and IA are influenced by the rate of return and service lives of the assets.

To asses the value of R&D and IA in wealth creation, it is necessary to know, what the value of the asset is, how the asset is used, and what the user rights of the asset are. This knowledge enhances the exploitation of IA, facilitates the management of IA assets and improves the evaluation of the expected return on investment in R&D and IA. The ability to clearly identify, measure and account for investments in R&D and IA would improve the quality and reliability of information for business managers and investors on the micro economic level and the analysis of macroeconomic accounts for policy purposes on the macro level.

6. Conclusion

Summary, conclusions and considerations for follow up.