



UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

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Seminar

Addressing Information Gaps in Business and Macro-Economic Accounts to Better Explain Economic Performance

New York, 23 – 24 June 2008
United Nations, Conference room C

**Financial and non-financial reporting on intangibles and intellectual capital assets in
company reports**
Lance Robinson

United Nations

Financial and non-financial reporting on intangibles and intellectual capital assets in company reports

Practitioner View (Buy-Side)

Lance Robinson



imagination at work

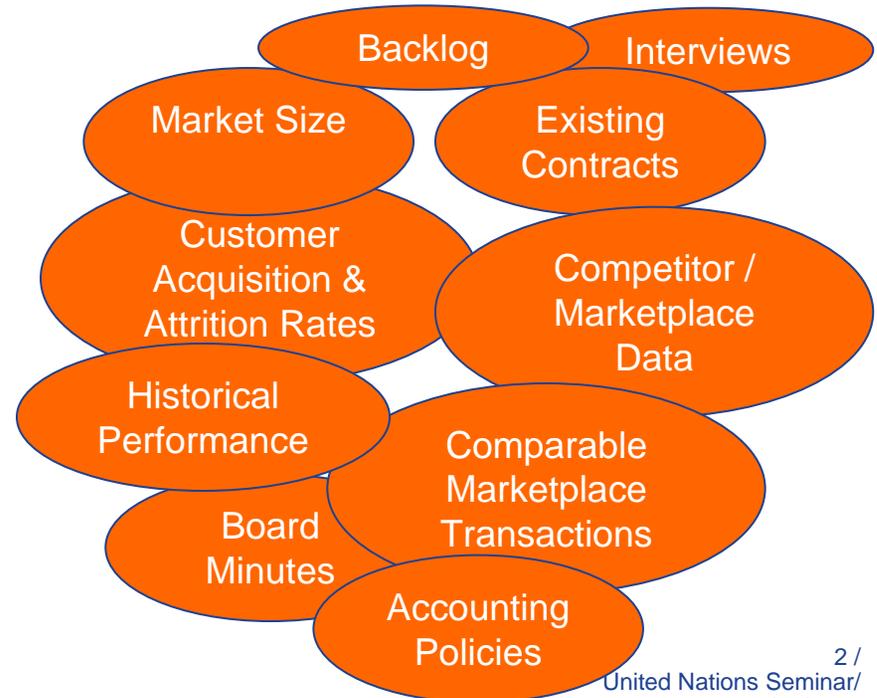
What Investors See

OLD and **NEW** business combination rules require substantially the same financial and non-financial reporting treatment of intangible assets

	Financial
Financial Statements	Period-end Balances
	P&L Impact, if applicable
	Footnote Disclosures
Measurement	Fair Value or Cost ²
Post-Acquisition	<i>Indefinite-Lived</i> ¹ • Impair
	<i>Definite-Lived</i> • Amortize / Impair
IFRS vs. US GAAP	<ul style="list-style-type: none"> • Similar general recognition and measurement concepts • Certain definitional and guideline differences

Non-Financial

Due diligence helps determine *existence & measurement* of acquired intangibles . . . information NOT disclosed in the financial statements



¹ E.g., FCC licenses, certain trade names. Indefinite-lived does not mean infinite.

² Measurement at cost applies to internally developed intangibles.

Sources of Intangibles

	Visible		Invisible (Generally)
	Business Combinations	Asset Acquisitions	Internally Developed
Goodwill	YES	NO	NO
Other Intangibles	<ul style="list-style-type: none"> Marketing-related Customer-related Artistic-related Contract-based Technology-based Indemnification assets Pre-acq contingent assets 	<ul style="list-style-type: none"> Marketing-related Customer-related Artistic-related Contract-based Technology-based 	<ul style="list-style-type: none"> Computer software In-process research & development
Recognition Criteria	<p><i>Other Intangibles</i> arise:</p> <ul style="list-style-type: none"> From contractual or other legal rights, OR By meeting separability criterion 	<p>Must meet asset recognition criteria:</p> <ol style="list-style-type: none"> Is an “asset” by definition Reliably measured Relevant – information about it makes a difference to users Reliable – information is representationally faithful, verifiable and neutral <p><i>An intangible asset that meets the contractual-legal or separability criterion in a business combination would also presumably meet the asset recognition criteria, but the reverse is not necessarily always true (e.g., specially trained employees, unique manufacturing process)</i>¹</p>	<p>Generally expense as incurred unless a specific pronouncement calls for capitalization</p> <p>US GAAP: <i>Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to the entity as a whole... are expensed</i></p> <p>IFRS: <i>Item must meet the definition of an intangible asset, possess the two general criteria of intangible assets, and be related to the development phase of an internal project meeting certain feasibility criteria</i></p>

¹ Similar criteria exist under IAS.

Components of Goodwill

$$\text{Purchase Price of Target} - \text{Fair Value of Identifiable Net Assets} = \text{GOODWILL}$$

- 1. Definite-Lived
Amortize
- 2. Indefinite-Lived
Test for Impairment



¹ Components of goodwill per SFAS 141.

Fortune 500 Analysis

Ernst & Young Survey

2006 Fiscal Year Data

Goodwill

≈ 39%¹

Intangible Assets

≈ 15%²

Intangibles as % of *Book Value* Equity

≈

54%

Source: Ernst & Young's survey based on 2006 fiscal year data. 470 companies out of the Fortune 500 were used in the study given data and other reasons.

¹ Represents the mean. Excludes companies with no goodwill

² Represents the mean. Excludes companies with no intangible assets and excludes goodwill.

Types of Intangible Assets

By Classification... (select)

Marketing-Related

- Trademarks, trade names
- Internet domain names
- Noncompete Agreements



Customer-Related

- Customer lists
- Customer contracts
- Noncontractual customer relationships



Artistic-Related

- Books, magazines, other literary work
- Musical works (e.g., song lyrics, compositions)
- Noncontractual customer relationships



Contract-Based

- Licensing, royalty, standstill agreements
- Lease agreements
- Use rights
- Servicing contracts (mortgage servicing)



Technology-Based

- Patented technology
- Computer software and mask works
- Databases
- Trade secrets
- Research and development



By Industry... (select)

Insurance

- Customer relationships
- Brands and trademarks
- Distribution channels
- Process technology and know-how

Investment Management

- Trade names
- Fund manager contracts
- Customer relationships

Technology

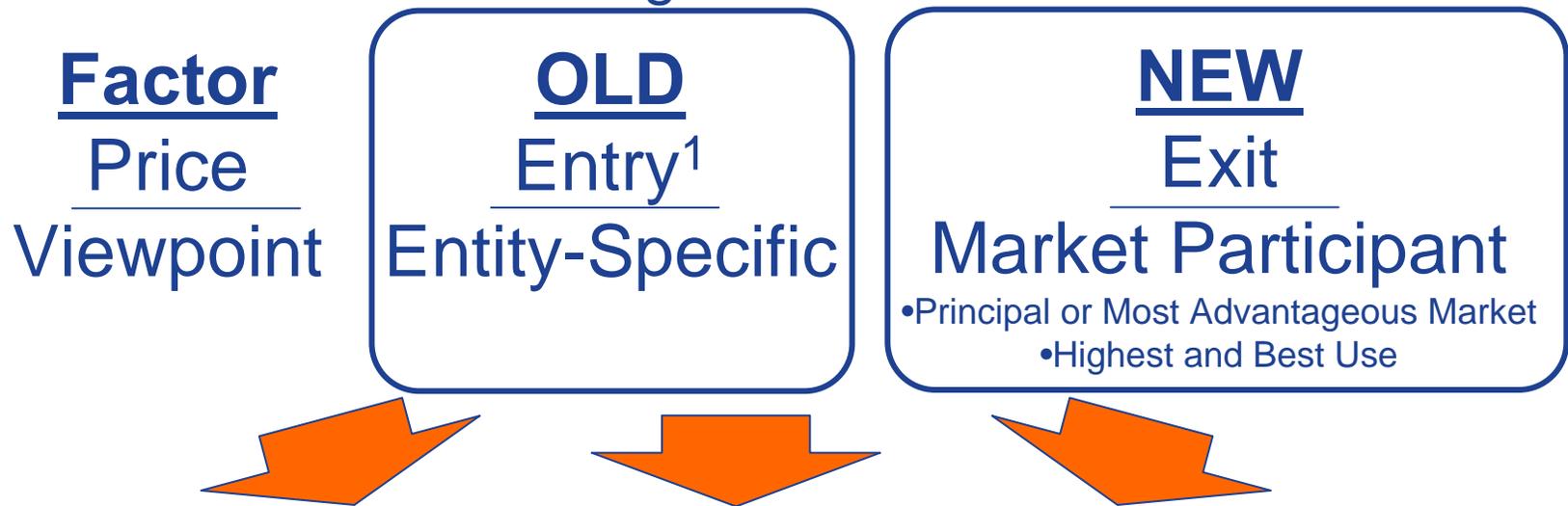
- Trade names
- Computer software
- Favorable / unfavorable contract terms
- Internet domain names
- Patents
- IPR&D

Banking

- Core deposit intangibles
- Customer relationships
- Distribution channels
- Customer lists
- Brands and trade names

Forthcoming Changes

The new definition of Fair Value has significant implications on the recognition and measurement of intangible assets



Impact on Financial Reporting

- + More *identifiable* intangible assets recognized
- + Greater value placed on certain acquired intangibles
- Greater day-2 drag on earnings

¹ Under US GAAP, diversity existed amongst Standards with respect to the definition of "transaction price".

SEC Comments

Purchase Price Allocations

- For “material” business combinations, reasons for large amount of goodwill

Intangible Assets – Customer Relationships

- Justify long useful lives
- Straight-line vs. accelerated

Impairments

- Adequacy, methods, assumptions used in testing
- How reporting units are identified, allocation of goodwill to reporting units

Inconsistencies

- Reconcile divergent disclosures, changes in methodology

The SEC Staff is required to review every domestic issuer’s disclosures, including financial statements, at least every 3 years

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