



UNITED NATIONS  
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS  
STATISTICS DIVISION

IG/15b  
24 June 2008

## **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

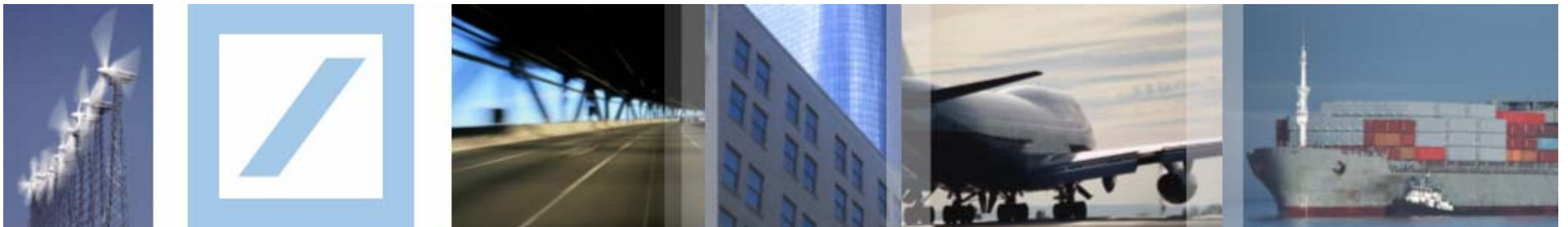
**Financial and non-financial reporting on intangibles and intellectual capital assets in  
company reports**  
**Marc Lucier**



# United Nations Seminar

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

June 24, 2008



*Take-away commentary by:*

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Director, Deutsche Bank Securities

A Passion to Perform.

Deutsche Bank





## Reporting on Intangibles – Institutional Investor Perspective

### What do investors think about intangibles now?

- Difficult to separate from the rest of the enterprise
- Difficult to value – perceived as an art, not a science
- Ephemeral – what's here today could be gone tomorrow
- No intuitive comfort among investors with respect to intangibles as an asset class



## Reporting on Intangibles – Institutional Investor Perspective

### What do investors want?

Information that is:

- Objective
- Repeatable
- Clearly linked to the cash flows derived from those intangibles
- Comparable
  - Across companies
  - Across periods/time
  - Across divisions within each company



## Reporting on Intangibles – Institutional Investor Perspective

### Are investors getting the information they want?

- The short answer – **NO!**
- Is reporting on intangibles objective?
  - Companies have flexibility and incentive to minimize recognition of identifiable intangibles and maximize goodwill
  - Companies have flexibility and incentive to justify long lives of intangibles to reduce amortization expense
  - Without a liquid market for intangibles, valuation is subjective
    - What royalty rates to assume
    - What discount rate to apply



## Reporting on Intangibles – Institutional Investor Perspective

### Are investors getting the information they want?

- Is reporting on intangibles repeatable?
  - Lack of objectivity introduces reliance on individual judgment, which can change
  - Situations, motivation can change
  
- Are intangibles clearly linked to the cash flows derived from them?
  - Hard to separate
  - Multidisciplinary
    - e.g., R&D develops technology but manufacturing and distribution needed to monetize that technology
    - How to allocate relative contributions
  - Value can also depend on outsiders
    - Customers
    - Extent of network
    - Outcome of litigation



## Reporting on Intangibles – Institutional Investor Perspective

### Are investors getting the information they want?

- Is intangible reporting comparable across companies, periods, within companies?
  - Business models have changed, what's relevant today may not be relevant tomorrow
  - Subjectivity reduces comparability
  - Piecemeal approach to accounting changes reduces inter-temporal comparability

**Reporting of intangibles is incomplete & inconsistent and therefore of limited usefulness to investors.**





## Reporting on Intangibles – Institutional Investor Perspective

### What could be?

- Economies have changed – accounting for intangibles must change
  - Be Consistent
    - Rethink accounting for internally generated intangibles
      - Recognize all intangibles, not just purchased intangibles
    - Inconsistency across periods and across companies renders financial statements less useful to investors
  - Be Conservative
    - Minimize ability to manipulate earnings
    - Constrain bias towards non-recognition
    - Constrain bias toward assigning longer useful lives
  - Be Comprehensive
    - Update accounting for all intangibles at once, not piecemeal