



Memorandum

To:	AASB Board Members	Date:	12 May 2015
From:	Nikole Gyles	Agenda Item:	18.1 (M145)
Subject:	Calibrating the value and impairment of intangible assets: The case of brands	Project Priority	Medium
Project Status:	n/a	Decision-Making:	n/a

Actions for this meeting

To provide input into academic research on the value and impairment of intangible assets.

Attachments

Agenda Paper 18.2 Slides [as background information only]

Overview of discussion

The purpose of this discussion is for Board members to provide input into academic research on the value and impairment of intangible assets. The research aligns to the AASB's research strategy in that it relates to an IASB longer-term project on intangible assets / R&D activities. Input into the research may also inform thoughts relating to the IASB short/medium term research project relating to goodwill.

The key objectives of the session are as follows:

- (a) brief the Board on what the research topic (brand valuation and impairment) and the approach to the research;
- (b) discuss how companies are currently treating brand impairment;
- (c) ascertain if the Board has any concerns about current practice and what the Board's preferred treatment options are going forward;
- (d) improve the researchers' understanding of compliance issues and the consequences of non-compliance;
- (e) ascertain the Board's views as important issues on the question of brand impairment and the impairment of intangibles more generally; and
- (f) identify whether there are any material differences in practice between the Australian and other overseas regulatory environments.

Research synopsis

Brands are important organisational assets, and often more valuable than all other organisational elements. Firms declaring acquired brands on their balance sheets must certify that they are not impaired over time. There is substantial accumulated wisdom within accounting/audit firms on how they perform impairment tests, and among brand valuation firms on how they form valuations. We aim to calibrate and codify such practices and identify which methods of identifying the persistence and growth of future earnings streams can complement current practice. The outputs will be twofold: first, a suite of detailed methods for accountants, auditors and financial analysts to measure and diagnose brand value; second, several key indicators that can be used to monitor signs of brand impairment. The results will be shared with participating organisations. No data will be released without the permission of participating organisations and all observations will be anonymous unless the participating organisation explicitly wishes to be identified.

The research team has already secured a large ARC Discovery Grant and undertakings to obtain proprietary data from two major international brand valuation companies. We are in the process of securing non-disclosure agreements with these firms. We are now seeking to engage with the leading accounting firms in order to ensure that our work is embedded in the insights, realities and issues faced by practising accountants and auditors.

This is a multidisciplinary project requiring skills in Accounting & Finance, as well as, in Marketing since many of the inputs into brand valuations are derived through marketing activities / research and, many of the brand valuation firms employ marketing theory and models within their valuation models.

The principal researchers on this project are:

Professor John Roberts (Marketing, UNSW Australia)

<https://www.business.unsw.edu.au/our-people/john-roberts>

Professor Baljit K Sidhu (Accounting, UNSW Australia)

<https://www.business.unsw.edu.au/our-people/baljitsidhu>