Press Release
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Time for a Revolution in the Reporting of Intangible Assets!

Intangible assets such as brands, people, know-how, relationships and other intellectual property make up a greater proportion of the total value of most businesses than tangible assets such as plant, machinery and property. However, as important as these intangible assets are, many directors, analysts, investors and other stakeholders do not have an adequate understanding of how brands and other intangibles impact the value of businesses.

The Brand Finance Global Intangible Finance Tracker (GIFT™) report (produced with CIMA and the IPA), is the world's most extensive research exercise into intangible assets. The comprehensive annual study of 57,000 companies (with a total value of US$89 trillion) across 160 jurisdictions highlights how a collective blind spot for business decision makers and policy makers has been allowed to develop.

At issue is a failure to regularly appraise intangibles. Even more critical however, is the fact that internally generated intangibles are (as per current accounting standards) generally not recognized at all.

From the perspective of analysts, pricing shares with insufficient information about company assets leads to a broader, less helpful spread of values. Investors acting on the incomplete information (and the analyst reports that draw upon it) are in effect, forced to act with one eye closed. In turn, this has a host of negative effects for those responsible for managing the businesses. Share price volatility is one, affecting the stability and sustainability of finance. Hostile takeover is another significant risk. Lack of information about the true value of their assets leaves boards and shareholders in a naïve position, prone to acquiesce to acquisitions that should not take place or to sell individual assets at less-than-competitive prices.

Brand Finance CEO David Haigh comments, "Lord Leverhulme, the founder of Unilever, once said that he knew half his advertising was working, he just didn't know which half. Since then, our ability to assess advertising effectiveness and intangible value has come on leaps and bounds, yet accounting standards and practices have not reflected this. If he were alive today he would probably observe that he knew half of what his business was worth but not the most important half - the brands."

In Brand Finance's view, a commitment to undertake an annual revaluation of all company assets, including tangible assets, acquired intangibles in previous years and internally generated intangibles, would be a boon for boards, accountants, investors and analysts. The transparency and clarity this would afford would enable boards to make more effective use of their assets, accountants to have a truer picture of asset values, and investors and analysts to more accurately price shares.

There is clearly a strong and growing appetite for this. As part of the GIFT™ report, Brand Finance, CIMA and the IPA recently conducted survey of Equity Analysts and CFOs. Over 50% felt brands were becoming increasingly important in risk management and lending decisions and over 70% felt brands were becoming increasingly important in M&A activity.

68% of analysts and 58% of CFOs thought all internally generated brands should be separately included in the balance sheet and that all intangibles should be revalued each year.

Brand Finance CEO David Haigh continues, “There is clear evidence that both producers and users of financial accounts want to see a radical change in the antiquated way intangible assets are reported. With US$30.5 trillion in intangible value undisclosed and growing annually, a revolution in the reporting of intangible assets cannot come a moment too soon.”

Says Janet Hull OBE, IPA Director of Marketing Strategy, “It is arguably irresponsible for balance sheet accounting to omit half of the value created in a business. Now, more than ever, we need a new framework for setting expectations of short, medium and long term value creation to guide investment and management decision making.”

Tony Manwaring, CIMA Executive Director of External Affairs comments, “Before any decision can be taken, leaders need an understanding of all factors material to their business. CIMA believes therefore that we need to account for the business and not just the balance sheet, fully recognising the value of intangibles such as reputation, brand and relationships. After all, you wouldn’t want to be in a plane where the pilot was ignoring half the instruments.”

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About Brand Finance

It is all well and good to want a strong brand that customers connect with, but as with any asset, without knowing the precise, financial value, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? Brand Finance has conducted hundreds of brand and branded-business valuations to help answer these questions. The Global Intangible Finance Tracker (GIFT™) report is the first step to understanding more about intangible assets, how to value them and how to use that information to benefit businesses.

Brand Finance was set up in 1996 with the aim of ‘bridging the gap between marketing and finance’. For almost 20 years and across our network of over 15 offices, we have helped companies to connect their intangible assets to the bottom line, building robust business cases for brand strategy and investments. In doing so, we have helped finance professionals to evaluate marketing programmes and marketers to present their case in the board room, providing a mutually intelligible language for groups that frequently find it difficult to communicate effectively.

As well as producing the GIFT report Brand Finance puts thousands of the world’s biggest brands to the test every year, evaluating which are the most powerful and most valuable. These are grouped by industry sectors and national markets and released as league tables which can be found at www.brandirectory.com.

Brand Finance Chief Executive David Haigh is Chairman of the UK delegation to the International Organization for Standardization (ISO) and helped formulate the ISO 10668 standard on brand valuation. The standard provides a consistent, reliable approach to brand valuation that emphasizes transparency and objectivity. Valuers must take all relevant financial, behavioural and legal information into consideration. Brand Finance is also a member of the US Marketing Accounting Standards Board (MASB) which is setting new standards for brand valuation and financial reporting of brands and other intangibles.

For more information about Brand Finance, please visit www.brandfinance.com

Follow us on Twitter at www.twitter.com/BrandFinance

About the Chartered Institute of Management Accountants (CIMA)

The **Chartered Institute of Management Accountants (CIMA),** founded in 1919**,** is the world's leading and largest professional body of management accountants, with over 218,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders.

Professionalism and ethics are at the core of CIMA's activities with every member and student bound by robust standards so that integrity, expertise and vision are brought together.

CIMA has formed a joint venture with the American Institute of CPAs (AICPA) to establish the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting. The designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance.

CIMA is proud to be the first professional accounting body to offer a truly global product in the fast-moving area of Islamic Finance.

For more information about CIMA, please visit www.cimaglobal.com

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About the Institute of Practitioners in Advertising (IPA)

The IPA is widely recognised as the world's most influential professional body for practitioners in advertising and marketing communications, with a well-earned reputation for international thought leadership, best practice and continuous professional development. Our 311 agencies lead 4,300 brands, employ over 25,000 staff and contribute £17bn in UK spend.

The mission of IPA member agencies is to help client organisations create, develop and deliver value by better servicing the needs and wants of customers.

The evidence of the IPA Databank of winning case studies demonstrates how a long-term commitment and sustained investment in marketing and brands delivers a better return on investment than more stop-start short-term tactical activities. However, the winning combination comes from the pursuit of a mid to long-term brand strategy and programme, enhanced by shorter-term brand activation.

The IPA seeks to lead by example, drawing on practitioner case work submitted for its biennial Effectiveness Awards and ongoing IPA SocialWorks project to inform its thought leadership practice. We created the IPA Eff Test, an online learning programme that promotes the comprehension of, and engagement with, planning as the USP of agencies, and our IPA Effectiveness Leadership Group provides a quarterly sounding board for its programmes.

For more information about IPA effectiveness visit www.ipa.co.uk/effectiveness