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Press Release – For Immediate Release

Experts Demand End to Illogical Financial Reporting Rules that Exclude $35tn of Intangible Value

According to the Brand Finance Global Intangible Finance Tracker (GIFT™), the disclosure of intangible assets remains disappointingly low, with US$35 trillion, or almost three quarters of global intangible value, not reflected in balance sheets in 2016.

See the full Brand Finance GIFT™ 2017 report here

Insufficient reporting of intangible assets leads to a host of problems for analysts, investors, boards, and stakeholders. With little information on particular assets, analysts' assessments are not as accurate as they could be, forcing investors, in effect, to act with one eye closed. This, in turn, has negative effects on share price volatility, affecting the stability and sustainability of finance. Finally, lack of granular information about the true value of assets leaves boards and shareholders prone to agree to hostile takeovers or to sell individual assets at less-than-competitive prices.

Intangible assets (such as brands, relationships, know-how) make up a greater proportion of the total value of many businesses than tangible assets (such as plant, machinery, and real estate). However, current financial reporting rules allow intangible asset disclosure only during M&A activity, resulting in no knowledge of the worth and business importance of intangibles unless they are subject to an acquisition.

In his exclusive opinion piece for the Brand Finance GIFT™ Report, Sir David Tweedie, Chairman, Board of Trustees, IVSC, commented: *"If purchased brands can be put on the balance sheet, there is no logic in banning internally generated brands being shown as assets. Indeed, companies which fear predators and which possess highly visible, saleable home-grown brands may be tempted to consider whether such brands should be on the balance sheet."*

In an opinion piece also featured in the Brand Finance GIFT™ report, David Herbinet, Global Audit Leader at Mazars, a member of the Praxity alliance, commented: *"It is hard in the modern age of accounting to ignore the reporting for brands and other intangibles simply because these issues fell into the 'too difficult' box. Applying traditional assumptions based on the accounting world of yesterday, where physical assets dominated, can surely no longer be justified."*

David Haigh, CEO of Brand Finance, commented: *"The main objection to including internally generated intangible assets in balance sheets has been scepticism about the reliability of valuation standards and of intangible asset valuers. The rapid development of standards by the International Valuation Standards Council (IVSC) and the recently launched Certificate in Enterprise and Intangible Valuation (CEIV) have addressed these objections."*

In Brand Finance's view, a commitment to undertake an annual revaluation of all company assets, including tangible assets, acquired intangibles, and intangibles generated internally, 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.

According to Brand Finance's survey of financial analysts, conducted in 2016, the majority backs this demand for an annual revaluation of all intangible assets (73%), including the full disclosure not only of acquired intangibles (79%) but of all internally generated ones too (68%).

These results may be attributed to the fact that current regulations clearly do not allow for efficient reporting of intangibles. Although the increase of global M&A deal value in 2016 by 24% year on year to US$2.1 trillion should have allowed for significantly more intangible assets to be reported on balance sheets, the level of disclosure remained low. The proportion of disclosed intangibles to total enterprise value remained at only 6% and that of goodwill at 8%, marking no change since 2015. The proportion of undisclosed assets to total enterprise value, on the other hand, grew from 34% to 38% globally, by US$4.5 trillion in absolute terms, bringing the total unreported intangible value to US$35 trillion.

The problem is best highlighted by the stark disparity between the list of the world's top 100 most intangible companies and an equivalent list ranked by disclosed as opposed to total intangible value. Apple (with intangibles worth US$455 billion), Amazon (US$410 billion), Alphabet (US$378 billion), and Facebook (US$344 billion) – all among the top ten of the world's most intangible companies – do not even make the list of top 100 companies by disclosed intangible value.

David Haigh, CEO of Brand Finance, added: *"Intangibles, which can be described as 'Cinderella Assets' – unjustifiably left out from balance sheets for too long, should finally be invited to take part in the financial reporting ball!"*

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About Brand Finance GIFT™

The Brand Finance Global Intangible Finance Tracker (GIFT™) is the world's most extensive annual research exercise into intangible assets, covering over 57,000 companies (with a total value of US$92 trillion) across more than 170 jurisdictions.

In its analysis, the Brand Finance GIFT™ 2017 report provides detailed insight into intangible value reporting by company, sector, and country. Consult the report document for graphs, executive commentary, and opinion pieces by representatives of the leading organizations in the accounting profession.

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About Brand Finance

Founded in 1996, Brand Finance is the world's leading brand and branded business valuation consultancy, with offices in over 25 countries. We provide clarity to marketers, management boards, and investors by quantifying the financial value of intangibles and entire businesses. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax, and intellectual property, Brand Finance helps clients make the right decisions to maximize intangible asset and business value and bridges the gap between marketing and finance.

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 on the league table section of the Brand Finance website.

David Haigh, CEO of Brand Finance, leads 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.