

Technical Director
FASB
401 Merritt 7
PO Box 5116
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October 17, 2016

Re: File Reference no. 2016-290

Dear FASB Technical Director,

Over the past quarter century, intangibles have become a primary, recognized source of operational profitability for the majority of publicly listed corporations. Recognition for the importance of intangibles such as brands and patents has been recognized in transfer pricing purposes amongst tax authorities and for purchase price allocations as part of M&A. The challenge with both of these methods is that they do not account for operational performance of a company with both practices being point in time exercises with restrictive criteria for reevaluation.

The tides of business, however, have moved much past these reporting practices, both of which were established in the 1990s. Today, there is a growing demand from investors to understand the sources of operational cash flow outside of operating margin, business units, and geographies. Investors are wanting to understand what share of operation performance is attributable to intangibles with brands and patents being the foremost intangibles that are easy to compare across companies. Concurrently, there is demand amongst corporations through associations and standards bodies to understand and document the role of intangibles in driving business results. This is demonstrated in the following concurrent activities happening at present.

Global Brand Evaluation standards to identify the role that brands make in purchasing decisions, and eventual operational cash flow for organizations. This is an initiative that is global in nature and involves the International Standards Organization Technical Committee 289 (ISO/TC:289), American National Standards Institute (ANSI), and the US-lead, The Marketing Accountability Standards Board (MASB). This body is also responsible for updating the IFRS-recognized standards for ISO 10668: Brand Valuation

Intellectual Property performance reporting standards for publicly listed companies, specifically their corporate boards, that provides the evaluation and minimum disclosure criteria for Intellectual Property (brands, patents, etc.) as a driver of organizational profitability and sustainability. This is a U.S. initiative led by the Licensing Executives Society (LES) through ANSI. A big part of this standard is to provide guidance to the Securities and Exchange Commission's

(SEC) spring 2016 request for guidance around how public companies should update their reporting to shareholders and investors. The LES is envisioning a cash flow attribution model similar to Gross Profit Margin where expenses due to fixed and variable costs are identifiable and reportable to ownership.

There is a common theme in these initiatives to have corporate evaluation and reporting standards be reflective of the macroeconomic transition to a knowledge-based intangible economy.

In response to this ask in the market, and consistent with MASB's (Marketing Accountability Standards Board) participation in both brand evaluation and reporting initiatives on behalf of brand driven organizations, MASB is proposing that FASB address this request by providing the criteria under which they would support an update to reporting requirements. Specifically, MASB is proposing that cash flow reporting be segmented into cash flow from tangible operations and intangible operations with brand specifically accounted for as a reporting requirement.

We believe that a framework in which companies provide both projections and the subsequent, realized cash flow against a reporting period would address previous concerns raised by FASB regarding the use of Present Value or Net Present Value-based brand valuations that predicated the value of brands based on future performance. It would enable companies to make business decisions using their brand based on expected performance and provide a reconciliation confirming the degree of variance after the fact. This approach also recognizes the reality of brand management today which is based on customers and consumers interacting with a brand based on its ability to meet future expectations rather than how the brand has performed in the past. A projections driven approach to brand cash flow measurement with commensurate reconciliation is similar to how present corporations provide guidance for revenue and earnings estimates and reconcile them periodically.

This proposal, to have companies report on brand contribution to cash flow on a trailing basis to reconcile projections-based valuations would be consistent with FASB's other concerns regarding repeatability, transparency, and transferability of the evaluation method. MASB's proposal would not affect balance sheet reporting nor require changes to income statements. Rather, it is a set of standard criteria by which organizations are better able to inform both shareholders and themselves as to why they continue to exist as organizations in a brand and knowledge-based economy.

It also enables companies that are brand dependent to implement brand management and forecasting protocols at a new, more sophisticated level of rigor, similar to how manufacturing companies increased the accuracy of their projections and actuals decades ago as six sigma enabled manufacturing-cycle dependent projections to be very similar to eventual, financial return.

Furthermore, this recommendation is consistent with the evaluation and reporting standards being established by the aforementioned organizations. FASB has

demonstrated its support for a rigorous method that provides greater information regarding organizational performance in its approval of the Sustainability Accounting Standards Board (SASB) that recently fulfilled the FASB validation requirement to have its evaluation and reporting criteria become available for public company reporting.

As part of the process to expand the performance of intangible asset reporting and make it both transparent and usable by corporate practitioners, shareholders, evaluators, and auditors, MASB has multiple approaches that it can present to FASB as the foundation for establishing brand reporting standards. These models have been previously tested by MASB and are used in numerous organizations to explain the role that brands play in purchasing decision and corporate value.

- MASB's Brand Investment Valuation model used in consumer categories
- CoreBrand's model for understanding the role of corporate brands
- Roger Sinclair's model for establishing the fair value of merged brands
- ISO's Brand Evaluation model for identifying the role of brand vs other asset classes in explaining operational cash flow

MASB would like to make itself available to work with FASB to come to a workable and applicable solution that addresses the present objective of enhancing the understanding of intangible asset performance and reporting. To be able to do this in the most effective manner, MASB would like clarity on the following points/questions.

- Is a rigorous systematic explanation for the breakdown of reported cash flow an approach that would be satisfactory for FASB?
- Are FASB's objectives for Intangible Asset reporting limited to the class of Intangible Assets as a whole or are the reporting objectives for key asset classes such as brands and patents?
- What are FASB's requirements for rigor in evaluation and reporting?

A solution to FASB's objective in updating financial accounting reporting, especially for public companies, is achievable and there are numerous organizations including MASB that are actively pursuing the task of bringing standards of rigor, transparency, and transferability to the practice of understanding and reporting of intangible assets. We request that FASB entertains MASB's recommendations and, if accepted, allows MASB to support in the updating of financial accounting reporting standards.

For a complete description and history of MASB please visit: www.TheMasb.org

Sincerely,



Edgar Baum
Co-Chair

Improved Financial Reporting Committee
The Marketing Accountability Standards Board (The MASB)