

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:	<input type="text" value="Jim Gregory; Roger Sinclair"/>
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Stakeholder group:	<input type="text" value="Professional bodies – Other"/>

If replying on behalf of an Organization please complete the following:

Organization name:	<input type="text" value="www.themasb.org (MASB) IMPROVING financial reporting (IFR) task group"/>
Industry sector:	<input type="text" value="Not applicable"/>
Geographical region:	<input type="text" value="North America"/>

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

The IIRC draft framework is replete with references to brands: in the definition of intellectual Capital (2.17) and throughout the text (see 2.32; 2.45; 3.11; 4.7; 4.8; 4.19; 4.20; 4.22; 4.25). The MASB/IFR team believes that this prominence requires that the document provides a more concise description of what brands are and the central role they play in the creation of enterprise value. The following are two guiding principles that place brands in the correct context:

- 1) Brands link consumers and customers to the enterprise. Without brands users of the firm's products and services have no way of identifying them and comparing them with other options. It is brands that allow the firm to differentiate itself in the market place; a key IR consideration. Brands are the conduits through which consumer cash flows are directed to the enterprise. It is believed that the closer the bond between the consumer and the brand the more secure are the present and future cash flows.
- 2) Brands are transferable because they are normally based on a legally protectable, registered trademark. Thus title to the brand and its associated relationships is transferable in the legal sense. Brands can be separated from the rest of the business, and sold. They are intangible assets attested to by IFRS 3 Business Combinations.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

1. We agree with the six principles as laid out on page 6

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

2. The MASB is involved in the establishment of standards for the marketing industry and in view of the importance of brands in the IIRC Framework, should be referenced in the IR where applicable.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

3. www.themasb.org

Other

4. *Please provide any other comments you have about Chapter 1.*

4. No further comments on chapter 1

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. *Do you agree with this approach to the capitals? Why/why not?*

Fundamental concepts

5. We agree with the concept of the capitals but have this proposal to make: In 2.17 the definition of Intellectual Capital includes both brand and reputation. In the text reputation is mentioned under source of value and also when Intellectual Capital is defined. Marketers distinguish between product and service brands that consumers buy and corporate brands which are associated with the corporate entity: viz P&G; Unilever; Nestle and Colgate. Both types contribute value to the entity: one by attribute association in the minds and memories of consumers and the other by reputation built within the wider community of stakeholders that the company deals with (2.20). We propose that this distinction be made clear perhaps to the extent of establishing one additional capital based on reputation.

6. *Please provide any other comments you have about Section 2B?*

6. No further comments

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. *Do you agree with this definition? Why/why not?*

7. We agree with the definition of the Business Model.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. *Do you agree with this definition? Why/why not?*

8. Brands fall under the notion of "knowledge intangibles" (2.17) but at this stage are not on the balance sheet if they are internally generated. This is likely to change as the accounting standards are rationalized (see 24 below). The need to "explain their (brands) capacity to create value" (2.28) is highly relevant.

9. *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?*

9. In paragraph 2.10 the need to set up measurement and monitoring systems is stated. Brand strength is evaluated by marketing measurements which is the key monitoring tools. Thus the risks associated with cash flows being earned now and in the future are substantially dependent on this measured relationship. A description of the specific measurement method used should be included in any list of measurement and monitoring tools that are listed in the IR.

Other

10. *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

10. No further comments

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. *Do you agree with this approach to materiality? If not, how would you change it?*

11. We are happy with the approach to materiality

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

12. A firm's unique value creation story (3.10), especially in the case of the world's major brand-owning companies, is all about brands. The IR framework recognizes this in its usage of terms such as brand equity, brand loyalty, product differentiation, market positioning and segmentation, the competitive landscape, future cash flows, targeted market share, customer relationships and long term relationships (see opening paragraph above). In a brand-owning company, if brand sales or distribution or the firm's ability to charge a premium price are negatively affected the firm will lose value; hence brands are material to the future and performance of the firm and its capacity to create value. In these cases the firm's strategic objectives are primarily tied to brand success or failure.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

13. Compliance with established standards; verifiable data and full disclosure.

14. Please provide any other comments you have about Section 3E.

14. No further comments

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

15. Marketers are allocated funds which they expend on building brands and related activities. This capital-building expenditure has a negative effect on the Financial Capital because it is an expense which reduces the amount of capital available for the costs of running the business. If this expenditure is successful however, the value of the business is increased over time because the brand asset (a component of IC) is enhanced (1.16; 2.13; 2.14; 2.22). Brands are a vital source of the return that investors of capital will earn when participating in the value creation of a brand-owning company (2.37). The central goal of any brand-owning businesses is to optimize the value of the brand, but this balance (of expense with brand asset value) also delineates an important distinction between marketing costs as an expense which are not capitalized; and the present value of future economic benefits which are.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

16. There is an overlapping relationship between the requirements of the IR (4.7; 4.8; 4.9; 4.19; 4.20) and brand strategic plans. A comprehensive brand strategic plan will cover the review and external environment that the IR calls for in this section. In addition it will set out the firm's brand strategies for the short, medium and long term and propose how these will be achieved. In brand owning companies it is the brands that account for the entity's differentiation and competitive advantage. Associated with this is how the capitals and their inputs are measured. A major MASB project is the development of a "generally accepted brand investment & valuation standard". In this regard MASB has published a draft set of principles on which such a system would be based. It can be found at. <http://www.themasb.org/wp-content/uploads/2011/12/BV.rationale.principles.pdf>

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

17. No comment

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

18. The Chief Marketing Officer (CMO) should be named as the executive with custodian responsibility for the firm's brand portfolio.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report’s adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

No comment

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

No comment

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

No further comment

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

22. No form of reporting has historically treated brands as cash generating units, creating value for the firm. In this regard they are of central value to the brand-owning firm and tell an important, continuous story to the investing community.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

23. Our three topics would be

- a. The nature of brands and brand equity
- b. How brands are measured
- c. The consumer, brand cash flow link

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

24. Under Key Points (2) we referred to IFRS 3 Business Combinations. This accounting standard, which has a FASB equivalent now known as Topic 805, states that a brand will meet the identification and recognition criteria as an intangible asset when it is acquired in a business combination. IAS 38 Intangible assets (FASB Topic 350) states unequivocally that internally generated brands cannot be recognized as assets. This is a paradox that the IFR team of theMASB believes is unsupportable and untenable and must be changed. The basis of the prohibition under IAS 38 is that brands are an expense which cannot be separated from the cost of building the rest of the business. In terms of IFRS 3 brands are recognized because they will be valued at their fair value. There is no reason why internally generated brands should not also be measured at their fair value. This contradiction could be resolved with ease by removing one clause from IAS 38 (IAS 38:63-64). Because this conflict can only cause confusion in the minds of investors, we ask the IIRC to join us in urging the accounting standard setters to take the necessary steps to unify the conflict.,

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