



IFRS 3: The First Year. The FTSE 100's reporting of acquired intangible assets

Executive summary

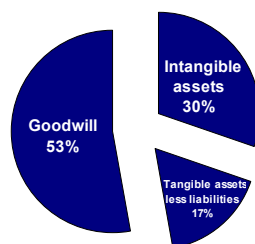
Introduction

2006 is the first time that IFRS 3, Business Combinations, has been reported in companies annual reports. Intangible Business, the world's largest independent brand valuation consultancy, investigated how FTSE 100 companies accounted for their £40billion of acquisitions. The results reveal a systematic failure to comply with the standard which results in the following consequences:

“...£21 billion lost in a black hole.”

Key findings

Figure 1 - FTSE 100 IFRS Purchase price allocation



“...£80m of shareholders money wasted.”

- 1. Under-reporting of intangible assets:** intangible assets only account for £12b (30%) of acquisition value.
- 2. Goodwill is too high:** goodwill accounts for £12billion (53%) of acquisition value.
- 3. Failure to explain goodwill:** IFRS 3 requires goodwill to be described. This has not happened.
- 4. Failure to describe intangible assets:** assets are aggregated and inadequately described.
- 5. No insight given to investors:** shareholders are none the wiser about an acquisitions' success.
- 6. Wasted costs:** an estimated £80m was wasted attempting to complying with IFRS 3.

Examples of inadequate reporting



Bought Korea First Bank for \$3.4b and allocated only 7% to its brand and customers.



Bought United Defense for £2.2b but intangible assets accounted for less than 2%.”



Bought the RAC for £1.1b and valued its brand and customers at only £392m.



Bought Friends Reunited for £145m and allocated 69% to goodwill, totally unexplained.



Bought one of the world's largest advertising networks, Grey, for £928m...but it had no brand.



Bought OBI, a £144m Chinese retail business which apparently had no customers and no brand.

Conclusions

There are several reasons why IFRS 3 has not been properly implemented. These, along with the limitations are described in the full report. What is evident from this exclusive research is that some of the UKs major companies are systematically failing to comply with IFRS 3 which results in £21billion dumped into goodwill and unexplained.