



SFAS 141: The First 5 Years. The S&P 100's Reporting of Acquired Intangible Assets 2001 - 2007

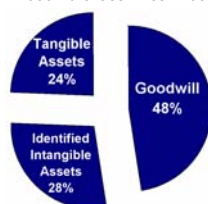
Executive Summary

Introduction

SFAS 141, Business Combinations, was introduced in the US in 2001 to standardize the accounting for assets acquired during an acquisition. \$1,033 billion was spent on 212 acquisitions by the S&P 100 between 2002 – 2006. This report is the first time an analysis of its implementation over this period has been carried out. As SFAS 141 was used as the template for the European equivalent, IFRS 3, this report highlights the trends that could affect the UK and Europe.

Key Findings

S&P 100 2002 – 2006 Purchase Price Allocation, average

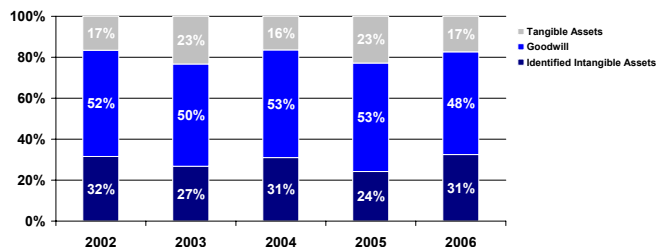


“...\$490bn hidden in vacuum of goodwill.”

- 1. Goodwill is too high:** \$490bn has been unaccounted for in goodwill (48%)
- 2. Under-reporting of intangible assets:** \$290bn has been allocated to intangible assets (28%)
- 3. Wasted compliance costs:** \$1bn is estimated to have been spent in compliance with SFAS 141
- 4. No discernable benefits:** Benefits from implementation of SFAS 141 appear insignificant
- 5. No difference to IFRS 3:** There is little difference to the implementation of IFRS 3
- 6. No improvement:** There has been no improvement in quality of reporting over the five years

“...\$1bn wasted in compliance”

S&P 100 2002 – 2006 Purchase Price Allocation, by year



“...no improvement in quality of reporting after 5 years – a worrying sign for IFRS 3.”

Examples of inadequate reporting



Bought PIXAR for \$7.5bn and allocated only 3% to intangible assets. 75% was goodwill.



Bought YouTube for \$1.2bn and allocated \$0.2bn to intangibles and \$1.1bn to goodwill, 92%.



Bought Burlington Resources for \$35bn allocating just \$0.1bn to intangibles, 0%.



Bought Bank One for \$95bn. Only 9% was allocated to intangibles but 36% to goodwill.



Bought Unocal for \$20bn and determined that intangible assets had no value at all.



Bought Golden West for \$75bn with intangibles like customers, brands, contracts valued at 1%.

Conclusions

The overstatement of goodwill and under-reporting of intangible assets is a common theme between IFRS 3 and SFAS 141. Sadly there has been no improvement after five years of SFAS 141's implementation which does not bode well for IFRS 3.