Intellectual Assets and Value Creation: Implications for Corporate Reporting

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Project Background

- Horizontal project at OECD level: DAF, DSTI, and EDU
- 2006 MCM: « Creating value from intellectual assets »
- 2006 11th and 12th meetings of the Steering Group on Corporate Governance: « Intellectual assets and value creation: implications for corporate reporting »

Consultation Process

- Regulatory bodies
- Stock exchanges
- Accounting bodies
- Investor community
- Ferrara conference in October 2005

Nature of the Issue

- Diminishing relevancy of the financial statements
- Misallocation of resources in capital markets
- Inefficient resource allocation and misdirected investment strategies at firm level

Key Issues

1. Taxonomy of IA meaningful both to managers and investors

2. Measurement of IA by non-financial metrics (KPI) to better indicate their contribution to value creation

3. Corporate reporting of IA to improve the accuracy, materiality & completeness of non-financial information & to foster comparability across organizations, industries & over time

4. Management of IA with respect to resource allocation decisions and to risk management

Taxonomy of Intellectual Assets

- Evolving scope
  - R&D, patents, trademarks
  - Human resources and capabilities, organisational competencies and « relational » capital
  - Dynamic business attributes: knowledge-creating capability, right of access to technology, ability to use information
- Confusion between the assets and their value drivers
- IA are included in SRI issues
- Taxonomies provided not used by investors although investors take them into account in their research
- Necessity to provide taxonomies value-relevant for investors and managers

Corporate reporting

Corporate reporting on an unsystematic basis & with great discrepancies between organization, industries and countries

- Absence of an institutional and conceptual framework
- Two types of guidelines with different scope, target companies, users and purposes
  - Narrative reporting : listed companies, mandatory, shareholder-oriented, reporting tool
  - Specific reporting on IA: all organizations, voluntary, not only shareholder-oriented, management tool
- Proposed frameworks do not meet investors’ expectations as they lack industry-specific indicators

Market efficiency

- Relative efficiency of capital markets depending on markets and segments (case of small listed firms)

- Main benefit of increased disclosure: lower cost of capital, especially for small companies

- Investors ask and obtain very detailed information through different channels and incorporate it in their valuations

Policy Implications

- Additional public disclosure for listed companies would enhance market efficiency
- Principles-based & voluntary approach to improved disclosure on IA
- Governments need to encourage diffusion of best practices already pioneered by advanced firms

Future OECD work

Business environement and Corporate Governance mechanisms to improve IABM

- Shift towards more internal control & risk management issues

2. Specific Corporate Governance issues