

Mr. Jackson Day
Technical Director
File Reference No. 2024-ITC200
Financial Accounting Standards Board
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28 May 2025

Invitation to Comment, *Recognition of Intangibles* (File Reference No. 2024-ITC200)

Dear Mr. Day:

We appreciate the opportunity to provide feedback on the Invitation to Comment (ITC), *Recognition of Intangibles*, issued by the Financial Accounting Standards Board (FASB or the Board). We support the Board's efforts to seek stakeholder feedback aimed at improving the accounting for and disclosure of intangibles, including internally developed intangibles and research and development (R&D) costs. We believe stakeholder engagement will allow the Board to understand investors' perspectives on the recognition and disclosure of intangibles to provide more decision-useful information, while also understanding the cost and complexity of any proposed model.

While we support the Board's objective to explore improvements to the accounting for intangibles, we do not believe there is a widespread need to significantly revise current US GAAP related to intangibles. As we will discuss in our response to the ITC on the agenda consultation, we believe the Board's resources would be better directed toward other areas to improve financial reporting. Should the Board decide to take on a project on intangibles, we believe targeted, narrow-scope improvements would be a more feasible and effective approach and recommend the Board explore aligning the recognition and measurement guidance for acquired in-process research and development (IPR&D) assets. We believe it also should consider updating the examples of R&D activities and consider feedback from preparers and investors when evaluating whether a disclosure project specific to R&D would align with investor needs.

Our responses to select questions in the ITC are included in the Appendix.

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We would be pleased to discuss our comments with the Board or its staff at their convenience.

Very truly yours,



Appendix – Responses to questions for respondents in the ITC

Question 2: Is there a pervasive need to improve GAAP related to the accounting for and disclosure of intangibles (that is, is there a case for change)? Please explain your response.

We do not believe there is a pervasive need to significantly revise current US GAAP related to intangibles. We agree with the views expressed in the ITC that stakeholder views remain diverse due to the broad nature of intangibles, uncertainty about their future economic benefits and differing views on their relevance to investor decision-making. We believe that these longstanding challenges continue to limit the feasibility of a broad-scope project.

However, we acknowledge that improvements may be warranted in some areas, as described in our responses to the questions below. We generally find that the existing accounting and disclosures are appropriate and provide relevant, useful information. Accordingly, if the Board were to decide to pursue a project on intangibles, we encourage it to consider targeted, narrow-scope improvements that could meaningfully enhance the current accounting and disclosure framework, as described below.

Question 4: R&D costs are required to be expensed as incurred. Do the current definitions of the term *research and development*, and related examples of activities included in and excluded from R&D, appropriately capture R&D activities that should be expensed as incurred? Please explain your response, including how the definitions could be updated. See Question 14 about disclosure of R&D costs.

Question 6: Practitioners and preparers—Are there operability or auditability challenges in applying the R&D guidance, such as identifying what costs should be accounted for and disclosed as R&D? Please explain your response, including what the specific challenges are and how the Board could address them.

We believe the current definitions of the term “research and development” are generally fit for purpose. In our view, the definitions are well understood in practice and provide sufficient breadth and flexibility for stakeholders to apply them appropriately across a range of fact patterns in different industries. We do not believe changes to the definitions are necessary.

We do not see pervasive operability or auditability issues with applying the current R&D guidance. While some judgment is required to apply the guidance, most practitioners and preparers can apply it effectively. That said, we recommend the Board consider updating the examples of activities included in and excluded from R&D in Accounting Standards Codification (ASC) 730-10-55-1 and 55-2. Such updates, particularly in areas such as technological and digital innovation, could enhance relevance, improve clarity, reduce interpretive questions in practice and support consistent application.

Question 8: Should the Board consider aligning the recognition guidance for intangibles (a) acquired as part of a business combination, (b) acquired in an asset acquisition, (c) that are internally developed, or (d) newly developed criteria? If so, how should the guidance be aligned? Should the recognition guidance be aligned for all intangibles, including those with specific industry based guidance, or only certain categories? Would such an alignment result in decision-useful information? Please explain your response. If a new model is recommended, please provide details on that model, including how it would be an improvement to current GAAP and achieve consistent recognition of intangibles.

Question 9: Practitioners and preparers-Are there operability or auditability challenges in applying the acquired intangibles recognition guidance? Please explain your response, including what the specific challenges are and how the Board could address them?

We do not believe a comprehensive project to consider aligning recognition criteria for all intangibles is necessary or practical, given the range of intangibles and the complexity of such an effort.

Instead, if the Board were to decide to pursue a project on intangibles, we encourage it to consider a more targeted project focused on an area where misalignment creates the greatest operational burden or inconsistency in financial reporting. We recommend the Board consider aligning the recognition and measurement criteria for acquired IPR&D assets, since the accounting varies depending on the form of the transaction, even though the underlying characteristics of the IPR&D asset are the same.

In our view, these differences introduce unnecessary complexity and cost for preparers. We believe the current framework results in the inconsistent recognition and measurement of acquired IPR&D assets based on how the asset was acquired, which affects comparability both within and between entities.

There are initial and subsequent accounting differences between IPR&D assets acquired in a business combination, an asset acquisition or through the initial consolidation of a variable interest entity (VIE) that does not constitute a business. These differences are further underscored by the fact that while IPR&D is capitalized at acquisition in a business combination or upon consolidating a VIE that is not a business, subsequent costs incurred on the same project are required to be expensed as incurred under ASC 730, which results in inconsistencies in the accounting for the same asset over its lifecycle.

Under current US GAAP, upon the acquisition of a business (including upon initial consolidation of a VIE that meets the definition of a business), acquired IPR&D is deemed to meet the definition of an asset, regardless of whether the acquired assets have an alternative future use. As such, the acquired IPR&D asset is recognized at fair value in accordance with the guidance on business combinations in ASC 805-20-25 and ASC 805-20-30 and classified as an indefinite-lived intangible. Uncertainty about the outcome of an individual project does not affect the recognition. Instead, the uncertainty is reflected in the fair value of the acquired IPR&D asset.

In contrast, an entity that acquires IPR&D assets in an asset acquisition follows ASC 730. Under this guidance, identifiable R&D assets with no alternative future use are recognized as an expense at the acquisition date, while those with an alternative future use are capitalized. That said, it is infrequent in practice for an acquired IPR&D project to have an alternative future use.

Another layer of complexity arises when IPR&D assets are acquired through initial consolidation of a VIE that does not meet the definition of a business. These transactions are excluded from the scope of ASC 805-50 and instead follow the guidance in ASC 810, *Consolidation*. In such cases, the primary beneficiary recognizes assets acquired and liabilities assumed at fair value in accordance with ASC 805-20-25 and ASC 805-20-30 (except for goodwill). Accordingly, acquired IPR&D is recognized as an asset, regardless of whether it has an alternative future use. However, the subsequent accounting for an acquired IPR&D project in these circumstances is unclear.

As highlighted in a previous agenda request submitted to the Emerging Issues Task Force (EITF),¹ we have observed diversity in practice with some entities analogizing to the subsequent accounting guidance for intangible assets acquired in a business combination under ASC 350, Intangibles – Goodwill and Other (i.e., indefinite-lived intangible assets subject to impairment testing), while others analogize to ASC 730 – since the VIE is not a business – and expense the IPR&D asset with no alternative future. The FASB had tentatively decided to address the lack of clarity as part of its Phase 3 project on improving the accounting for asset acquisitions and business combinations, which was subsequently discontinued.

Question 11: If the Board does not pursue a project to align the recognition guidance for all intangibles, the Board could pursue a project to develop comprehensive guidance for the recognition of internally developed intangibles based on the current business combinations or asset acquisitions guidance. Would it be operable to leverage either the separability criterion or the contractual-legal criterion from the business combinations guidance or the asset acquisitions recognition criteria to recognize internally developed intangibles? Would this result in decision-useful information. Please explain your response.

We do not believe it would be operable to leverage the existing recognition criterion from the guidance on business combinations or on asset acquisitions to recognize internally developed intangibles, given the broad and diverse nature of these intangibles. We believe it would be challenging to establish capitalization thresholds or “bright lines” that offer both the flexibility and clarity needed for preparers to apply the guidance across a wide range of industries and the unique and continually changing nature of internally developed intangibles. Pursuing such a project may introduce greater complexity and lead to inconsistent financial reporting across entities, which would ultimately reduce comparability and decision-usefulness for users.

Question 15: Investors—Do current disclosure requirements related to R&D costs or other expensed intangibles provide you with decision-useful information? If not, what information currently provided is not decision useful or what additional information would be decision useful? Please explain your response, including (A) identifying the information currently provided that is not decision useful and (b) additional information that should be disclosed, how and when that information would affect your capital allocation decisions, and whether that information would be relevant for all or a subset of expensed intangibles.

We commend the Board’s responsiveness to investor feedback regarding disclosures of R&D and other expensed intangibles. Investors have consistently expressed interest in gaining greater insight into R&D activities and related expenses, often seeking disaggregation by program or project.

Securities and Exchange Commission (SEC) registrants are required under Item 303(b) of Regulation S-K to provide a narrative explanation of their financial condition, changes in financial condition and results of operations. This includes a discussion of R&D activities if they are material to understanding the company’s operations or financial condition. Material R&D disclosures are expected to communicate not only historical results but also significant accounting policies, known trends and uncertainties that

¹ Ernst & Young LLP’s EITF agenda request, *Subsequent accounting for IPR&D assets and contingent consideration obligations recognized upon the initial consolidation of a VIE that is not a business*, submitted on 30 November 2018.

may affect future performance. The guidance does not mandate a specific format or structure, leaving companies with flexibility in how they present this information. Through comment letters, the SEC staff frequently requests additional qualitative and quantitative details on R&D expenditures, particularly in R&D-intensive industries like pharmaceuticals.

We observe that R&D disclosure practices vary. Many registrants do not track all components of R&D expense at a disaggregated level due to system limitations, the integrated nature of R&D activities and the shared use of personnel and equipment across multiple projects or therapeutic areas.

Some entities only disclose R&D costs in the aggregate because they believe breaking them out by individual project, product candidate or development phase does not provide insight into the likelihood of future success. Other entities may separately disclose direct costs, such as fees paid to consultants, central labs or contract research organizations (CROs), and indirect costs, such as personnel expenses, including share-based compensation. These costs may be disclosed as a component of total R&D expense or by therapeutic area, depending on how an entity manages its R&D programs.

Beyond operational and systems-related constraints, some entities have expressed concerns that providing more granular disclosures could compromise their competitive position (e.g., by revealing pricing strategies in negotiations with CROs).

In many of these cases, the SEC staff has requested more disaggregated disclosures or, at a minimum, asked companies to explain if and why such information is not tracked.

We believe the Board should build on the feedback it receives on this ITC by conducting targeted outreach with preparers to understand what R&D-related information is currently tracked and how it is used to evaluate project performance. This would help identify disclosures that are both decision-useful for investors and feasible for preparers, minimizing incremental costs or burden. It would also help inform whether a prescriptive disclosure framework would be appropriate or whether a more flexible, management approach-based model would better balance relevance and practicality.

With that in mind, the recently issued guidance on disaggregated disclosures of income statement expenses² will require expanded disclosure about R&D expense. Accordingly, we recommend the Board consider whether the new disclosure requirements will address investors' needs for additional decision-useful information before adding a disclosure-specific project.

² ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.