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To the Point

FASB — Invitation to Comment

FASB staff seeks input on whether to pursue standard setting on intangibles

The feedback will help the Board identify which specific intangibles or groups of intangibles it should consider addressing.

What you need to know

- The FASB staff issued an Invitation to Comment seeking feedback on whether the Board should pursue standard setting on intangibles, with a focus on initial recognition and disclosures, which will help the Board decide whether to add a project to its technical agenda.
- The FASB staff seeks feedback on the need to improve US GAAP related to the accounting for and disclosure of intangibles, including whether the accounting for intangibles should vary depending on how the asset is obtained (i.e., acquired in business combinations, asset acquisitions or internally developed).
- Comments are due by 30 May 2025.

Overview

The Financial Accounting Standards Board (FASB or Board) staff issued an **Invitation to Comment** (ITC) seeking feedback on whether the Board should pursue standard setting on intangibles. Responses to the questions in the ITC will help inform the Board as it considers whether to add a project to its technical agenda on intangibles and, if added, determine the objective and scope of the project.

The FASB staff seeks feedback on, among other things, whether there is a pervasive need to improve US GAAP related to the accounting for and disclosure of intangibles and, if so, which specific intangibles or groups of intangibles the Board should consider addressing.

The FASB is exploring potential solutions, ranging from narrow approaches targeting specific types of intangibles to broader frameworks that could apply to groups of intangibles. The staff seeks feedback on whether different accounting for intangibles should exist depending on how the asset is obtained (i.e., whether it is internally developed, acquired through a business combination or purchased as part of an asset acquisition).

The staff is also looking for insights into the type of information about intangibles that investors currently use or would find valuable and how this information impacts their capital allocation decisions.

FASB Chair Richard R. Jones directed the staff to prepare the ITC, but the Board does not express preliminary views in the document.

Background

The accounting for and disclosure of intangibles has been a frequent topic on the FASB's technical and research agendas. Stakeholders have provided differing perspectives on intangibles, including when an intangible should be recognized as an asset and what information is most useful to investors. This diversity stems from several factors, including the broad range of intangibles, uncertainties about their economic benefits and questions about whether information on intangibles significantly influences investors' capital allocation decisions.

The FASB staff is seeking feedback on several key aspects of accounting for research and development costs.

Most recently, feedback received on the FASB's 2021 agenda consultation identified intangibles as a top priority for the Board but lacked a consensus on the scope and objective of a potential project. In response to that feedback, the FASB Chair added a project to the research agenda to explore improvements in the accounting for and disclosure of intangibles, including internally developed intangibles and research and development (R&D).

Key considerations

Recognition of intangibles

Research and development

The current guidance under Accounting Standards Codification (ASC) 730, *Research and Development*, requires R&D costs to be expensed as incurred and disclosure of the total R&D costs expensed in each period. This guidance is premised on the view that R&D costs should be immediately expensed because at the time they are incurred, the future benefits are at best uncertain. In addition, the guidance specifies which transactions are accounted for under ASC 730 and which are not. As a result, not all costs that are expensed in researching and developing an intangible qualify as R&D for accounting purposes.

As part of the ITC, the staff seeks feedback on several key aspects of R&D accounting. The staff is requesting input on whether the current definitions of R&D, along with the related examples of activities included and excluded from R&D, accurately capture activities that should be expensed as incurred and disclosed as R&D.

The ITC also seeks feedback on whether research costs and development costs should be accounted for differently. One consideration is whether it would be appropriate to expense research costs as incurred while recognizing development costs as assets. The staff is also seeking input on whether such a change would result in material amounts being capitalized. Additionally, the staff seeks feedback on any operability or auditability challenges in applying the existing R&D guidance.

Internally developed intangibles

ASC 985-20, *Software — Costs of Software to Be Sold, Leased, or Marketed*, requires external-use software development costs to be expensed as R&D until technological feasibility is established, after which costs are capitalized. For internal-use software, ASC 350-40, *Intangibles — Goodwill and Other — Internal-Use Software*, requires capitalization once the preliminary project stage is complete, management has authorized and committed to funding the project, and it is probable that the project will be completed and the software will perform the function intended. The FASB recently proposed amendments to ASC 350-40 to remove references to project stages and clarify the threshold applied to begin capitalization.

As part of the ITC, the FASB staff seeks feedback on whether similar criteria could be used to capitalize other internally developed intangibles. Stakeholders are invited to provide input on which intangibles this approach might cover and whether these criteria would also help determine if intangibles acquired in business combinations or asset acquisitions should be recognized as assets or expensed.

Alignment of recognition guidance

The recognition guidance for intangibles depends on how the item is acquired or developed, resulting in inconsistent recognition. For example, entities growing organically often recognize fewer intangibles and incur minimal amortization expense, while those growing through acquisitions recognize more intangibles and incur significant amortization expense. Investors have said that this disparity affects the comparability of financial statements and reduces their ability to analyze organic and inorganic growth within and between entities.

Despite the economic similarity of activities such as outsourcing development, internal development or acquiring partially developed intangibles, the current guidance may result in different financial reporting outcomes. The ITC explores aligning the guidance across these categories to improve consistency and decision-useful information for investors and reduce complexity for preparers.

The staff seeks feedback on whether the Board should align recognition guidance for all intangibles (i.e., acquired in business combinations, asset acquisitions or internally developed) or only certain categories of intangibles.

Presentation and disclosure of intangibles

In response to the FASB's 2021 agenda consultation, some stakeholders expressed concerns that expanding recognition of internally developed intangibles on the balance sheet might impose costs that outweigh the benefits, and that the Board should focus its efforts on the presentation and disclosure of intangibles. The ITC seeks feedback on whether the current disclosure requirements for intangible assets provide decision-useful information.

In addition, stakeholders said that more disclosures about an entity's R&D efforts could provide investors with a clearer understanding of those activities. Accordingly, the ITC also seeks input on whether the current disclosure requirements for R&D and other expenses related to internally developed intangibles provide decision-useful information, or whether additional information is needed to better support investor needs and capital allocation decisions.

How we see it

Stakeholder feedback is crucial to help the Board decide whether to address the recognition and disclosure of intangible assets. It is important for stakeholders to consider the operability and costs of the potential new recognition models and disclosures contemplated in the ITC. Striking a balance between investor needs for actionable insights and preparer concerns about complexity and cost will be essential.

We encourage interested parties to carefully consider the issues and questions raised in the ITC and provide perspectives that can inform the direction of the staff's research and the Board's approach to improving the accounting for and disclosure of intangibles.