

May 30, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue (P.O. Box 5116)
Norwalk, CT 06856-5116

RE: File Reference No. 2024-ITC200

Dear Mr. Day:

CFA Institute¹, in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board’s (“FASB” or the “Board”) *Invitation to Comment - Recognition of Intangibles* (“Invitation to Comment” or “ITC”).

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Our response to this ITC is largely informed by our March 2025 research report, *Investor Perspectives: Intangible Assets*, which is based on a global survey of our members³, economic analysis, and a review of academic research on intangibles. We encourage the Board and staff to read our entire research report, which includes charts for the responses to all survey questions and hundreds of comments from respondents.

We’ve organized our response to the ITC as follows. In the Executive Summary on the next page, we summarize our response and provide high-level conclusions. The key findings from our survey, recommendations to the Board, and obstacles to change from our research report are summarized in

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

³ Survey respondents included CFA Institute members in portfolio manager and investment analyst roles. A majority of the 800 respondents have been working in the industry for over 10 years. Geographically, 54% of respondents are based in the Americas, 20% in Asia, and 26% in the Europe, Middle East, and Africa regions.

the appropriately labeled section on Pages 3-9 which follow. In the Appendix we answer the ITC's questions for respondents.

EXECUTIVE SUMMARY

Intangibles is one of the “hard problems” of financial accounting that has been debated for a very long time. The Board's guidance on intangibles spans multiple topics in the Codification and encompasses several models that result in different accounting based on how an intangible was obtained or developed and other facts and circumstances including industry-specific considerations. Two basic facts are that many acquired intangibles are recognized as assets while most internally developed intangibles are not, and more information is required to be disclosed about recognized intangibles than about unrecognized intangibles.

The question for the Board is whether the accounting for and disclosure of intangibles makes sense in an economy that has shifted from manufacturing to services and technology companies⁴ for which intangibles are the primary value driver. Investors in our survey overwhelmingly agree that intangibles are the most valuable assets for many companies and the financial statements do not recognize them as assets or provide decision-useful information about them. Investors' greatest unmet information needs are around unrecognized intangibles, including information about the “flow” of investments in intangibles on the income statement and statement of cash flows and the “stock” of intangibles used and held by entities.

One of the reasons why more standard setting progress on internally developed intangibles has not been made is because investors have limited information about them to start with. Investors cannot realistically respond to detailed questions from standard setters regarding exactly what information they need their need, in what form, or how exactly it would be used in investment decision making without something to start with. With respect to unrecognized intangibles, investors largely don't know what they don't know. The Board faces the same catch-22 situation. Without more information about what unrecognized intangibles exist, their basic attributes, and approximate amounts, the Board cannot develop decision useful recognition and measurement approaches for them.

We can get out of this cul-de-sac through a “disclosure first” approach that requires entities to provide basic information about intangibles including the amounts recognized on the income statement for developing them; the types and costs of intangibles held and used by the entity; and other information that management uses to value intangibles and measure their performance internally. From that starting point, the Board and investors will have far more information to consider what recognition and measurement approaches are decision useful and judge the potential reporting outcomes of different approaches.

Our survey in *Investor Perspectives: Intangible Assets* also found that investors generally support the current recognition guidance for acquired intangibles as well as the measurement guidance except for the lack of timeliness and transparency of impairments. These issues can be addressed

⁴ 1979, five years after the issuance of FASB Statement No. 2, *Accounting for Research and Development Costs*, marked the peak of manufacturing employment in the US. (Source: [FRED](#)).

separately from presentation and disclosure of internally developed intangibles. We did not find support for fundamentally changing the current accounting for acquired intangibles.

KEY FINDINGS FROM CFA INSTITUTE MEMBER SURVEY

1. Intangibles Are Valuable; the Existing Accounting Model Does Not Recognize that Value.

Developed economies have shifted from manufacturing-based and extractive industries to services and technology-based industries with greater reliance on intangibles. For many companies, intangibles are their most valuable economic assets and driver of value but are omitted from their financial statements. More than 70% of survey respondents strongly agreed or agreed with each of the following statements:

- “For many companies, the most valuable assets (i.e., intangibles) do not appear on the balance sheet.”
- “The existing accounting model does not but should recognize many important intangibles.”
- “Unrecognized intangible assets are a significant driver of the difference observed between the book and market values of equity for many listed companies.”

One respondent summarized it well with the following comment:

“As the world economy continues to move on from the industrial age, efforts should be made to bring the valuations of non-physical assets to the balance sheet to enable users to appreciate what is driving values in organizations. A key concern is manipulation of value attributed to these assets; however, this could be addressed by instilling greater disclosure requirements on the creation and valuation of the intangibles, so users can critique the values.”

2. Greatest Unmet Needs: Disclosures and Disaggregation

The greatest level of agreement—more than 80% of respondents—in our survey was that investors needed better disclosures of acquired and internally generated intangibles. Only 39% of respondents found current intangibles disclosures useful.

Additionally, respondents saw improving disclosures as a path toward achieving better valuation, measurement, and, ultimately, recognition of a greater number of intangibles.

Greater disaggregation was also considered to be necessary for both the flow of investments in intangibles on the income statement and statement of cash flows and the stock of intangibles on the balance sheet. Nearly 80% of respondents noted that they need greater disaggregation of intangible assets. To that point, most respondents believe that disaggregating indefinite-lived intangible assets from goodwill in a business combination provides decision-useful information and encourages better analysis; they disagreed with the notion that more acquired intangibles should be aggregated with goodwill—a proposal previously contemplated by the FASB and International Accounting Standards Board (IASB).

3. Investors Strongly Support a Variety of Specific Disclosure Improvements

Investors broadly agreed with a menu of disclosure options for intangibles in the notes to the financial statements that we tested, with most options garnering more than 80% support. Examples of disclosures with a very high level of support include:

- Information on the type and amount of internally generated intangible assets;
- Information regarding the expected future cash flows of all intangible assets;
- Information about the valuation models, including significant and sensitive estimations and assumptions and factors that could affect recognition, measurement, and impairment, used to value intangible assets;
- Key performance metrics that management uses to monitor the performance of intangibles;
- Quantitative and qualitative information regarding how the intangible asset performs over time;
- Management’s estimate of fair value for all intangibles; and
- More information on the board’s assessment of the performance of intangibles over time.

As noted with Finding 2, respondents also saw improving disclosures as a path toward achieving better valuation, measurement, and, ultimately, recognition of a greater number of intangibles

4. Investors Support Existing Accounting Model for Acquired Intangibles, but Believe Improvements to Impairment Testing Are Needed

Investors support the recognition, initial measurement, and subsequent measurement of acquired intangibles in the current accounting standards.

- More than 70% of respondents agree with continuing to separately recognize identifiable intangibles from goodwill in an acquisition and virtually all respondents agreed with the separability and identifiability criteria for recognition described earlier in our review of the accounting.
- Investors support improving the timeliness and relevance of impairment testing for indefinite-lived intangibles. Only 35% of respondents supported a switch to an amortization model for intangibles, whereas 58% of respondents agreed that impairment provides more useful information than amortization.
- Respondents agreed that the current impairment testing approach has significant shortcomings:
 - 73% agreed that impairments “lack transparency as to when and how much should be recognized,” and
 - 67% agreed that impairments “are not recognized by companies in a timely manner.”

5. Majority Support Recognizing Internally Generated Intangibles, but Caution as Well

Most survey respondents want internally generated, identifiable intangibles to be recognized on the balance sheet, supporting an alignment of the recognition guidance for internally generated intangibles with intangibles acquired in a business combination.

A significant plurality disagrees, however, seeing the potential for earnings management (i.e., capitalizing costs to ensure an earnings per share target is met) and doubting that capitalization and amortization is more useful than immediate expensing.

- 80% of respondents agreed that the separate accounting models for acquired and internally generated intangibles creates a lack of comparability between entities that grow through acquisition versus those that grow organically.
- 60% of respondents agree with going further to reduce this lack of comparability, supporting alignment of recognition guidance for internally generated intangibles with intangibles acquired in a business combination.
- 64% of respondents disagreed with the statement that the current accounting model (capitalization of acquired; no capitalization of internally generated) for intangibles does *not* need to change.
- Virtually all respondents agreed that the recognition criteria for internally generated should match the existing criteria for intangible assets acquired in a business combination: separability and identifiability. Investors do not support broadly recognizing all intangibles.

6. If More Internally Generated Intangibles Are Recognized, No Clear Consensus on Initial Measurement: Cost versus Fair Value.

Although most respondents favored recognizing internally generated intangibles as assets, there was not a clear consensus on their initial measurement. About equal numbers of respondents supported cost and fair value models.

Some respondents prefer measuring internally generated intangibles at cost because it would align the accounting for intangibles with physical assets (e.g., capitalizing payroll and other construction costs of a building) and would potentially be less susceptible to management manipulation, therefore providing a more faithful representation. Consider, for example, the following comments:

“For the sake of conservative estimates, I believe cost should be the initial value, and then testing for impairment thereafter (amortization if definite useful life).”

“Try to treat in as similar fashion to tangible assets as possible. You can build a factory and it too can be tough to value and turn out worthless.”

Other respondents prefer a fair value model because the costs incurred to develop an asset can be irrelevant to the asset’s future cash flows. The downside of a fair value model is that the valuation may be highly subjective for certain assets that don’t have observable valuation inputs. As one respondent wrote:

“Costs incurred may not correctly represent the value of the intangible and therefore fair value measurement should apply. Management should disclose fair value inputs and keep them constant

unless there is a significant reason for those to change. Any changes should be explained by management in footnotes.”

7. Risk to Relevance of Financial Statements from Failure to Recognize Internally Generated Intangibles, but No Strong Appetite for Entirely New Balance Sheet.

Investors see the financial statements as at risk of losing their relevance without action by standard setters on intangibles, but they do not have a strong appetite for a complete overhaul like a new type of balance sheet.

- A majority of respondents (57%) strongly agreed or agreed with the statement that “financial statements are, and will become, increasingly less relevant without action by the FASB and IASB on the issue of intangibles.”⁶⁹
- Only 44% of respondents strongly agreed or agreed with the statement that “there should be a new balance sheet that shows the value created by intangibles.”

RECOMMENDATIONS TO THE BOARD

1. For Intangibles Recognized as Assets (i.e. Acquired Intangibles)

- Retain the current recognition guidance for intangibles acquired in asset acquisitions and in business combinations. There was support for the separability and contractual-legal criteria for recognition.⁵
- Retain the separate recognition of indefinite-lived intangibles acquired in a business combination from goodwill because it provides decision-useful information.
- Do not revert to amortization of indefinite-lived intangible assets. It may be administratively convenient, but it is not decision-useful as accounting amortization does not faithfully represent economic amortization.
- Retain and improve the impairment model by improving the transparency and timeliness of impairments.
- Improve disclosures regarding intangibles, which are not currently useful (described in recommendation 3 below).

2. For Intangibles Expensed as Incurred (i.e., Internally Generated Intangibles)

- Investors believe intangible assets are being generated internally, and they seek to understand and value them.
- Many investors support a single accounting model across internally generated and acquired intangibles because differences create a lack of comparability across companies.
- Investors support using the separability and contractual-legal criteria for intangibles acquired in a business combination for internally generated intangibles, not “opening the floodgates” for recognizing all intangibles.

⁵ We did not separately ask respondents for their views on the recognition criteria for intangibles acquired in an asset acquisition which are similar but somewhat broader than for those acquired in a business combination under US GAAP.

- There is significant concern among many investors that greater flexibility to capitalize costs incurred for intangibles would be abused by management and that capitalized costs may not produce decision-useful information.
- Investors' concerns over management abusing recognition of internally generated intangibles for earnings management could be mitigated by "guardrails" such as disclosure requirements on what asset has been created and its expected future benefits, or a quantitative limit on capitalized costs relative to revenue or total costs incurred in a given period.
- The fair value of intangibles would be more a relevant measurement than a cost accumulation measurement for internally generated intangibles, but the subjectivity of valuation and management bias make it, at least initially, more appropriate for the notes to the financial statements rather than the face of the balance sheet.

3. *Presentation and Disclosure*

- Expenses for generating intangibles – R&D and non-R&D - should be presented separately from other expenses on the income statement and statement of cash flows, so they can be forecasted and evaluated separately.
- Disclosures of internally generated intangibles before recognition is the preferred path forward. Some investors support disclosures outside of financial statements before disclosures within financial statements.
- Improvements are needed in existing intangible asset disclosures as investors do not find the current disclosures useful.⁶ New disclosures with broad investor support in our survey include the following and would complement the presentation of expenses of generating intangibles.
 - The types and fair values (management's estimate) of internally generated intangibles.
 - Expected future cash flows attributable to the assets.
 - Information on relevant valuation models, including the type of model and transparency around major inputs.
 - Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
 - Key performance metrics managers use to monitor performance of intangibles.
 - Qualitative information on how internally generated and acquired intangible assets have performed over time.
 - More quantitative information on how the acquired or internally generated intangibles performed over time.
 - Information on the board's assessment of how intangible assets have performed over time.

⁶ We did not specifically ask if current disclosures are providing useless information or if they are omitting useful information. Based on the totality of the survey and comments received, it is likely the latter -- disclosures should be *expanded* to include more decision useful information. See our response to Question 13 in the Appendix.

FACING THE OBSTACLES TO STANDARD SETTING

We recommend a phased approach to a project on intangibles in which presentation and disclosure are improved first, particularly presentation and disclosure related to unrecognized intangibles. Our recommended approach is built to overcome the obstacles faced by standard setters.

The Board and investors are operating in a very information-limited environment. It's well understood at a high level that there are many intangibles which are, economically, assets, that are expensed rather than recognized as assets in accounting. It's not realistic to go deeply into specifics of how the accounting should be changed and how heretofore undisclosed information would be used in investment decision making without first providing basic information about unrecognized intangibles and the costs incurred for their development.

Disclosure before recognition was the approach taken with standard setting on fair value measurement, stock-based compensation, leases, and pensions. Through disclosures, investors and standard setters understood the "what" and approximately "how much" were missing from the financial statements and could forge a path forward to recognition and measurement. Because information about unrecognized intangibles is not available, investors and the Board don't know what they don't know and can't find a way out the intangibles cul-de-sac we've been in for decades. One respondent to our survey made the following observation:

"I like the idea of disclosure that can help us work out whether this is an important area, and how best to analyze going forward. There should be a mechanism in that to allow for reflection in X years' time and the possible outcome of 'no, it turns out that wasn't useful, and we should go back.'"

Another one of the reasons why standard setting for intangibles has been challenging is that preparers of financial statements and practitioners simply do not agree that there is a problem.⁷ Those stakeholder groups have different interests, different jobs, and different mindsets from investors. They either have the information they need about intangibles from internal sources or, in the case of practitioners, do not make investment decisions about entities with intangibles. They may also prefer the opacity of the current model, and the ease of immediately expensing costs incurred without presentation or disclosure requirements. Preparers may also prefer not to disclose information they consider commercially sensitive and therefore desire to maintain the current voluntary disclosure regime. Operability of standards is important to consider but these types of concerns must be approached with a healthy degree of professional skepticism; the primary users of financial statements are investors⁸ and the Board's mandate is to improve the accuracy and effectiveness of financial reporting for the protection of investors.⁹

⁷ See, for the example, the Board's outreach to its 2021 Agenda Consultation and other responses to this ITC from [preparers](#) and [practitioners](#).

⁸ Conceptual Framework paragraph OB5.

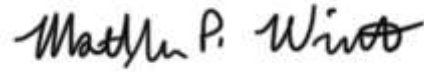
⁹ [SEC Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter](#) (2003).

If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org and Matthew P. Winters at matt.winters@cfainstitute.org.

Sincerely,



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Senior Head
Global Financial Reporting Policy Advocacy
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ANSWERS TO QUESTIONS FOR RESPONDENTS

OVERALL

Question 1 (All Respondents): *Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC.*

b. Investor, 13. Other.

CFA Institute is a global, not-for-profit professional association of more than 190,000 members in 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals.

Our point of view when responding to this ITC is that of a fundamental equity investor.

Question 2 (All Respondents): *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.*

Yes. The Board should improve GAAP related to the accounting for and disclosure of intangibles because:

- *Intangibles have become a hallmark of the economy* and GAAP does not faithfully represent the economic reality;
- *Investors are broadly dissatisfied with GAAP* related to the accounting for and disclosure of intangibles;
- The *accounting for and disclosure of intangibles was rated as a high priority* for the FASB in its last Agenda Consultation; and
- There are *differences in GAAP and International Financial Reporting Standards (IFRS) that create transaction costs* in global capital markets without a clear benefit.

We address each of these items in the sections which follow.

Intangibles Have Become a Hallmark of The Economy and GAAP Does Not Faithfully Represent the Economic Reality

As discussed and illustrated in Section I (The Great and Growing Importance of Intangibles) of our research report *Investor Perspectives: Intangible Assets*:

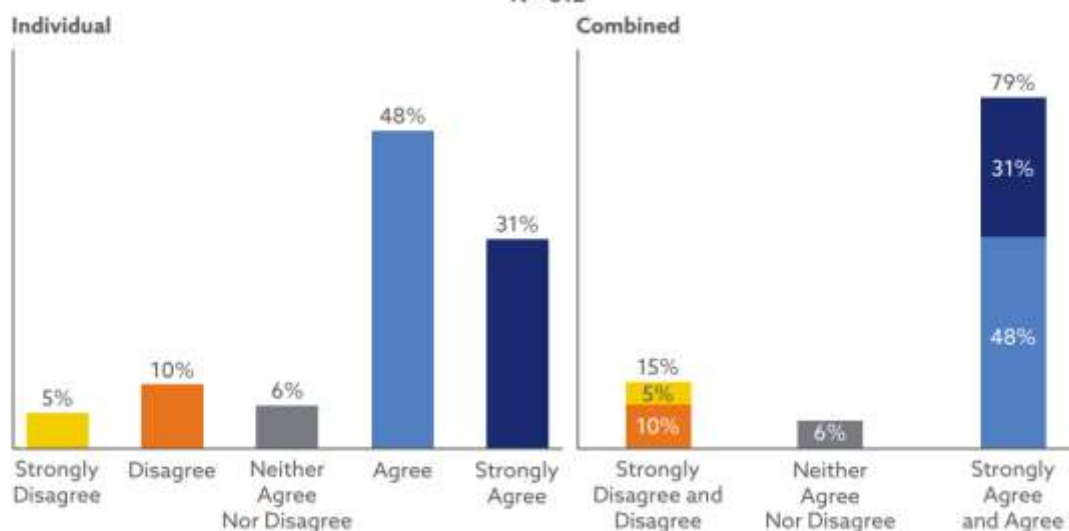
- Investments in intangibles have eclipsed all other types of capital investment in the US and other developed economies.
- The ranks of largest public companies by market capitalization are dominated by intangibles-intensive companies.
- Most entities that have recently gone public and were recently financed with venture capital (i.e., the pipeline of public entities) are intangibles intensive. That is to say, the intangible nature of our economy does not seem to be going away any time soon.

However, GAAP does not faithfully represent this economic reality because internally developed intangibles are expensed as incurred. As a result, the most important value drivers of companies are omitted from the financial statements and investments in them are commingled with other types of expenses. One indicator of this is the large and growing disparity between market and book values; even in bear markets, accounting book value is a small portion of market value for many companies.

Investors Are Broadly Dissatisfied with GAAP Related to the Accounting for and Disclosure of Intangibles

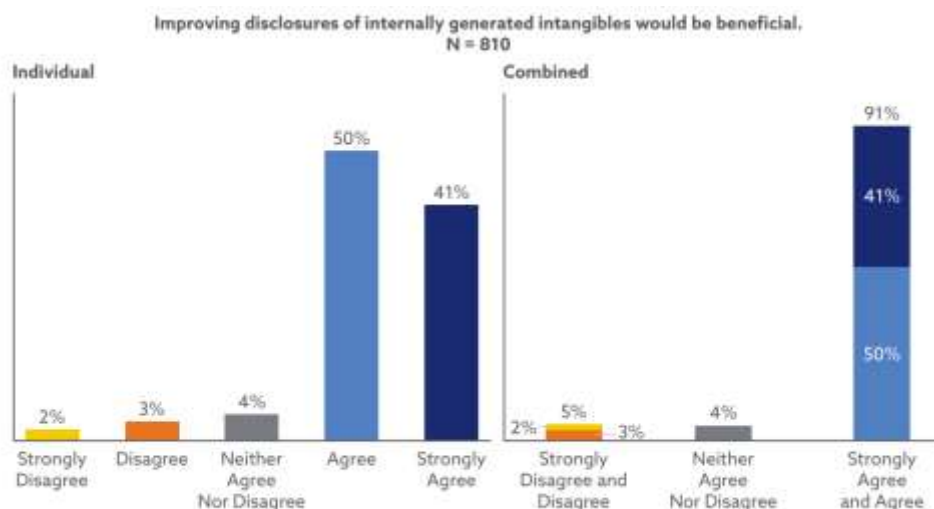
In our survey, most investors express dissatisfaction with the accounting for and disclosure of intangibles and desire change. Only a few investors support the status quo. Many investors agree that without standard setting on intangibles, financial statements are and will become less relevant.

The accounting and valuation for intangibles is challenging, but the accounting standard setters must work toward disclosures, and then recognition, of currently unrecognized intangibles for financial statements to remain relevant for many industries.
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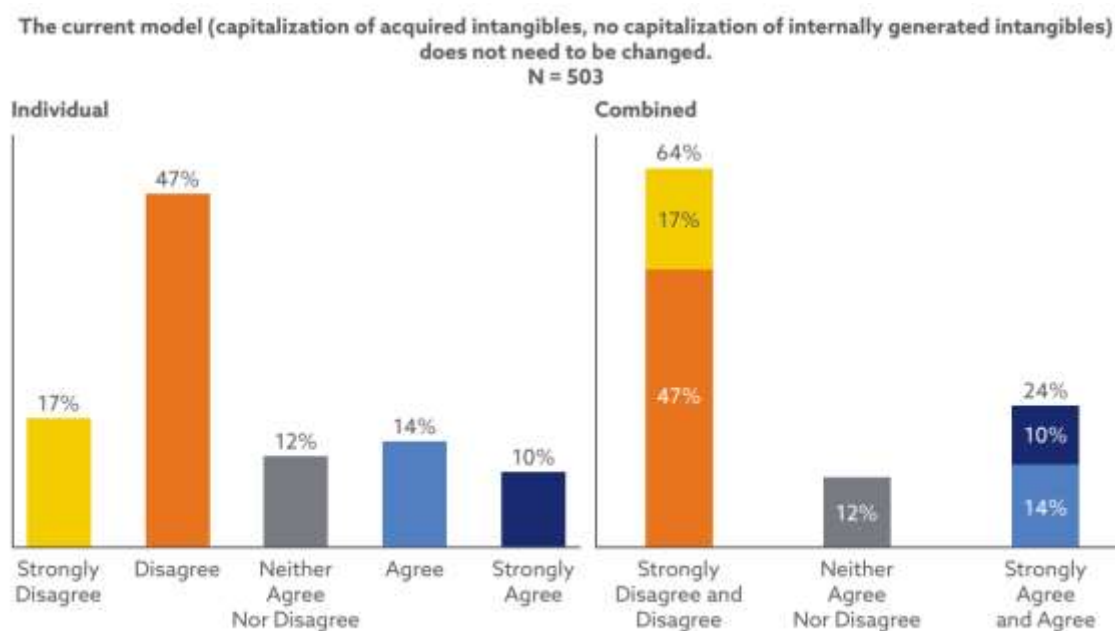
Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*, Exhibit 21. Page 55.



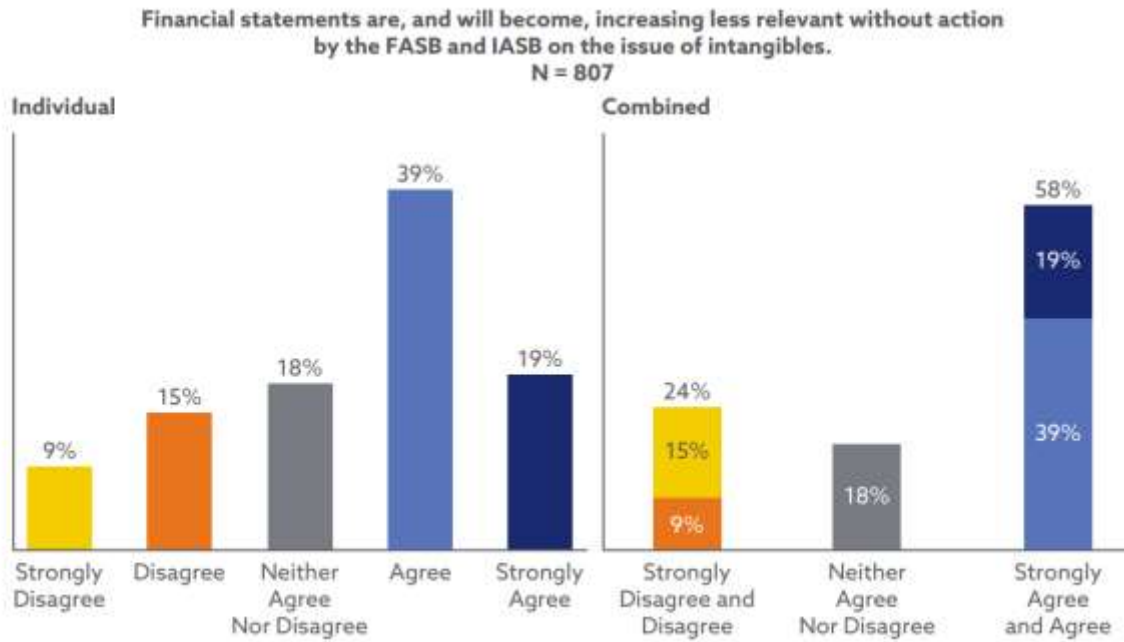
Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*. Exhibit 30. Page 60.



Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*. Exhibit 37. Page 76.

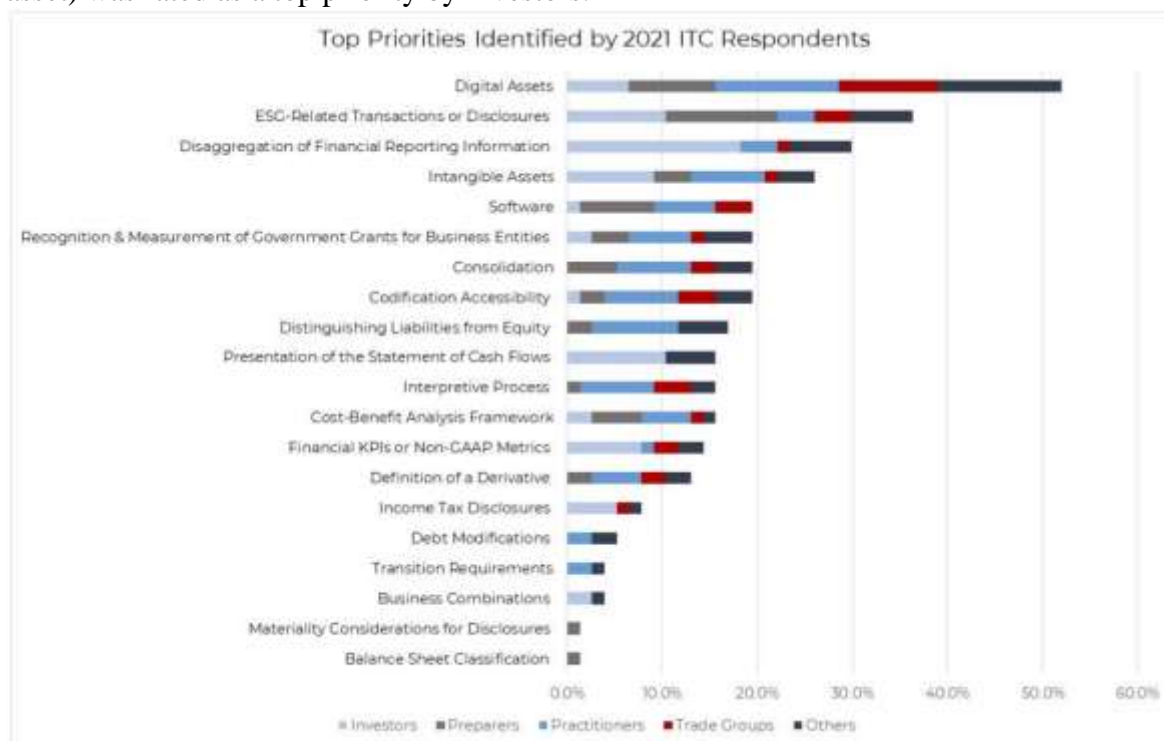


Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*, Exhibit 20. Page 52.

Intangibles A High Priority for Investors in Last Agenda Consultation

In the Board's last Agenda Consultation, intangible assets (and digital assets, a type of intangible asset) was rated as a top priority by investors.



Source: [2021 Agenda Consultation Report](#), FASB.

Intangibles A Key Area for Convergence Across US GAAP And IFRS

Both the FASB and IASB have ongoing research projects on intangibles. This is an opportunity – maybe even a generational opportunity – for the two Boards to work closely and collaboratively towards converged standards for intangibles. Capital markets are global; jurisdictional differences increase transaction costs. Neither International Financial Reporting Standards (IFRS) nor GAAP faithfully represent the economics of intangibles or satisfy investors' information needs about them. The two Boards should work towards a single high-quality set of standards on intangibles.

Question 3 (All Respondents): *If the Board were to pursue a project on intangibles, how should the Board address the topic? For each type of intangible, or groups of intangibles, that should be separately addressed, please explain your response, including the following:*

- a. A description of the type(s) of intangible or groups of intangibles (including an explanation of why those intangibles should be addressed in a group).*
- b. The objective of the potential project.*
- c. The potential solution(s)*
- d. The type(s) of intangibles, or groups of intangibles, the potential solution should apply to. For example, whether is a narrow potential solution for a specific intangible item or a solution that could broadly apply to a group of intangible items.*
- e. The expected benefits and expected costs of the potential solution(s).*

We recommend a project with the objective of improving the information that entities provide about intangibles in their financial statements.¹⁰ We recommend a phased approach to the project in which presentation and disclosure of intangibles expensed as incurred (i.e., internally generated intangibles) are improved first.

Improvements to presentation and disclosure of internally generated intangibles would include:

- Presentation requirements for R&D expenses and non-R&D expenses for internally generated intangibles on the income statement.
- Improved disclosures for R&D costs and disclosure requirements for non-R&D expenses for internally generated intangibles to aid in forecasting, which may include:
 - The types of activities and their respective costs that are considered R&D and non-R&D expenses for internally generated intangibles
 - Expenses related to existing, commercialized products or services and those related to not-yet commercialized products or services
- Disclosure requirements for the “stock” of internally generated intangibles that are either separable or contractual-legal, such as:
 - The types and fair values (management’s estimate) of internally generated intangibles.
 - Expected future cash flows attributable to the assets.
 - Information on relevant valuation models, including the type of model and transparency around major inputs.
 - Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
 - Key performance metrics managers use to monitor performance of intangibles.
 - Qualitative information on how internally generated and acquired intangible assets have performed over time.
 - More quantitative information on how the acquired or internally generated intangibles performed over time.
 - Information on the board’s assessment of how intangible assets have performed over time.

¹⁰ This is aligned with the first objective of the IASB’s project on intangibles as of [their 19-22 May 2025 meeting](#).

As we described in the body of our letter, investors and the Board are operating in a very information-limited environment. Investors and the Board do not have an understanding of the size, types, and attributes of intangibles that are expensed as incurred. Without more information, investors are unable to predict what the implications of new recognition and measurement criteria are and whether they would be decision useful. Similarly, without more information, the Board cannot forecast potential changes in reporting outcomes from standard setting decisions. A useful analogy is the accounting for leases. Prior to the effective date of Accounting Standards Codification (ASC) Topic 842, Leases, investors used disclosures of operating lease costs to adjust reported liabilities and leverage ratios. Those disclosures and that practice enabled investors to tell the Board that there are economic liabilities that are inappropriately left off balance sheets and what additional information would be decision-useful and why. Investors and the Board could predict what changes in reporting outcomes would result from changes in the accounting standards. Right now, investors and the Board are in a “pre disclosure” stage with respect to internally generated intangibles, making it impossible to say what recognition and measurement should look like.

RECOGNITION OF INTANGIBLES

Recognition of Intangibles – Research & Development (R&D) Costs

Question 4 (All Respondents): *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.*

Whether R&D costs are expenses and whether they should be expensed as incurred are separate questions and relate to Questions 8 - 11. The reasons for immediately expensing R&D costs, provided in ASC Topic 730, are that the future benefits of R&D are highly uncertain, difficult to measure, and have unknown timing so a basis for matching costs with revenue cannot be reasonably established. These reasons are dubious because the same things could be said about the costs of many tangible and financial resources accounted for as assets (and cash flows from investing activities). The broader question for the Board is whether R&D costs meet the definition of expenses.¹¹ Investors view them as *investments* and it's our understanding that entities do too, as managers use capital budgeting techniques such as net present value to make R&D funding decisions.¹²

The current definitions of research and development and related examples of activities included in and excluded from R&D appear to appropriately capture R&D with one exception. "Routine, ongoing efforts to refine, enrich, or otherwise improve upon the qualities of an existing product" is described as an activity that is typically *excluded* from R&D while "Modification of the formulation or design of a product or process" is described as an activity typically *included* in R&D. First, these two activities seem highly similar, with the apparent distinction primarily based on the words "routine, ongoing." Second, it's our understanding that most software development today would qualify as "Routine, ongoing efforts to refine, enrich, or otherwise improve upon the qualities of an existing product," but we observe in practice that software development costs are typically expensed as incurred as R&D based on a review of recent annual reports from 20 large software developers.¹³

For example, Adobe communicated that its "research and development expenses consist primarily of compensation and contracted costs associated with software development, third-party hosting services and data center costs including AI training costs, related facilities costs and expenses associated with computer equipment and software used in development activities."¹⁴

¹¹ Expenses are outflows or other using up of assets of an entity or incurrences of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities. Paragraph E81 of the [Conceptual Framework for Financial Reporting](#).

¹² [The Financial Ecosystem of Pharmaceutical R&D: Annex A](#) page 134. "For drug developers, [net present value adjusted for project probability of success] is often the most suitable for capital allocation and investment decision-making."

¹³ Annual reports from Adobe, Airbnb, Alphabet, Amazon, AppLovin, Booking, CrowdStrike, DoorDash, Fortinet, Intuit, Meta, Microsoft, Netflix, Oracle, Palantir, Palo Alto Networks, Salesforce, ServiceNow, Uber, and Workday filed on Form 10-K with the SEC.

¹⁴ [Adobe Inc. Form 10-K for the Fiscal Year Ended November 29, 2024](#).

That said, we can't say whether the definition of R&D should be changed in the ASC because we don't know how reporting outcomes would change, if at all, because of the severely limited transparency that entities provide to investors about R&D. For example, Apple made no disclosure about the \$31 billion in research and development expenses it presented on its income statement for the fiscal year ended September 28, 2024, besides that its increase from the prior year was due to increases in headcount-related expenses.¹⁵

Question 5 (All Respondents): *Should the accounting for research costs be the same as or different from the accounting for development costs? For example, would it be appropriate to expense all research costs as incurred and recognize all development costs as assets? If so, how would an entity determine when research ends and development begins for certain common intangibles (for example, software- and pharmaceutical-related intangibles)? Would changing the accounting for development costs in this way lead to material amounts being capitalized? Please explain your response.*

Entities generally do not present or disclose research costs separately from development costs, with some exceptions in the pharmaceutical industry (generally outside the financial statements)¹⁶, so we can't say what the implications of making a distinction in the accounting for them would be, including whether material amounts would be capitalized in the case of recognizing development costs as assets.

The accounting for research costs should be different from the accounting for development costs to the extent that research activities are economically different from development activities. Indicators that the activities are economically different include the activities' probabilities of success, whether activities and costs are traceable to a specific product or service, and whether management has distinct budgeting and other processes or personnel for each. As a practical example, discovery of new molecular entities is economically different from developing the next version of an already commercialized social media application because success at the former is far more uncertain and the specific product has not been identified. Economically different costs should at a minimum be *presented* differently in the financial statements.

It may be appropriate to expense all research costs and recognize all development costs as assets; that decision should be made as part of the overall recognition guidance for internally generated intangibles, covered in Questions 8 – 11, not in an isolated project on the accounting for R&D costs.

Entities would determine when research ends and development begins for certain common intangibles after certain milestone objectives are met and/or when the nature of the activities change (e.g., different personnel, management oversight). This is necessarily a matter of management judgment and thus would require transparency to investors to be credible. Importantly, research and development are not necessarily sequential activities so the accounting

¹⁵ [Apple Inc. Form 10-K For the Fiscal Year Ended September 28, 2024.](#)

¹⁶ See for example [Amgen's Form 10-K for the Fiscal Year Ended December 31, 2024](#) pages 70 and 71 for a breakdown of R&D expense by "research and early pipeline," "later-stage clinical programs," and "marketed products."

guidance should not assume a “waterfall” process from research to development. Many entities conduct solely development activities, no research activities.

Finally, it may be more decision useful for investors for the Board to distinguish R&D costs related to commercialized products and services and R&D costs related to not-yet commercialized products and services rather than distinguishing research costs from development costs. That way investors could analyze the profitability of an entity’s current product and service range.

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.*

N/A; question addressed to practitioners and preparers.

Recognition of Intangibles – Software Costs

Question 7 (All Respondents): *Should the Board consider recognizing other internally developed intangibles when either (a) management has committed to funding the project and it is probable that the project will be completed and will perform the function intended or (b) technological feasibility has been established? If so, for which intangibles? Would this result in decision-useful information? Would these criteria also be helpful in determining whether an intangible should be recognized as an asset or expensed when acquired in a business combination or in an asset acquisition? Please explain your response.*

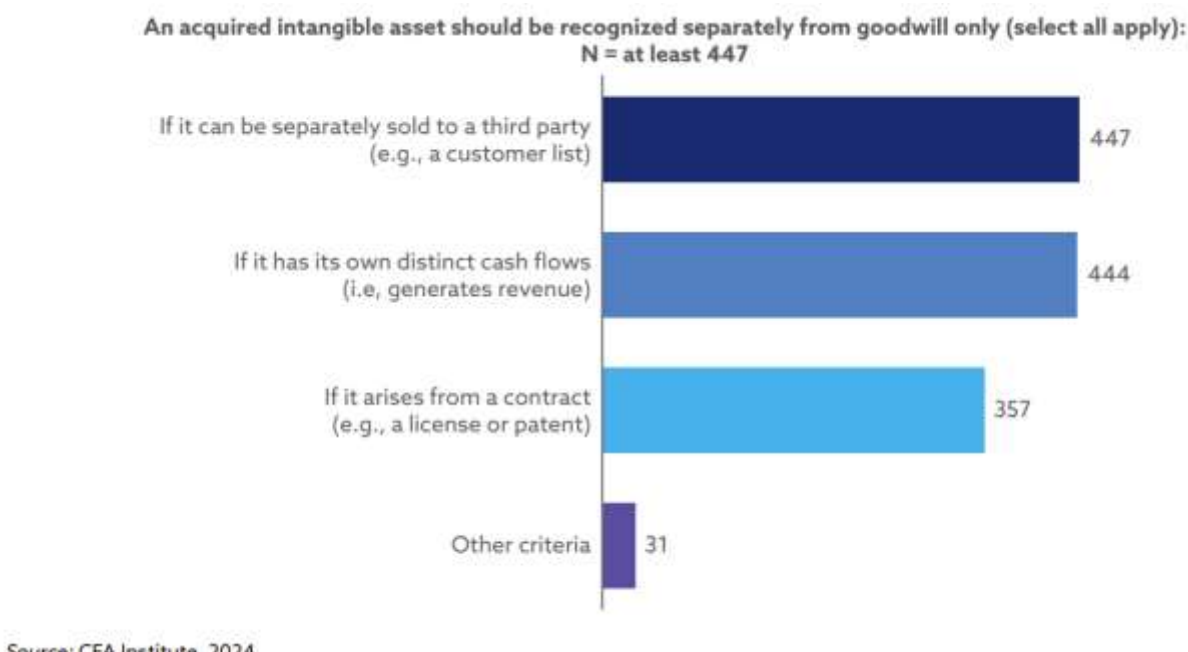
No. Adopting the software costs recognition criteria for other internally generated intangibles would not change reporting outcomes. In practice, the guidance for software costs leads to expensing the vast majority of software development costs as incurred, often as R&D, resulting in a large volume of economic assets left off balance sheets.¹⁷ The most valuable and well-known software assets in the world such as iOS and Microsoft 365 are not recognized as assets and disclosures about them are not made in the financial statements.

¹⁷ Based on our experience and our review of recent annual reports of the 20 large software developers listed in footnote 7 and Apple’s annual report.

Recognition of Intangibles – Comparing the Recognition of Acquired vs. Internally Generated

Question 8 (All Respondents): *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.*

Based on our survey, investors support the guidance for recognizing intangibles acquired as part of a business combination (separately from goodwill). Therefore, we recommend the Board leaves the recognition guidance for intangibles acquired as part of a business combination in place. We did not separately ask survey respondents for their views on the recognition guidance for intangibles acquired in an asset acquisition but did not receive any comments on it, either.



Source: [Investor Perspectives: Intangible Assets](#), Exhibit 32. Page 69.

Recognition of Acquired Indefinite-Lived Intangible Assets Separate from Goodwill:
PROVIDES USEFUL INFORMATION ON THE ACQUIRED BUSINESS

Provides useful information regarding the components of the acquired business and predictive information regarding future cash flows.

N = 583

PROVIDES USEFUL INFORMATION ON BUSINESS PURPOSE OF THE ACQUISITION

Provides useful information regarding the business purpose of the acquisition.

N = 583

ENCOURAGES MANAGEMENT TO BETTER ANALYZE ACQUISITIONS

Encourages an entity's management to better analyze acquisitions.

N = 580

SERVES ONLY TO TAKE PRESSURE OFF TESTING GOODWILL FOR IMPAIRMENT

Serves only to take pressure off testing goodwill for impairment, by reducing the balance of goodwill.

N = 580



■ Strongly Disagree
 ■ Disagree
 ■ Neither Agree Nor Disagree
 ■ Agree
 ■ Strongly Agree

Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*, Exhibit 33, Page 71.

Many, but not all, investors in our survey want the Board to develop recognition guidance for internally developed intangibles based on the guidance for intangibles acquired as part of a business combination. This is the approach queried in Question 11, which we respond to below.

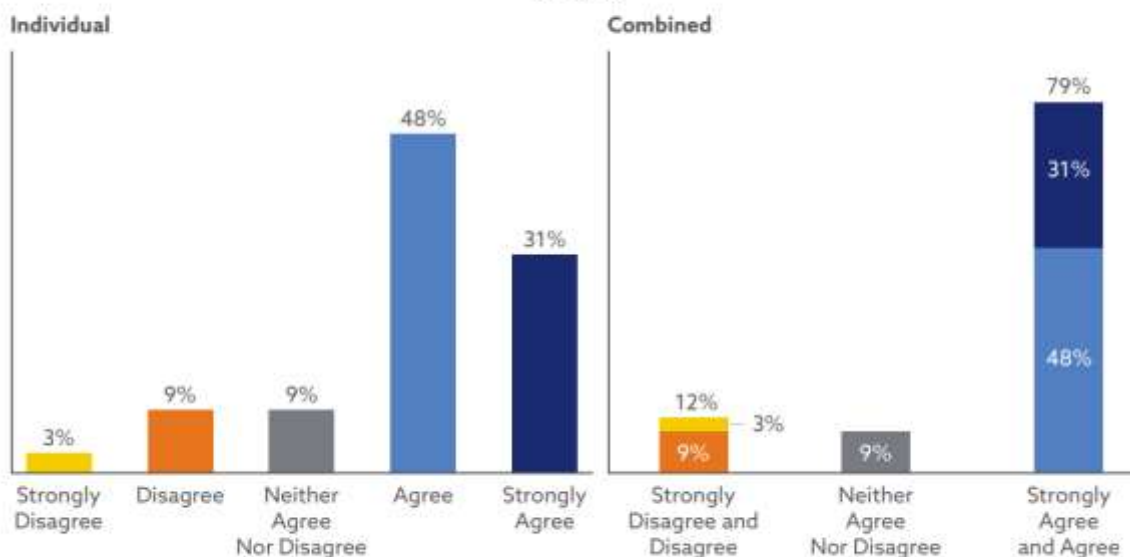
Question 9 (Practitioners and Preparers): *Are there operability or auditability challenges in applying the acquired intangibles recognition guidance? Please explain your response, including what the specific challenges are and how the Board could address them.*

N/A; question addressed to practitioners and preparers.

Question 10 (Investors): *Does the different treatment for intangibles (a) acquired as part of a business combination, (b) acquired in an asset acquisition, or (c) that are internally developed affect your analysis? Do the differences in the financial reporting results present challenges in evaluating organic growth versus inorganic growth? Please explain your response.*

The different treatments for intangibles based on how the intangibles were obtained or developed challenges investors' comparisons of entities' profitability and returns on investment. In our survey, close to 80% of respondents strongly agreed or agreed that the different treatments create a lack of comparability.

The current model (capitalization of acquired intangibles, no capitalization of internally generated intangibles) creates a lack of comparability between entities that have grown organically vs. entities that have grown through acquisitions.
N = 494



Source: CFA Institute, 2024.

Source: [Investor Perspectives: Intangible Assets](#), Exhibit 35, Page 74.

The effect of different accounting treatment for intangibles on investors' analysis of profitability and returns is simply illustrated with a hypothetical example of two companies, one that acquires intangibles and one that internally generates them. The acquirer will report higher assets, lower expenses, and higher profits, especially non-GAAP profits like EBITDA that exclude amortization of acquired intangibles, thus making acquired intangibles appear “free” on the income statement.

The result is that investors must be careful when comparing ratios such as return on invested capital and EBITDA margin across entities that obtain intangibles differently. For example, an entity with an internally generated intangibles-intensive business – such as many technology companies – may report extremely high returns on invested capital because, on an accounting basis, it has very few assets. Some investors adjust for this by, for example, capitalizing all R&D costs and some amount of non-R&D SG&A and amortizing those assets over useful lives that differ by industry. For a discussion of one methodology of making these adjustments and the resulting distribution of US public entities' returns on invested capital and adjusted returns on invested capital, see [ROIC and Intangible Assets: A Look at How Adjustments for Intangibles Affect ROIC](#) by Michael Maubossin and Dan Callahan at Morgan Stanley.

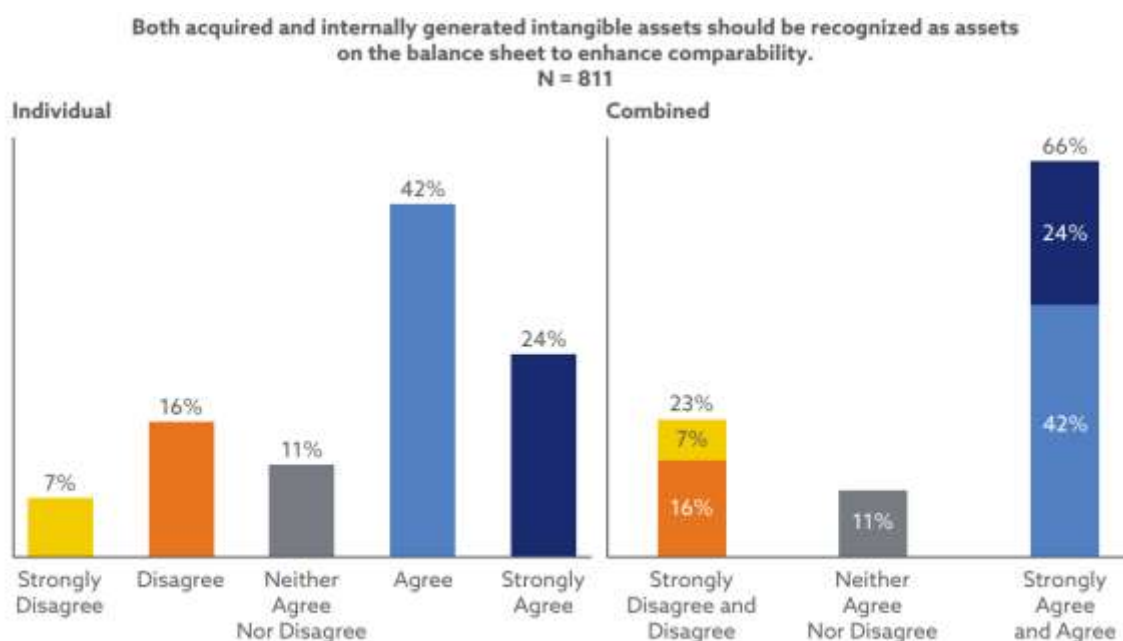
More uniform accounting for intangibles, regardless of how they were obtained or developed, would lessen the burden for investors making these adjustments. Entities are generally in a better position to account for intangibles than investors because they have the underlying information.

The comparability challenges for investors from the different intangible recognition criteria generally don't extend to evaluating organic vs. inorganic *growth* as that analysis is usually

performed with organic revenue growth measures communicated outside the financial statements and tracing revenues by product or service to acquired businesses or organic development activities. It's usually well-understood which products, services, or business lines were acquired (e.g., Meta acquired Instagram) though specific revenue disclosures aren't always made or helpful (e.g., Meta does not disclose Instagram revenue). However, that is a matter for discussions of revenue disclosures under ASC Topic 606 and segment disclosures under ASC Topic 280.

Question 11 (All Respondents): *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.*

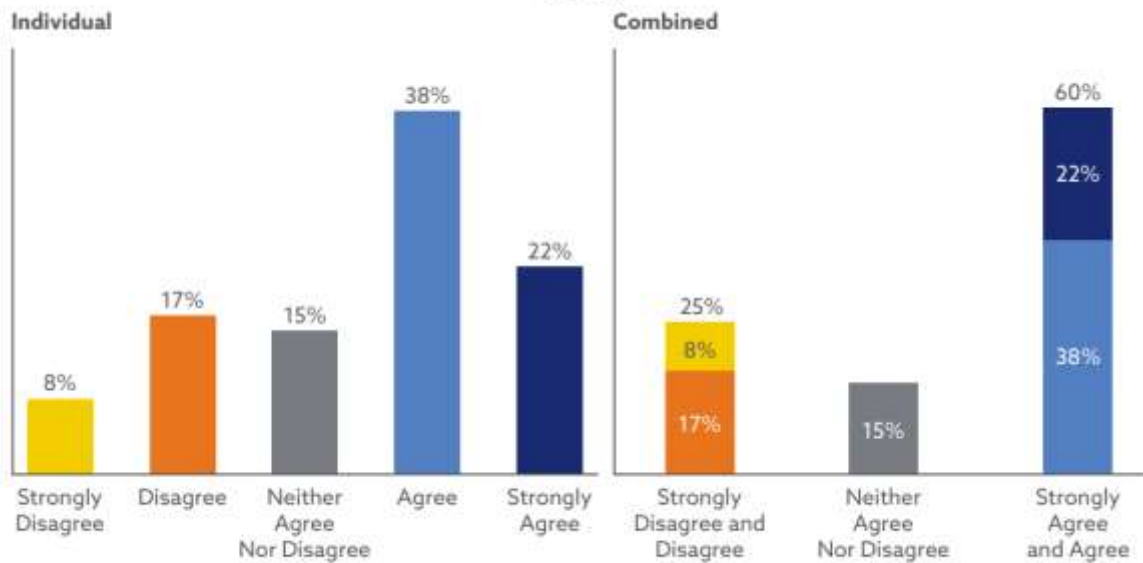
Yes. Our survey indicates that recognition guidance for internally developed intangibles based on the current business combinations guidance is desired outcome for many, but not all investors.



Source: CFA Institute, 2024.

Source: [Investor Perspectives: Intangible Assets](#), Exhibit 23. Page 58

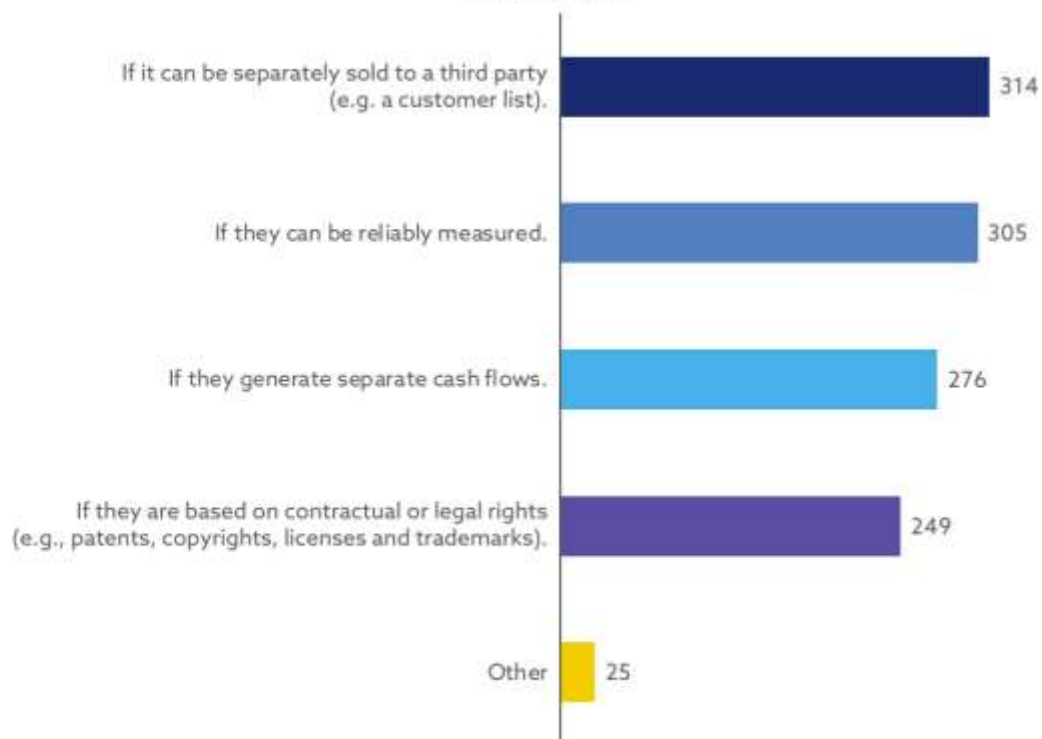
The same accounting model should be applied to all intangible assets - both acquired and internally generated.
N = 492



Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*, Exhibit 23. Page 58.

Internally generated assets should be recognized as an asset on the balance sheet (select all that apply):
N = at least 314



Source: CFA Institute, 2024.

Source: *Investor Perspectives: Intangible Assets*, Exhibit 38. Page 77.

Investors support recognition of internally generated intangibles (with guidance based on that for intangibles acquired in a business combination) because:

- Economically, intangibles are assets and the costs of developing intangibles are investments, not expenses. The financial statements should depict economic reality.
- Recognition would bring transparency and measurement rigor to the intangibles that investors know exist.
- The difference in the accounting for internally generated and acquired intangibles creates comparability challenges, yet the activities (i.e., internal development and acquisitions) are not economically different enough to warrant differences in accounting.

Other investors are not sure if recognition would result in decision useful information and are concerned that it would heighten the risks of earnings management. For that reason, we recommend the Board improves presentation and disclosure of internally generated intangibles first, which would give investors and the Board information to judge the benefits and risks of recognition.

Recognition of Intangibles – International Guidance and Research

Question 12 (All Respondents): *If the Board were to address intangibles, how should the FASB consider international guidance and research on recognition of intangibles by international standard setters or advisory groups? Please explain your response, including which specific international guidance (or research) should be considered and whether international guidance as applied results in substantively different accounting outcomes than GAAP (for example, whether pharmaceutical companies capitalize material amounts of development costs under IAS 38 versus entities that apply GAAP).*

The FASB and IASB should use this opportunity where both Boards are working on the same topic at a similar stage of development to work closely and collaboratively towards converged guidance for intangibles. Capital markets are global; jurisdictional differences result in increased transaction costs. The two Boards should work towards a single high-quality standard or set of standards on intangibles.

The FASB (and IASB) should consider all high-quality research from standard setting and advisory groups in its work, provided that the voices of primary users of general-purpose financial reports, as defined in the Board's Conceptual Framework, are considered foremost.¹⁸ The FASB and IASB should also leverage the economic work on intangibles done by organizations such as the International Valuation Standards Council and the World Intellectual Property Organization.

Current international guidance as applied does not, in our experience, result in substantively different accounting outcomes than GAAP for intangibles in the pharmaceutical industry. We analyzed a sample of public pharmaceutical and commercial stage biotechnology companies that report under US GAAP and IFRS and did not find material differences in the accounting for development costs; as Novo Nordisk, one of the largest pharmaceutical companies reporting under IFRS stated in its recent annual report, *industry practice* is to expense all research and development costs as incurred.¹⁹

We do note, however, growing divergence between GAAP and IFRS on intangibles as a result of Accounting Standards Update 2023-08, *Accounting for and Disclosure of Crypto Assets*. GAAP now imposes different accounting and disclosure requirements from IFRS for certain crypto assets like Bitcoin.

¹⁸ Paragraph OB5 of the Conceptual Framework defines primary users as “existing and potential investors, lenders, and other creditors.”

¹⁹ We reviewed recent annual reports from 10 companies that report under US GAAP (Eli Lilly, Johnson & Johnson, Abbvie, Merck, Amgen, Pfizer, Gilead Sciences, Vertex, Bristol-Myers, and Regeneron) and 10 companies that report under IFRS (Novo Nordisk, Novartis, AstraZeneca, Roche, Sanofi, Chugai, GlaxoSmithKline, Merck KGaA, Takeda, and Daiichi Sankyo).

PRESENTATION & DISCLOSURE OF INTANGIBLES

Disclosures Related to Intangibles Recognized as Assets: Decision-Useful?

Question 13 (Investors): *Do current disclosure requirements related to intangibles recognized as assets provide you with decision-useful information? If not, what information currently provided is not decision useful or what additional information is needed? Please explain your response, including (a) identifying the information currently provided that is not decision useful and (b) additional information that you need and how and when that information would affect your capital allocation decisions and whether it is relevant for all or a subset of intangible assets.*

In our survey, only 39% of investors strongly agreed or agreed that current intangibles disclosures are useful. We did not specifically ask whether current intangibles disclosures are providing information that is not useful or if they are omitting useful information . That said, the low level of agreement to the aforementioned question and the totality of the survey, including respondents' support for the recognition of acquired intangibles and the impairment model, suggests it is most likely that current intangibles disclosures are omitting useful information and should be expanded.

New disclosures with broad support in our survey included the following:

- The types and fair values (management's estimate) of internally generated intangibles.
- Expected future cash flows attributable to the assets.
- Information on relevant valuation models, including the type of model and transparency around major inputs.
- Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
- Key performance metrics managers use to monitor performance of intangibles.
- Qualitative information on how internally generated and acquired intangible assets have performed over time.
- More quantitative information on how the acquired or internally generated intangibles performed over time.
- Information on the board's assessment of how intangible assets have performed over time.

Research and Development Definition: Appropriate to Capture Disclosures?

Question 14 (Investors): *Does the definition of the term research and development, as noted in Question 4, appropriately capture what you consider as R&D for disclosure purposes? Are there other costs that you think should be included in or excluded from the R&D disclosure? Please explain your response.*

We define research and development as activities aimed at the creation of new products, services, and processes or to make changes (such as improvements) to existing products, services, and processes. This is more simply stated than the definitions and examples in ASC Topic 730, but we believe it is generally aligned. An exception is the example discussed in our response to Question 4 related to “Routine, ongoing efforts to refine, enrich, or otherwise improve upon the qualities of an existing product.” We believe that describes an iterative product development process, commonly employed for software, which we would consider R&D for disclosure purposes.

Disclosures Related to R&D and Other Expensed Intangibles: Decision-Useful?

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.*

Current disclosure requirements related to R&D costs in ASC 730-10-50-1 are limited to disclosure of the amount of R&D expenses. This is decision useful as investors typically forecast R&D expenses discretely, particularly for entities with material R&D expenses and that present those expenses on the income statement. R&D expenses are forecasted separately because they are more fixed with respect to revenues than other operating expenses and have distinct drivers (e.g., technology landscape, opportunity set, management discretion, etc.).

Disclosures related to R&D costs and activities beyond what is required are typically non-existent *inside* the financial statements but range from thin to extensive *outside* the financial statements depending on the entity and industry norms. For example, technology companies often communicate little about R&D costs and activities outside the financial statements while pharmaceutical companies may communicate an R&D pipeline, R&D expenses by stage of development or by nature, estimated product launch timing, peak sales estimates, and total addressable market estimates.

Because R&D and expensed intangibles are crucial to many companies’ value, we can’t identify any information currently provided about them that is not useful. Investors want more information, not less, particularly from entities that don’t provide any outside the financial statements.

Additional information would help investors forecast cash flows and value companies, such as by sharpening revenue and expense forecasts under different scenarios. Additional information

would be a subset of the information used internally by senior management or professionals in the finance function to develop forecasts and make capital allocation decisions. In our survey, disclosure options that received high levels of support included:

- The types and fair values (management's estimate) of internally generated intangibles.
- Expected future cash flows attributable to the assets.
- Information on relevant valuation models, including the type of model and transparency around major inputs.
- Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
- Key performance metrics managers use to monitor performance of intangibles.
- Qualitative information on how internally generated and acquired intangible assets have performed over time.
- More quantitative information on how the acquired or internally generated intangibles performed over time.