
GRANT THORNTON LLP

Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200

S [linkedin.com/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

May 16, 2025

Mr. Jackson Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2024-ITC200

Dear Mr Day,

Grant Thornton LLP appreciates the opportunity to provide our views on whether the FASB should pursue further standard-setting on accounting for intangibles.

The current guidance in U.S. GAAP for recognizing and measuring intangible assets often results in similar intangible assets being accounted for differently, which hinders comparability and reduces the decision-usefulness in financial reporting for financial statement users. For instance, whether an intangible asset is recognized in the financial statements depends upon a number of factors, some of which have nothing to do with the potential for the intangible asset to provide future benefits to the reporting entity, including the class of intangible asset, whether the intangible asset was internally developed or acquired, and, if acquired, whether it was acquired in an asset acquisition or a business combination. Of course, this issue is not new, and efforts to resolve it have been frustrated for a variety of reasons, many of which are noted in the Basis for Conclusions to FAS 2, issued in 1974, that persist today, 51 years later.

We believe, as a general rule, that the manner in which an entity acquires an asset should not impact how it is recognized or subsequently measured. We do not believe that there is a fundamental difference between an internally developed intangible asset and an acquired intangible asset. However, we do believe that an asset resulting from an entity's *research* activities—which are distinct from its *development* activities—is typically so uncertain that that they are most appropriately not expensed until the entity's activities transition from *research* to *development*.

Accordingly, we encourage the Board to undertake two distinct, but related, projects:

- First, in the near term and of a higher priority, we encourage the Board to revisit the project to reduce the differences between the accounting for asset acquisitions and business combinations.

- Second, in the longer term and of lower priority, we encourage the Board to undertake a project to develop accounting guidance by class of intangible asset to allow for the recognition of internally developed intangible assets once an entity's activities transition from *research* activities to *development* activities.

We believe the completion of these two projects will enhance the comparability and representational faithfulness of financial reporting by ensuring that entities account for similar intangible assets similarly.

Our detailed responses to the questions in the invitation to comment follow.

Questions

Question 1: 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:

Practitioner/auditor.

Question 2: Is there is 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 believe there is a pervasive need to improve GAAP in this area. The decision-usefulness of financial reporting is enhanced when entities account for similar transactions similarly—in this case, the acquisition or creation of intangible assets. We do not believe the method of acquiring an intangible asset should impact whether an entity recognizes an intangible asset, although we recognize the practical challenges involved with determining when costs incurred to create internally developed intangible assets should be capitalized. As a result, as discussed in our response to Question 3, we recommend addressing acquired and internally developed intangible assets separately, with the goal of reducing the difference in accounting outcomes between them.

Question 3: 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 description of the type(s) of intangible or groups of intangibles (including an explanation of why those intangibles should be addressed in a group)
- The objective of the potential project
- The potential solution(s)
- The type(s) of intangibles, or groups of intangibles, the potential solutions should apply to. For example, whether it is a narrow potential solution for a specific intangible item or a potential solution that could broadly apply to a group of intangible items
- The expected benefits and expected costs of the potential solution(s)

As described in the introduction of this letter and as noted in our response to Question 2, we believe the Board should consider separately addressing the accounting for acquired intangible assets and internally developed intangible assets through discrete

projects, with the goal of ultimately reducing the differences between them so that entities account for similar assets similarly.

Of the two projects, we believe the accounting for acquired intangibles is of higher priority and has a more readily identifiable solution.

Acquired intangible assets

U.S. GAAP has different recognition thresholds for intangible assets acquired through a “business combination” (as defined in Subtopic 805-20, *Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest*) or through an “asset acquisition” (as defined in Subtopic 805-50, *Business Combinations – Related Issues*). Specifically, separately identifiable intangible assets acquired in a business combination are only recognized when they meet either the separability criterion or the contractual-legal criterion. However, separately identifiable intangible assets acquired outside of a business combination may be recognized even when they do not meet the separability criterion or the contractual-legal criterion, provided they meet the definition of an “asset” in Chapter 4 of Concept Statement No. 8.

We ask the Board to align the accounting for business combinations and asset acquisitions regarding the recognition of intangible assets, other than goodwill. Specifically, we suggest that the Board impose the separability and contractual-legal criteria currently applicable to intangible assets acquired in a business combination to all acquired intangible assets. Stakeholders already understand and know how to apply this guidance as it is commonly used today in business combination accounting.

Internally developed assets

Historically, the fundamental challenge in recognizing internally developed intangible assets is the lack of a clear, causal link between (1) a discrete expenditure by a reporting entity, and (2) the creation or enhancement of an asset. For instance, many internally developed intangible assets begin life as a research project, whose potential for producing future economic benefits is often highly uncertain during the research phase. Other internally developed intangible assets arise as a by-product of other activities, such as sales and marketing activities that generate customer-related intangible assets, including customer relationships and, of particular concern today, customer-related data

The FASB identified this challenge in the Basis of Conclusions for FAS 2 in 1974, and, currently, internally developed intangible assets are generally not given accounting recognition. As a result, under U.S. GAAP, an entity that internally develops an intangible asset today is unlikely to recognize that asset on its balance sheet, while an entity that purchases the same asset from an entity that develops it will recognize the asset on its balance sheet, resulting in a lack of comparability between entities solely based on how the same asset was acquired. The most prominent exceptions to this general rule are (1) internally generated software, which is given accounting recognition in certain circumstances, and (2) goodwill, for which the impairment guidance effectively allows for recognizing internally generated goodwill at the reporting unit level.

We ask the Board to consider exploring whether recognition principles could be established for additional classes of internally generated intangible assets to reduce this lack of comparability. In particular, we ask the Board to prioritize assets that arise as the result of discrete research projects designed to develop an intangible asset that, once developed, meets the separability and contractual-legal criteria. We do not believe internally developed intangible assets that arise as a by-product of other activities (such as many customer-related intangible assets) should be recognized because of how this would potentially affect various areas of U.S. GAAP. In particular, we are concerned that certain intangible assets (such customer data or information) obtained as a by-product of other revenue-producing activities could be construed as a form of noncash consideration received under ASC 606.

We explore potential alternative recognition principles in our response to Question 5. In our view, these alternatives would both enhance the comparability of financial information by further aligning the recognition of intangible assets without regard to the method of acquisition, and result in a more faithful representation of an entity's financial position.

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.

We believe the terms *research* and *development* (as collectively defined in “research and development” in the master glossary) are sufficiently clear and appropriately capture the sorts of activities undertaken during the *research* and *development* phases of an R&D project, respectively.

Question 5: 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.

Conceptually, it would be appropriate to distinguish between research costs (which we believe should be expensed as incurred) and development costs (which we believe should be capitalized) in a manner similar to the accounting for internally developed software. However, we acknowledge that the ongoing software project has proved challenging, and it has been difficult to build consensus in this area for even one class of intangible assets. As such, while this is a project worthy of the Board's consideration, we believe it should be of a lower priority than addressing the accounting for acquired intangible assets.

Regarding the distinction between *research* and *development* costs, the accounting for research and development (R&D) costs in ASC 730 is derived from one of the FASB's earliest standards: FAS 2, *Accounting for Research and Development Costs*. The Board at that time concluded that there was a "lack of causal relationship" between (1) R&D expenditures on a particular project and (2) future economic benefits derived from that project due to the high failure rates of new product development. We believe these conclusions merit revisiting.

As noted in BC43 of FAS 2, the standard was issued at a time when the "criteria for identifying economic resources that should be recognized as the assets of an enterprise for accounting purposes have not been specified." We believe the Board would do well to reconsider the questions regarding whether and, if so, when R&D expenditures represent assets of an enterprise in light of the FASB's recently completed conceptual framework, which includes a definition of "asset."

The Board in 1974 considered several alternatives to the current "expense all costs" model, including the following options.

Capitalizing all costs

This approach would capitalize all R&D costs under the premise that all R&D expenditures are incurred because the expenditure enhances the future economic resources of the reporting entity. However, this option was rejected on several grounds, including because the subsequent accounting would be based on an individual R&D project rather than considered on an entity-wide basis, the latter being the basis that's often used to economically justify R&D expenditures.

Although there is precedent for using broader units of account than an individual R&D project—for example, the notion of reporting units for goodwill—we ultimately believe that the individual R&D project is the appropriate unit of account because it is on that basis that future economic benefits can be most meaningfully estimated and measured.

Selective capitalization

This approach would capitalize certain R&D costs when specified conditions are met, while others would be expensed. While this was initially rejected because the Board could not identify a single set of conditions that was broadly applicable to all R&D projects, this idea was later revived for certain internally developed software.

We are interested as to whether this approach could be feasibly expanded to address additional classes of intangible assets, perhaps on the basis of distinguishing between "research" costs and "development" costs. This approach would entail developing guidance to assist entities in identifying the point of transition from "research" to "development," perhaps by class of R&D project/intangible asset.

Additional alternative

Another alternative worth exploring may be establishing a recognition threshold for internally developed intangible assets (perhaps by class of R&D project/intangible asset) triggered by the transition from *research* activities to *development* activities. Before that transition, all costs would be expensed, but after the transition, the asset

would be recognized either via (1) prospective and retrospective cost capitalization, or (2) fair value measurement at the point of transition from research to development, followed by prospective cost capitalization. We believe this accounting reflects the economic substance of the transition from *research* to *development* of an intangible asset.

Effect of changing accounting

Whether changing the accounting model for intangible assets will lead to capitalizing material amounts depends upon (1) how the point of demarcation between “research” and “development” activities is defined, and (2) the capitalization alternative selected. Accordingly, it is challenging to speculate about the impact with any certainty, and we believe this is a matter for future research.

Question 7: 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.

As articulated in our responses to Questions 3 and 5, we believe the Board should pursue a project to recognize other internally developed intangible assets. Additionally, consistent with our response to Question 5, we believe recognition of internally generated intangible assets should be triggered by the transition between research and development activities (similar to the “technological feasibility” concept used for software today, although we believe other discrete thresholds could be considered). In our view, a model based on both management’s intent and the probability that a research project will successfully transition to a development project is inoperable for the same reasons identified in the Basis for Conclusions in SFAS 2 all those years ago.

In any case, we believe this project is of a lower priority than a project to align the accounting for all acquired separately identifiable intangible assets.

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.

Please see our response to Question 3 above.

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.

In our experience, there are not unique challenges in auditing acquired intangible assets. While accounting for acquired intangible assets may require significant judgment and complex estimates, these matters are routinely performed and are well understood in practice. We believe the Board should align the recognition guidance for acquired intangible assets for reasons related to the representational faithfulness and comparability of financial reporting information, not on the audit or accounting complexity.

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.

Please see our responses to Questions 3 and 5 above.

Question 12: 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).

In general, we support efforts by the Board to minimize differences between U.S. GAAP and IFRS where feasible. However, we do not believe a project focused on reducing the differences between the accounting for asset acquisitions and business combinations requires significant consideration of international accounting frameworks.

We recommend that the Board work with the IASB on its project to comprehensively review the accounting requirements for intangible assets to learn from each other's research and align the projects where possible in light of the needs of the FASB's various stakeholders.



We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Chief Accountant (Graham.Dyer@us.gt.com), or Susan Mercier, Partner (Susan.Mercier@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP