



May 9, 2025

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

RE: File Reference No. 2024-ITC200

Dear Mr. Day,

PricewaterhouseCoopers LLP appreciates the opportunity to provide feedback on the FASB's Invitation to Comment (ITC), *Recognition of Intangibles*. We commend the Board's comprehensive efforts to explore whether standard setting initiatives are needed to improve the accounting for and disclosure of intangible assets.

While we acknowledge the ongoing discussion of the disparity between book values and market capitalizations of certain entities, we do not believe that there is a pervasive need for a broad revision of current GAAP in this area. We believe the FASB should instead prioritize achievable, narrow-scope intangible asset projects to address targeted complexities. Namely, we believe the FASB should undertake a project to provide clearer guidance on determining the appropriate unit of account when recognizing intangible assets acquired in a business combination, particularly in-process research and development ("IPR&D"). In addition, we received mixed feedback through our outreach on the decision-usefulness of incremental disclosures related to intangible assets, and therefore, we do not believe the Board should undertake a project on this matter.

Our perspectives on these topics, as well as our detailed comments in response to the questions raised in the Invitation to Comment, are discussed further in the Appendix.

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If you have any questions regarding our comments, please contact Jay Seliber at jay.seliber@pwc.com or Thomas Barbieri at thomas.barbieri@pwc.com.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

Overall

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:

- a. **Academic**
- b. **Investor, other allocator of capital, or other financial statement user, such as:**
 - 1. **Equity analyst: buy side**
 - 2. **Equity analyst: sell side**
 - 3. **Credit-rating agency analyst**
 - 4. **Fixed-income analyst**
 - 5. **Accounting analyst**
 - 6. **Quantitative analyst**
 - 7. **Portfolio manager**
 - 8. **Private equity**
 - 9. **Individual investor**
 - 10. **Lender**
 - 11. **Long-only focus**
 - 12. **Long/short focus**
 - 13. **Other.**
- c. **Practitioner/auditor**
- d. **Not-for-profit organization preparer**
- e. **Private company preparer**
- f. **Public company preparer**
- g. **Regulator**
- h. **Standard setter**
- i. **Other.**

PricewaterhouseCoopers LLP is a global practitioner/auditor that provides a broad range of professional services, including assurance, tax, and advisory services, to clients in a broad range of industries. Our perspectives on this ITC are informed by our role in assisting clients with the application of GAAP and high-quality financial reporting.

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 see a pervasive need to revise the recognition and/or disclosure guidance for intangible assets under GAAP. Targeted improvements through narrow-scope projects would be a more effective approach rather than broad revisions. This approach has proven effective and achievable, as evidenced by recent standard setting projects (e.g., crypto assets).

Because of the broad spectrum of assets that meet the definition of an intangible asset, we do not believe the FASB should undertake a project to enhance disclosures related to these assets. We believe it would be difficult to determine incremental disclosures that are relevant across assets in the scope of ASC 350. Moreover, through outreach, we received mixed feedback regarding the decision-usefulness of additional disclosures related to intangible assets. While some believe incremental disclosures for costs incurred but not capitalized in areas such as product development may be informative, there was not a widely held or consistently emphasized view or proposed solution expressed to us. In addition, some stakeholders we surveyed do not believe that new intangible asset disclosures would provide a meaningful benefit to users of the financial statements. For example, some analysts remove intangible assets and their amortization when modeling projected future cash flows and may continue to do so despite new recognition and/or disclosure guidance.

Our outreach also did not result in any recommendations for incremental disclosures for brands, customer relationships, or similar categories of intangibles.

We are aware that in certain industries (e.g., pharmaceuticals), the SEC staff has requested additional disclosures related to intangible assets, including disaggregation of R&D expenditures by key project, in Management's Discussion and Analysis. While this information is outside of the financial statements, there is industry-specific precedent to provide certain incremental information to users of the financial statements. However, we do not believe the FASB should update the industry-specific guidance that currently exists or undertake a project to develop industry-specific intangible asset disclosure enhancements beyond those that already exist in the Topic areas described by the FASB in Appendix C of the ITC.

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. 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).**

If the Board pursues a project on intangible assets, we believe it should focus on how the acquirer should determine the unit of account for intangible assets acquired in a business combination. Generally, we believe the criteria for recognition of intangible assets acquired in a business combination is clear and operable. However, we observe that separately identifiable intangible assets that share similar characteristics are at times aggregated into a single unit of account upon recognition because they are considered to be substantially the same. Determining the appropriate unit of account for valuing and recognizing intangible assets may be especially complex when such activities benefit various jurisdictions and/or uses of a product; for example, an in-process pharmaceutical compound that may have multiple potential applications, be subject to separate regulatory review, or be licensed separately in various geographic regions. The unit of account determination is critical for the subsequent accounting of intangible assets, including impairment assessments, the determination of amortization periods, and potential future outlicensing arrangements or disposals. As part of a proposed solution, the FASB could leverage the guidance in paragraphs 2.18 to 2.24 (in particular, the factors in paragraph 2.20) of the non-authoritative AICPA Accounting and Valuation Guide: *Assets Acquired to Be Used in Research and Development Activities*.

As noted in our response to Question 2, we do not believe the Board should undertake a broad project to enhance disclosure of intangible assets. If the Board pursues a disclosure project, we recommend a narrow-scope project focused on specific types of intangibles. As part of a proposed solution, the Board could leverage existing GAAP in ASC 805-20-55-13 through ASC 805-20-55-45 to categorize identifiable intangibles assets into groups that exhibit similar characteristics to determine the most decision-useful disclosures for those intangible assets and related costs incurred.

Recognition of Intangibles

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 existing definitions of research and development costs, including the examples of activities included in and excluded from R&D, are sufficiently comprehensive and operable in practice.

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.

We acknowledge that development costs are capitalized under IFRS if certain conditions in IAS 38 are met, which differs from the general model in GAAP. However, we do not believe the FASB should undertake a project to distinguish between research and development costs. Because of the unique nature of the types of research and development costs that exist in each industry, we do not support developing either broadly applicable guidance or further industry-specific guidance for determining when research ends and when development begins, as this would likely lead to inconsistencies and increased complexity. In addition, our outreach did not indicate support for further capitalization of internally developed intangible assets, and this would significantly increase the complexity for preparers and auditors to assess the appropriate point when capitalization should begin as well as which costs are eligible for capitalization.

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 do not believe there are operability or auditability challenges in applying current R&D accounting guidance. We believe existing GAAP is clear as to what costs should be accounted for and disclosed as R&D.

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 noted in our response to Question 5, we do not support the broad recognition of other internally developed intangible assets. We believe the costs of recognizing more internally developed intangible assets outweigh the benefits. We have not received feedback from stakeholders that capitalizing such costs would provide more relevant, decision-useful information. Recording the initial cost of developing intangible assets would not, in our view, provide useful information about the value of the intangible assets on an ongoing basis. Moreover, preparers have expressed concerns about the cost and complexity of requiring recognition of more intangible assets, particularly for private companies.

There is a wide spectrum of intangible assets, and it would be difficult to determine when certain types of internally developed intangible assets should be recognized and what types of costs should be eligible for capitalization (e.g., brands). We believe recognition of internally developed intangibles would also necessitate evaluation of the existing accounting guidance on capitalization, amortization, and impairment, which would broaden the scope and lengthen the time of any project. Therefore, we do not believe the Board should consider recognition of additional internally developed intangibles based on the criteria in (a) or (b), nor do we think such criteria should be utilized when an intangible asset is recognized in an asset acquisition or business combination.

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.

We do not believe the Board should undertake a project to align the recognition guidance for intangible assets. While there are some differences in the recognition guidance between intangible assets acquired in a business combination and those acquired in an asset acquisition (e.g., IPR&D, workforce), the model for recognition of acquired intangible assets is generally aligned and is well understood by preparers, practitioners, and investors. We believe the delineation

between intangible assets acquired versus internally developed intangible assets is appropriate as a transaction with a third party provides more objectively reliable information. We believe the existing recognition guidance is clear and operable, and therefore, we support maintaining existing GAAP, including retaining existing industry-specific guidance. As noted in our response to Question 7, we do not support additional recognition of internally developed intangible assets.

We will include additional information on our perspectives related to improving the asset acquisition accounting model by making targeted updates to specific topics that are not presently addressed in ASC 805-50 in our forthcoming response letter on the ITC, *Agenda Consultation*.

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.

While there are challenges in the determination and auditing of the fair value of intangible assets recognized in an asset acquisition or business combination and subsequent impairment tests, we believe preparers and practitioners have adequate experience in this area. Therefore, we are not aware of significant operability or auditability challenges in applying the recognition guidance for acquired intangible assets. However, as noted in our response to Question 3, we believe that more detailed guidance on the unit of account for intangible assets acquired in a business combination (in particular, IPR&D) could enhance consistency in practice.

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.

This question is specifically directed to and best addressed by investors.

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.

As noted in our response to Question 7, we do not support additional recognition of internally developed intangible assets.

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).

The FASB has previously considered international guidance as part of its standard setting process, and we encourage the Board to continue to do so as it relates to any future project related to intangible assets notwithstanding the fact that current IFRS and GAAP standards have existing differences in the accounting for intangible assets which may result in different accounting outcomes.

In some cases, the application of these differences is not substantive. For example, we do not believe pharmaceutical companies capitalize material amounts of development costs under IAS 38; these costs are generally expensed as incurred until regulatory approval is received, regardless of whether IFRS or GAAP is applied. On the other hand, we are aware that development costs are capitalized in other industries which would differ from GAAP. However, as noted in our response to Question 5, we do not believe the FASB should create new criteria or align criteria with IAS 38 to capitalize development costs.

We observe that much of the feedback provided to date on the IASB's current project on intangible assets either (1) focuses on areas where GAAP already has specific guidance but IFRS does not (e.g., crypto assets, cloud computing arrangements), or (2) similarly does not provide broad support for capitalizing more internally developed intangible assets. If the FASB were to take on a project related to intangible assets, we believe any new guidance should avoid creating divergence between GAAP and IFRS in areas where they are presently aligned.

Presentation and Disclosure of Intangibles

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.

This question is specifically directed to and best addressed by investors.

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.

This question is specifically directed to and best addressed by investors.

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.

This question is specifically directed to and best addressed by investors.