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May 29, 2025

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

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

Dear Mr. Day:

We appreciate the opportunity to comment on the FASB's Invitation to Comment (ITC), *Recognition of Intangibles*. We support the Board's research project on the accounting for and disclosure of intangibles given the stakeholder feedback received in response to the 2021 Agenda Consultation and other projects. We believe the Board's outreach to constituents is important and we are pleased to be part of this process.

As we have communicated to the Board in previous comment letters, we believe existing GAAP on the accounting for intangibles results in significant financial reporting disparities between companies that have primarily grown through acquisitions versus those that have primarily grown organically. Those financial reporting disparities affect all aspects of the financial statements and have become very substantial for many companies. On its face, this is suboptimal for financial statement users and suggests a need to improve accounting standards that apply to intangibles. However, we are aware that the results of the Board's extensive outreach to constituents has not revealed a path forward to address financial reporting disparities related to the accounting for intangibles in which the expected benefits are likely to justify the expected costs, in no small part due to the lack of consensus among financial statement users over what, if any, benefits would result from fundamental changes to the existing accounting requirements for intangibles. Consequently, we do not believe a project to fundamentally revise existing GAAP related to the accounting for and disclosure of intangibles currently can be justified based on the three criteria the Board has established to evaluate whether a potential project should be considered an agenda priority.

The Board has effectively addressed, or is in the process of addressing, accounting for new and emerging intangibles (e.g. crypto assets) through targeted, incremental projects. Given the diverse and evolving nature of intangible assets, we believe the Board should continue this incremental approach to standard-setting as specific needs arise, particularly in response to emerging business models and ongoing technological advancements. We have provided some observations and suggestions for potential targeted improvements in our responses to the Questions for Respondents.

Although we support an incremental project approach, we do not believe a project to align recognition of intangibles acquired in business combinations and asset acquisitions should be a Board priority. However, if the Board decides to pursue such a project, we believe that endeavor should occur as part of a holistic review of the differences between business combination and asset acquisition accounting. We believe such a holistic review would likely require a long-term commitment.

Technical Director
Financial Accounting Standards Board
May 29, 2025
Page 2 of 2

Finally, we encourage the Board to consider input from a broad range of stakeholders, particularly financial statement users, regarding the need for additional disclosures related to intangibles to support informed decision-making.

The Appendix to this cover letter provides our responses to selected Questions for Respondents.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Amy Luchkovich amyluchkovich@kpmg.com or Kimber Bascom kbascom@kpmg.com.

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and slanted to the right.

KPMG LLP

Appendix – Responses to selected Questions for Respondents

This appendix omits reference to Questions 10, 13, 14 and 15 because they are specifically addressed to investors.

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.

KPMG LLP is a practitioner/auditor.

Question 2:

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

We do not believe a project to fundamentally revise existing GAAP related to the accounting for and disclosure of intangibles currently can be justified based on the three criteria the Board has established to evaluate whether a potential project should be considered an agenda priority. The Board has effectively addressed, or is in the process of addressing, accounting and disclosure requirements for new and emerging intangible assets through incremental projects. Guidance has been established, and revisited, for both external-use and internal-use software, including fees paid in cloud computing arrangements. Additionally, the Board has issued guidance on the accounting for and disclosure of crypto assets and has an ongoing project to address the accounting for environmental credit programs.

Appendix
Page 2

Given the diverse and evolving nature of intangible assets, we encourage the Board to continue taking an incremental approach to standard-setting for intangibles as the need arises, particularly in response to emerging business models and ongoing technological advancements.

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).*

Please refer to our responses to Questions 2 and 7.

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 current definition of *research and development* (R&D), along with the related examples of activities that are included in and excluded from R&D, appropriately capture R&D activities that should be expensed as incurred. In our experience, the guidance is operable and practice is well established; therefore, we do not believe there is a need to update the existing definition of R&D.

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 do not believe there is a need to change the accounting for development costs. The practice of expensing all research and development costs as incurred is well understood and promotes consistency among preparers. Introducing a new capitalization model for development costs could increase complexity for preparers and practitioners, and likely increase comparability challenges for financial statement users, particularly if the model requires significant judgment or the application of a subjective threshold.

Appendix
Page 3

Nonetheless, if the Board were to pursue a capitalization model for development costs, we believe the existing models summarized below could be explored in developing a framework for determining when to recognize development costs as assets. The Board also should consider the cost-benefit implications of any proposed amendments, taking into account feedback from other stakeholders.

- Capitalization of development costs begins when management has committed to funding the project, and it is probable that the project will be completed and will perform the intended function, consistent with existing application development cost criteria in Subtopic 350-40, *Intangibles - Goodwill and Other – Internal Use Software*.
- Capitalization of development costs begins when technological feasibility has been established, consistent with Subtopic 985-20, *Costs of Software to Be Sold, Leased, or Marketed*.
- Development costs are capitalized when certain criteria are met, consistent with paragraph 57 of IAS 38, *Intangible Assets*.
- Development costs are capitalized once the underlying R&D meets the definition of an asset under Chapter 4 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*.

Each of the first three alternatives benefit from existing application in practice (i.e. either to a specific class of intangible asset development or more broadly under IFRS® Accounting Standards). However, the fourth alternative may eliminate, or at least more significantly limit, issues of 'selective capitalization' that are often identified as criticisms of existing intangible asset capitalization models. Selective capitalization refers to the situation where the capitalized amount for an intangible asset represents only a portion of the development costs incurred because of a capitalization threshold so that neither the capitalized asset, nor its expensed costs, reflect the total cost of the asset.

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.

Consistent with our response to Question 4, we believe there is well-established practice in applying the R&D guidance, including identifying what costs should be accounted for and disclosed as R&D. Consequently, we are not aware of any operability or auditability challenges in applying the existing R&D guidance that need to be addressed by the Board.

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?

We do not believe a project to require capitalization of costs of other internally developed intangibles currently can be justified based on the three criteria the Board has established to evaluate whether a potential project should be considered an agenda priority. We observe that feedback related to the

Appendix
Page 4

Accounting for and Disclosure of Software Costs project indicated that investors generally are not interested in significantly increasing the level of capitalized software costs and that such capitalization can hinder their efforts to normalize earnings and compare entities. Additionally, preparers had concerns that more extensive changes to the recognition of software costs could be costly to implement and to apply on an ongoing basis. We believe this lack of interest in/opposition to increased capitalization of software costs, an area in which intangible assets already are recognized to some extent, likely reflects a broader sentiment for all internally developed intangibles.

As discussed in our response to Question 2, we do not believe a project to fundamentally revise the accounting for or disclosure of intangibles currently can be justified based on the three criteria the Board has established to evaluate whether a potential project should be considered an agenda priority. That said, we support an incremental standard-setting approach for intangibles, addressing the need for standard-setting as it arises, as the Board has done for crypto assets and internal-use software costs since the last Agenda Consultation. This approach has been effective in the past, and we believe currently it is better suited to accommodate the diverse and evolving nature of intangibles, as well as shifts in business models, than an approach that attempts to establish a single model for this diverse class of assets.

Should the Board decide to pursue recognition of other internally developed intangibles, we believe either of the accounting models mentioned in the Question could be considered, together with the other two approaches we discuss in Question 5.

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 discussed in our response to Question 8, we do not believe the Board should prioritize such a project at this time. However, should the Board decide to pursue a project that would change the recognition of acquired intangibles, we recommend a comprehensive project be undertaken, beyond solely recognition of intangible assets, to holistically review the differences between business combination and asset acquisition accounting, with the objective of more fully aligning those accounting models.

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.

Theoretically, we believe the highest level of alignment in the recognition guidance for intangibles – whether acquired as part of a business combination, acquired in an asset acquisition, or internally developed – would be achieved through the adoption of a fair value measurement model. A fair value approach could establish a consistent recognition basis across all types of transactions, potentially enhancing comparability and more accurately reflecting the economic value of intangible assets, regardless of whether an entity grows organically or through acquisition. In contrast, alternative models based on acquisition date fair value, historical cost or cost accumulation reflect different measurements at

Appendix
Page 5

different points in time and result in a disconnect between capitalized costs and the economic value of the intangible asset.

However, a fair value model would result in increased costs, complexity and effort in accounting for intangibles, potentially without a commensurate increase in decision-useful information. Fair value estimates of intangible assets may also be subjective, especially for assets that are not marketable and in the absence of an exchange transaction. While we believe the costs of implementing a fair value measurement model would likely outweigh the benefits, we believe input from a range of stakeholders, particularly financial statement preparers and users, is necessary to fully assess the cost-benefit implications.

Alignment of recognition guidance for intangibles acquired as part of a business combination and acquired in an asset acquisition

While we do not believe that such a project should be a Board priority, if the Board decides to pursue a project to align the recognition of intangibles acquired in business combinations and asset acquisitions, we believe that endeavor should be part of a broader, holistic review of the accounting models for both types of transactions. Should the Board decide to pursue a broader project, we believe it would require a long-term commitment and its ultimate goal should be to substantially align the two models including, but not limited to, the recognition of intangibles.

The current guidance for asset acquisitions in Subtopic 805-50 lacks specificity in several areas, and there is ambiguity about when Subtopic 805-50 should be applied versus when applying asset-specific guidance is appropriate. Focusing solely on the recognition of acquired intangible assets could result in increased complexity and unintended consequences, including related to the accounting for contingent consideration (when to capitalize or expense). For example, isolated changes to recognition guidance for acquired intangibles could affect arrangements in which there is not currently significant diversity (e.g. royalties and other usage-based fees in licensing arrangements).

However, we believe targeted improvements could be considered regarding the accounting for in-process research and development (IPR&D) acquired in a business combination. IPR&D is currently recognized as an indefinite-lived intangible asset until the related project is either completed or abandoned, during which time it is not amortized but tested for impairment. We believe this indefinite-lived classification may not reflect the economic reality of IPR&D assets, which are typically consumed over a defined development or commercialization timeline.

Acquired IPR&D intangible assets differ from typical indefinite-lived intangible assets, which are fully developed and ready to generate cash flows on an ongoing basis. While acquired IPR&D represents an incomplete project, the development completed to date is a critical input for subsequent stages of the overall R&D project. A finite-lived model similar to the accounting for construction-in-process assets under Topic 360, *Property, Plant and Equipment* could be considered, with amortization commencing upon completion, or the entire IPR&D asset being expensed if the research and development efforts are abandoned. Alternatively, if IPR&D continues to be treated as an indefinite-lived intangible asset, the impairment model applied to IPR&D assets could be revised to require trigger-based testing, thereby providing relief from mandatory annual testing while retaining impairment testing at the individual asset level.

We also observe that during the FASB's deliberations on EITF Issue No. 09-2, *Research and Development Assets Acquired in an Asset Acquisition*, a view was presented that the determination of

Appendix
Page 6

whether an acquired research and development intangible asset is considered indefinite- or finite-lived should be a matter of professional judgment. An argument was also made that determination of whether an asset is indefinite- or finite-lived should not depend on whether the transaction is a business combination or an asset acquisition.

We recommend that the Board solicit feedback from financial statement preparers and users on this matter to evaluate whether the current accounting model for acquired IPR&D remains appropriate or should be reconsidered.

Question 9:

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

We have identified some areas where diversity in practice may exist, which the Board could consider addressing through targeted improvements to enhance consistency and comparability in financial reporting.

Fixed fees paid over time

Paragraph 350-40-25-17 provides specific guidance for acquired software licenses, requiring an entity to recognize a license intangible asset (irrespective of whether the fees are paid upfront or over time) and a corresponding liability for any unpaid fees. Subtopic 350-30 lacks comparable guidance, leading to potential inconsistencies in accounting practices for entities acquiring non-software intangible assets under similar, over-time payment arrangements. In the absence of explicit guidance in Subtopic 350-30, some entities analogize to paragraph 350-40-25-17 and recognize both an intangible asset and a financial liability for fixed fees paid over time. We believe others may treat the payments as period costs, recognizing them as incurred and without recognizing an intangible asset or related liability. To address this diversity, the Board could consider extending the principles in paragraph 350-40-25-17 to Subtopic 350-30, which we observe would also be consistent intellectually with the Board's conclusions and the accounting required under Topic 842, *Leases*, for right-of-use assets.

Software data costs

The rapid advancement of artificial intelligence (AI), particularly generative AI, has highlighted the critical role of data in the training and ongoing refinement of AI models. Beyond AI, data is also fundamental to the performance of many other types of software. For example, data is required in various software applications to produce outputs such as reports, analytics and visualizations. Data is typically either internally generated or acquired through licensing agreements. Internally generated data is generally expensed as incurred; however, the absence of explicit guidance for the accounting for licensed data may lead to diversity in practice.

Licensed data may be acquired for the development of internal-use or external-use software, and at various stages of the software development lifecycle. Alternatively, it may be acquired to be accessed and used by the software to perform its functionality. In some instances, the data may have an alternative future use, while in others it may serve a single, specific purpose. Given the varying nature and intended uses of licensed data, determining the applicable accounting model is not always straightforward. This complexity may result in inconsistent interpretations of existing guidance and diversity in practice.

Appendix
Page 7

Preparers may need to consult multiple areas of GAAP to assess the accounting for licensed data, including Subtopic 350-30, Subtopic 350-40, Subtopic 985-20 and Subtopic 730-10. Given these challenges, we believe the Board should consider whether targeted guidance specific to the licensing and use of data in and by software is warranted.

Recovering previous impairment losses

ASC Section 350-30-35 requires entities to recognize impairment losses for intangible assets under certain circumstances. Impairment losses, once recorded, cannot be reversed.

Prior to the issuance of ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*, the ability to reverse impairment losses was a significant concern in relation to the accounting for crypto intangible assets. Although this concern is no longer relevant for such assets, in our view, the effects of periods of economic disruption, such as COVID-19, highlight the drawbacks of non-reversible impairment losses for long-lived and indefinite-lived tangible and intangible assets. Following the COVID-19 economic recession, the US economy recovered more quickly than many economists had predicted. Consequently, many companies likely recorded impairment losses on their long- and indefinite-lived assets that exceeded what they would have recorded had they been able to accurately forecast the recession's duration and the speed of economic recovery. If companies were required to reverse impairment losses up to the assets' recoverable amounts (not to exceed their carrying amounts had no impairment been taken), we believe many companies would have recognized impairment reversals in subsequent periods.

Further, we observe that requiring long- and indefinite-lived asset impairment recoveries to be recognized would enhance convergence with IFRS Accounting Standards, which, under IAS 36, requires the reversal of impairments previously recognized for cash-generating units.

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 refer to our responses to Questions 5 and 7.

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).

We recommend that the Board closely monitor the International Accounting Standards Board's (IASB's) ongoing project to comprehensively review IAS 38, *Intangible Assets*. The IASB's focus on understanding

Appendix
Page 8

the information needs of investors and its planned work on recognition and disclosures is relevant to the Board's efforts. In particular, the Board should consider feedback received by the IASB about its stakeholders' needs for information on recognized and unrecognized intangible assets and related expenditures. This may include consideration of enhanced disclosure requirements to improve transparency and decision-usefulness of financial statements. If the Board decides to undertake a project to address intangibles, we encourage it to collaborate with the IASB to promote convergence where possible and reduce global inconsistencies in the accounting for intangible assets.

We also encourage the Board to consider other international research that may provide insights into other stakeholder feedback; for example, the findings summarized in the March 2025 report, *Investor Perspectives: Intangible Assets—Before Recognition, Improved Disclosures and Disaggregation Are Needed*, published by the CFA Institute Research & Policy Center.