



The Accounting for and Disclosure of Intangibles

March 3, 2023

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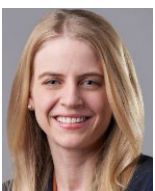
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Objective

- Provide a historical perspective on the U.S. accounting for intangibles, stakeholder feedback received on perceived challenges, and present potential topics for further academic research.

Agenda

- Emerging Financial Reporting Issues Symposium
- History of Standards Issued
- Stakeholder Feedback
- Other Considerations
- Potential Projects and Areas of Academic Research That May Inform Those Projects
- Closing
- Q&A

Emerging Financial Reporting Issues Symposium

- Annual one-day research symposium co-sponsored by the **FASB** and the Chookaszian Accounting Research Center (**CARC**) of the University of Chicago Booth School of Business and hosted at the FASB's office in Norwalk, CT
- Objective
 - Encourage and support research relevant to a financial reporting issue that is the subject of early-stage standard-setting activities.
 - Provide a forum for discussion among standard setters, academics, and other stakeholders.
- Topic for April 5, 2024, inaugural symposium—**Intangible Items**
- Stay tuned for
 - Paper submission deadline—November 17, 2023
 - Symposium registration opens—December 1, 2023

2024 Symposium

- Call for papers— [available at FASB.org/academics](https://fasb.org/academics)
- Seeking papers that speak to:
 - The costs and benefits of balance sheet recognition and measurement of intangible items.
 - The relevant measurement basis (or bases) and measurement challenges.
 - The costs and benefits of disaggregation of expenditures for intangible items.
 - The costs and benefits of enhanced disclosures about intangible items.
 - The consequences of the differential financial reporting treatment afforded to certain acquired versus internally generated intangible items.
 - The potential unintended consequences of the financial reporting for intangible items.
- Papers are submitted via the [FASB/CARC—2024 Call for Papers Portal](https://fasb.org/academics)
- A submission fee of \$75 is required for each paper, paid for utilizing the online payment box after uploading your paper and clicking 'DONE'.

Relevant GAAP Definitions

■ Intangibles Assets

- Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

■ Research and Development

- Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.
- Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Examples of Acquired Intangibles That Can be Recognized as Assets

- Trademarks
- Internet Domain Names
- Order or production backlog
- Contractual customer relationships
- Employment Contracts
- Mortgage Servicing Contracts
- Trade Secrets, Secret Formulas, Recipes

History of Standards Issued

Authoritative Guidance Issued

- 1974 – FASB Statement No. 2, *Accounting for Research and Development Costs* (Topic 730, Research and Development), required the immediate expensing of all research and development costs.
- 1985 – FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (Topic 985, Software)
 - Costs incurred to establish technological feasibility are considered R&D and expensed as incurred, while costs incurred after technological feasibility is established and before product release are capitalized.
- 1998 – AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (Subtopic 350-40, Intangibles–Goodwill and Other–Internal-Use Software)
 - Internal and external costs incurred during the preliminary project stage should be expensed as incurred.
 - Internal and external costs incurred during the application development stage should be capitalized.
 - Subtopic 350-50, Intangibles–Goodwill and Other–Website Development Costs, leverages this guidance.
- 2001 – FASB Statement No. 141, *Business Combinations*
 - Required recognition of intangible assets acquired in a business combination that meet the contractual-legal criterion or the separability criterion.

Authoritative Guidance Issued (continued)

- 2001 – FASB Statement No. 142, *Goodwill and Other Intangible Assets* (Topic 350)
 - Required identifiable intangible assets that were acquired individually or with a group of other assets, but not in a business combination, to be recognized and measured at cost.
 - Required the costs of internally developing, maintaining, or restoring intangible assets to be recognized as expense.
- 2007 – FASB Statement No. 141 (revised 2007), *Business Combinations* (Topic 805, Business Combinations)
 - Statement 141(R) carried forward the Statement 141 guidance and required the capitalization of acquired in process R&D assets, separate from goodwill.
- 2018 – Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*
 - Aligned capitalization of implementation costs related to cloud computing arrangements with the capitalization requirements for software that is internally developed or obtained.

Other Industry-Specific Guidance

1981: Entertainment— Cable Television

(Statement 51, Subtopic
922-350)

1982: Financial Services—Title Plant

(Statement 61, Subtopic
950-350)

1982: Entertainment— Broadcasters

(Statement 63, Subtopic
920-350)

1988: Takeoff and Landing Slots

(SOP 88-1, Subtopic 908-
350)

2004: Extractive Activities—Oil and Gas

(FSP FAS 142-2, Subtopic
932-350)

2019: Entertainment— Films

(Update 2019-02, Subtopic
926-20)

Stakeholder Feedback

2016 Agenda Consultation

- In August 2016, the Board issued an Invitation to Comment, Agenda Consultation (2016 ITC), to give stakeholders an opportunity to provide input on the Board's agenda.
 - The 2016 ITC included four topics, each in a separate chapter.
- Chapter 1 of the 2016 Agenda Consultation related to Intangible Assets.
- Chapter 1 was included because accounting for intangible assets was one of the top priorities identified by FASB advisory groups in the 2015 Financial Accounting Standards Advisory Council Survey.
- The Board discussed the feedback received from stakeholders on Chapter 1 in its January 2017 Board meeting.

Stakeholder Feedback: 2016 Agenda Consultation

- Stakeholders noted:
 - Accounting for intangible assets does not have an overarching framework.
 - Inconsistencies in accounting for internally generated and purchased intangible assets
 - Possible convergence with International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards)
 - Financial statements may be incomplete because they are missing information about intangible assets.
- The majority of respondents listed intangibles as a higher priority.

Stakeholder Feedback: 2016 Agenda Consultation (continued)

- The 2016 Agenda Consultation described four broad alternatives. Alternative B was preferred by most respondents.

Alternative A:
Recognize internally
generated intangible
assets at cost or fair
value.

Alternative B:
Recognize R&D
assets at cost or fair
value.

Alternative C:
Disclose internally
generated intangible
assets.

Alternative D:
Adopt IAS 38,
Intangible Assets,
standards into
GAAP.

2016 Agenda Consultation (continued)

- The Board considered a holistic, targeted, and disclosure-only approach in response to the 2016 Agenda Consultation.
 - The holistic approach would have focused on intangible assets broadly. The staff research focused on accounting considerations to prescribe the same accounting treatment for intangible assets whether internally developed or purchased.
 - The targeted approach would have focused on internally generated intangible assets that appeared similar in nature but were accounted for differently.
 - The Board rejected adding a holistic or targeted approach to the agenda. It voted to keep the qualitative disclosures project on the research agenda.
 - The Board decided that a holistic approach would not be feasible because of the diverse views on recognition and measurement and diversity of perceived benefit from users of requiring recognition and amortization of internally generated intangibles.
 - The Board decided that there were no significant and pervasive inconsistencies in the existing recognition guidance and decided not to add a targeted project at that time.

2021 Agenda Consultation

- In June 2021, the Board issued an Invitation to Comment, Agenda Consultation (2021 Agenda Consultation)
- The 2021 Agenda Consultation solicited broad stakeholder feedback about current and potential projects that the Board may pursue.
- Question 18 of the 2021 Agenda Consultation asked respondents both:
 - To identify which types of intangible assets should be within the scope of a project if the Board were to pursue a project
 - If that project should be primarily focused on improvements to recognition and measurement or disclosure.

Stakeholder Feedback: 2021 Agenda Consultation

- Various types of stakeholders discussed intangible assets in response to the 2021 Agenda Consultation, including academics, standard setters, users, practitioners, preparers, state CPA societies, and trade groups.
- Their comments included:

Differences in book value to market value due, at least partially, to unrecognized intangible assets

Differences in accounting treatment for internally developed and acquired intangible assets

Lack of an overarching framework for intangible assets

Issues related to R&D costs

Intangible asset issues related to environmental, social, and governance topics

Stakeholder Feedback: 2021 Investor Survey

Approximately half of respondents stated that existing disclosures for intangibles are not sufficient for their analyses.

Sixty percent of respondents noted that additional qualitative disclosures would improve their ability to analyze companies.

Respondents frequently suggested additional quantitative disclosures for R&D.

Recognition and measurement of more intangibles in the balance sheet was least supported as a factor that would improve users' ability to analyze companies.

June 2022 Board Meeting

- In June 2022, the staff presented three potential paths forward to the Board:
 - Disclosure approach
 - Recognition and measurement approach
 - Targeted updates to existing GAAP.
- The Board made no technical decisions and provided the staff with input for future research:
 - Most Board members expressed an interest in an approach that would result in improved and/or expanded disclosures.
 - Board members expressed interest in further staff research on R&D, labor-related intangibles, or other internally generated intangibles not recognized on the balance sheet.
 - Some Board members also expressed support for targeted updates to existing GAAP.

Other Considerations

2001 Special Report

- In April 2001, the FASB issued a Special Report, *Business and Financial Reporting, Challenges from the New Economy*. Chapter 4 discussed intangible assets.
- Four possible projects related to intangible assets were suggested:

Disclosure of nonfinancial indicators about intangible factors, such as market size and share, customer satisfaction levels, new product success rates, and employee retention rates

Recognition and measurement, in statements of financial position, of R&D, and other project-related intangible assets

Separate recognition and measurement of intangible assets or liabilities embedded in tangible or financial assets, for example, banks' core deposit intangibles and insurers' claim-handling obligations

Disclosure about intangible assets that are not recognized in statements of financial position but would have been recognized if acquired either separately or in a business combination

2001 Technical Agenda Project Proposal

- As a result of the 2001 Special Report, the FASB issued a proposal for a new agenda project, *Disclosure of Information about Intangible Assets Not Recognized in Financial Statements*
 - The principal goals of the project were to make new information available to investors and creditors, improve the quality of information provided, and take steps toward potential recognition of internally developed intangible assets.
 - Stakeholders generally supported the project, but preparers expressed concerns about the cost and complexity of valuing intangibles and sharing proprietary information.

Project added to the technical agenda January 2002

Project was suspended in Q4 2002 to prioritize other projects

The Board removed the inactive project from the agenda in January 2004

International Activity

- The IASB issued IAS 38, which was adopted in 2001
 - Specified recognition criteria for capitalizing initial costs incurred to acquire or internally generate an intangible asset and subsequent costs incurred.
 - Distinguished research costs from development costs.
 - Stakeholders have indicated that there is a high amount of subjectivity involved in capitalizing development phase costs under IAS 38.
 - Based on feedback received on its 2021 Third Agenda Consultation, the IASB added a project to comprehensively review IAS 38 to its research pipeline.

Active Intangible-Related Projects

■ Accounting for and Disclosure of Crypto Assets

- May 2022 – The Board added a project to its technical agenda to improve the accounting for certain digital assets.
- The scope of the project is limited by several criteria, including that the crypto assets meet the definition of an intangible asset as defined in the Codification's Master Glossary.

■ Accounting for and Disclosure of Software Costs

- June 2022 – The Board added a project to its technical agenda, based on stakeholder feedback, to modernize the accounting for software costs and enhance transparency about an entity's software costs.
- The scope of the project includes all software costs currently subject to the guidance of Subtopic 350-40 and Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed.

Active Intangible-Related Projects (continued)

- Accounting for Environmental Credit Programs
 - May 2022 – The Board added a project to its technical agenda to improve the recognition, measurement, and disclosure requirements for participants and compliance and voluntary programs that result in the creation of environmental credits.
 - Intangible asset guidance, or Topic 330, Inventory, is frequently cited in current practice in discussing the accounting for environmental credits.

Potential Projects and Areas of Academic Research That May Inform Those Projects

Scope of Potential Projects

1

Disclosure Approach

2

Recognition and
Measurement Approach

3

Targeted Updates to
Existing GAAP

Disclosure Approach

- Some stakeholders have suggested that the Board consider:
 - Focusing on improving intangible asset disclosures
 - Expanding existing disclosures to include costs incurred for internally generated intangible assets and R&D
 - Making improvements to both quantitative and qualitative disclosures on the most significant internally generated intangible assets.

Disclosure Approach – Potential Research

- Evidence about the characteristics (e.g., frequency, type, quality) and decision usefulness of current voluntary disclosures about intangible items
- Evidence about the usefulness of current required disclosures in capital allocation decisions
- Evidence about the characteristics (e.g., frequency, type, qualitative vs. quantitative nature) of disclosures about intangible items that would be useful in capital allocation decisions
- Evidence about the information investors need and how that information is decision useful
- Evidence about the proprietary cost of disclosures about intangible items

Recognition and Measurement Approach

- Some stakeholders have suggested that the Board require the recognition of more internally generated intangible assets.
- This solution could address stakeholder feedback on providing better information on internally generated intangibles as well as address concerns on inconsistency between acquired intangibles and created intangibles.
- The Board would need to consider if recognition and measurement should focus on all intangibles or specific types.
- The Board has previously considered recognition and measurement of internally generated intangibles and has run into several challenging issues including:
 - Appropriate scope
 - Recognition threshold
 - Measurement alternatives.

Recognition and Measurement Approach – Potential Research

- Would recognizing more intangible items as assets result in more relevant financial information?
- Does the basis at which those assets are recognized (cost or fair value) affect the decision usefulness of information?
- If intangible items were recognized on the balance sheet at fair value, would recognition of the resulting gain provide decision-useful information?
- Does the relevant measurement basis differ for intangible items held for sale in the open market versus those used in the production and sale of products or services?
- Is there evidence about the types of intangible assets that investors find most critical for their analyses and how investors assess the investments made or value created?

Targeted Updates to Existing GAAP Approach

- Stakeholders have suggested that the Board could consider updating certain areas of GAAP that investors or others perceive as inconsistent.
- Consider smaller scope projects including:
 - Allowing for reversal of impairment charges for intangible assets
 - Expensing (or subsuming into goodwill) more acquired or purchased intangible assets
 - Additional transactions that result in different accounting for intangibles based on type and industry.

Targeted Updates Approach – Potential Research

- Does accounting for internally generated and externally acquired intangible assets the same or differently affect the decision usefulness of information?
- Do investors in specific industries (e.g., film, biotechnology, professional services, etc.) need different or better financial information about certain types of intangible assets, and what would the benefits of those improvements be?
- Would disaggregation of expenditures pertaining to the development of human capital, innovation, and reputational capital be decision useful and how would it influence investment and capital allocation decisions?

RESEARCH ARTICLE | March 11 2022

PERSPECTIVES ON THE FINANCIAL REPORTING OF INTANGIBLES ✓

Anthony Appleton; Andreas Barckow; Christine Botosan; Yasunobu Kawanishi; Atsushi Kogasaka (Deceased); Andrew Lennard; Linda Mezon-Hutter; Joy Sy; Rebecca Villmann

Accounting Horizons (2022)

Abstract ^

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Diversity in views about the existence, nature, and extent of the “intangibles problem” in financial reporting and various proposed solutions is well represented among national accounting standard setters. This paper summarizes the varying perspectives on these issues by a group of national accounting standard setters from Canada, Germany, Japan, the U.K., and the U.S. The paper strives to deliver a balanced discussion of the alternative perspectives to provide fodder for further consideration by the accounting community and to stimulate additional academic research relevant to these issues.

Abstract v

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Closing

Q&A

Thank You