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May 23, 2025

Via email to director@fasb.org

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

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

Dear Mr. Day,

We are pleased to provide feedback on the Board's Invitation to Comment (ITC), *Recognition of Intangibles*. We support the Board's process to solicit stakeholder feedback when determining which projects to add to its agenda.

Overall, we do not believe there is a need for a broad project to address the accounting for intangible assets given the diverse nature of those assets. Instead, we recommend the Board continue to pursue targeted improvements to separate types of intangible assets, initially focusing on the guidance for acquired in-process research and development (IPR&D). We believe the improvements on accounting for acquired IPR&D should be part of a broader project to improve the accounting for asset acquisitions.

Additionally, we note that the Internal Accounting Standards Board has added an intangible assets project on its agenda and is in the initial stages of the project. We support the Board's efforts to monitor developments on the project and determine whether any proposed solutions can be leveraged in U.S. generally accepted accounting principles (GAAP). This will foster convergence of US GAAP and International Financial Reporting Standards and improve comparability between entities.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, P.C.

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Appendix

Note: We have not responded to questions addressed specifically to investors or preparers.

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.

BDO USA, P.C. is the sixth largest public accounting firm in the U.S. by revenues, with the fifth largest assurance practice[1]. We audit a large number of both public and private companies of all sizes and industries. As such, our comments reflect that diverse client base.

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 do not believe that there is a pervasive need to improve GAAP for intangible assets broadly. The diverse nature of intangible assets makes it challenging to develop a single recognition and measurement model. Instead, we support the Board's current approach of addressing individual groups of intangibles as separate projects, consistent with its recent projects on crypto assets, environmental credits, and software costs. Specifically, we believe targeted improvements can be made to the accounting for software developed to be sold or licensed and acquired in-process research and development (IPR&D).

There is currently no authoritative guidance on how to determine the unit of account for IPR&D acquired in a business combination and therefore, entities rely on nonauthoritative guidance in the

[1] As reported by Accounting Today's 2024 Top 100 Firms

AICPA Audit and Accounting Guide, *Assets Acquired to Be Used in Research and Development Activities* (the AICPA IPR&D guide). Additionally, entities rely on nonauthoritative guidance in the AICPA IPR&D guide to determine whether acquired IPR&D in an asset acquisition transaction has alternative future use. We also note that often an acquired IPR&D asset lacks alternative future use and therefore, is immediately expensed in an asset acquisition transaction. We question whether recognizing an immediate expense reflects the economics of the transaction (i.e., acquire a project which has value to the entity). In addition, we believe IPR&D acquired in a business combination is not fundamentally different from IPR&D acquired in an asset acquisition transaction and therefore, the accounting treatment should not be different.

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 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.
e. The expected benefits and expected costs of the potential solution(s).

We recommend that the Board prioritize improving the accounting for acquired IPR&D as part of a broader project to improve the accounting for asset acquisitions. The adoption of ASU 2017-01, *Clarifying the Definition of a Business*, has led to more transactions being accounted for as asset acquisitions and acquired IPR&D being immediately expensed. For example, an acquisition of a life sciences entity may be accounted for as an asset acquisition due to substantially all the fair value of the gross assets acquired being concentrated into a single identifiable asset – IPR&D. The acquired IPR&D is often immediately expensed because it does not have alternative future use. In addition, this conclusion often hinges on whether the IPR&D represents a single unit of account or if multiple assets, whether they are similar and thus should be combined. As noted above in our response to Question #2, existing authoritative guidance on this topic is limited.

As also discussed in our response to Question #2, we do not believe IPR&D acquired in a business combination is fundamentally different from IPR&D acquired in an asset acquisition transaction. Therefore, we would be supportive of developing a single accounting model for acquired IPR&D that allows for capitalizing acquired IPR&D regardless of whether it has alternative future use – that is, align the accounting for IPR&D acquired in a business combination with that for IPR&D acquired in an asset acquisition transaction. We believe a consistent approach for capitalizing acquired IPR&D (whether or not the transaction is accounted for as a business combination or an asset acquisition) will better reflect the economics of an asset acquisition transaction and will not result in significant costs for preparers and practitioners, as preparers must value the assets acquired regardless of how the transaction is accounted for. Therefore, we believe the benefits of aligned accounting outcomes and improved comparability of the financial statements will outweigh the costs.

Additionally, as part of a larger project to improve the accounting for asset acquisitions, we would also recommend that the Board align the accounting for assembled workforce acquired in an asset acquisition with that acquired in a business combination. We do not believe an assembled workforce is an acquired identifiable asset and therefore, we recommend allocating any associated value ratably to other acquired assets in an asset acquisition.

Lastly, we believe the Board should reconsider whether a single model for capitalizing software costs is feasible. We would support additional research to confirm whether the proposed model for internally developed software if applied to software to be sold or licensed would result in similar outcomes as the current ASC 985-20 model. We believe that the addition of the probable-to-complete threshold with its emphasis on significant development uncertainty is similar to the threshold of technological feasibility in ASC 985-20-25-2 as noted in BC32 of the FASB's exposure draft on *Targeted Improvements to the Accounting for Internal-Use Software*. As such, we would support a future project to move to a single model based on the guidance in this proposal.

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 definition of R&D costs is operable. However, we recommend that the Board clarify how costs incurred for evolving technologies should be accounted for. For example, an entity may incur costs to train large language models or LLMs, which will then be incorporated into an artificial intelligence (AI) technology. It is unclear whether such costs are research and development costs or whether they should be accounted for under other relevant topics such as Topic 350 or Topic 985-20 depending on the nature and intended use of AI technology.

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.

In general, our preference would be to limit capitalization of intangible transactions to exchange transactions with third parties, e.g., in business combinations and asset acquisitions. Such exchange transactions provide an objective indication of an intangible asset's existence and value, and therefore its relevance to users of the financial statements.

We agree that research costs should be expensed. While there may be a theoretical basis for capitalizing some development costs, allowing for the capitalization of development costs could result in material amounts being capitalized as most entities incur more development costs than research costs, resulting in significant additional effort to monitor those assets for impairment. In addition, it may be challenging to determine when research ends and development begins or what costs are development-related because entities often perform research and development concurrently. Similar to software development, research and development is not a linear process. Therefore, we do not believe the Board should prioritize such a project at this time. However, if the Board were to allow capitalization of development costs, we recommend leveraging the probable-to-complete recognition threshold in the exposure draft on *Targeted Improvements to the Accounting for Internal-Use Software*.

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 the R&D guidance. However, we note that if the Board were to allow for capitalization of development costs (as suggested in Question #5), this would introduce new operability and auditability challenges for practitioners and preparers. Also, as noted in our response to Question #2, accounting for acquired IPR&D is challenging due to the lack of authoritative guidance. Therefore, we recommend that the Board consider whether some of the nonauthoritative guidance in the AIPCPA IPR&D guide should be codified - for example, the guidance on the unit of account or when an R&D project is considered complete.

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 #3, we would be supportive of the Board leveraging the probable-to-complete threshold (criterion noted in (a) of this question) to align the guidance for software developed for internal use with that for software developed to be sold or licensed. A single accounting model for such intangibles will increase comparability between entities which investors may find beneficial. Also as noted in our response to Question #5, we would support this approach when determining which development activities to capitalize if the FASB chooses to move forward with such a project.

However, we do not believe this threshold should apply to other internally developed intangibles such as brand names and trademarks. We believe entities should continue to expense costs for such internally developed intangible assets as the costs associated with capitalizing such intangibles may not outweigh the benefits, given the significant judgment required to determine which costs are related to their development and the ongoing need to monitor these assets for impairment.

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 strongly support aligning the accounting for intangible assets acquired in asset acquisitions with that for intangible assets acquired in business combinations using the current model for business combinations (i.e., capitalizing acquired IPR&D assets as indefinite-lived intangibles) and believe the Board should prioritize this project as this alignment would result in consistency and comparability in financial reporting. We acknowledge that this approach would require defining the scope of the asset acquisition guidance in ASC 805-50 to distinguish a transaction subject to this guidance from other arrangements involving third parties, such as when a contract research organization is engaged to perform research and development activities on behalf of an entity. However, we believe adding scoping language to ASC 805-50 would be beneficial and worth the Board's attention.

We believe it will be challenging to align the accounting for acquired intangible assets with that for internally developed assets given the diverse nature of such assets, and thus would not support prioritizing such a project at this time.

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.

As discussed in our response to Question #3, there is currently no authoritative guidance on determining the unit of account for IPR&D acquired in a business combination or determining when an IPR&D project is complete. Even if the Board takes up a project to align the accounting for IPR&D acquired in an asset acquisition with the business combination guidance, clarifying the unit of account is relevant for applying the screen test when determining whether a transaction is an asset acquisition or a business combination. Therefore, we recommend that the Board consider codifying some of the guidance in the AICPA IPR&D that many entities currently use.

Additionally, supporting alternative future use for IPR&D acquired in an asset acquisition is challenging and requires significant judgment. As discussed in our response to Question #8, we recommend that the Board align the accounting for IPR&D acquired in an asset acquisition with the business combination guidance, thus capitalizing such assets regardless of whether they have alternative future use.

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.

We do not believe leveraging the separability or the contractual-legal criterion would be operable for internally developed intangible assets. As discussed in our response to Question #7, the costs associated with capitalizing such intangibles may not outweigh the benefits given the significant judgment required to determine which costs are related to their development and the ongoing need to monitor these assets for impairment.

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 support the Board's efforts to monitor the International Standards Accounting Board's (IASB) project on intangible assets and consider whether solutions proposed by the IASB could also address the challenges that currently exist in US GAAP.