The Association of
Accountants and
Financial Professionals
in Business

June 4, 2025

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

**Re: File Reference No. 2024-ITC 200 Recognition of Intangibles**

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) *Invitation to Comment – Recognition of Intangibles* (Invitation to Comment).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts and accounting consultants. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Overall, the Committee is supportive of the addition to the FASB agenda of a project related to intangible assets. In general, the Committee suggests using a phased approach to this project. At this juncture, the Committee believes that the project should be limited to improving disclosures around intangibles and their contribution to a company's strategy and future economic benefits as well as cash flow generation. The Committee does not believe that the recognition and measurement of intangible assets should be substantially changed at this point, with certain notable exceptions: (1) differences in the accounting for business combinations vs. asset acquisitions and (2) targeted projects that address the recognition and measurement of emerging assets and/or technologies. The remainder of this letter expands upon these issues and addresses some of the other questions posed by the Invitation to Comment (please refer to Appendix I).

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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**Appendix I**

Overall, the Committee is supportive of the addition to the FASB agenda of a project related to intangible assets, given its rising significance to many companies and global capital markets.

For context, over the last few decades, intangible assets have contributed significantly to the growth in the global economy. More and more of the value-add from a gross domestic product (GDP) and stock market capitalization (market cap) perspective, both in the U.S. and in other economies, stems from intangible-related activities. The gap between a company's market cap and the book value of its equity has widened significantly since the 1990s, with observed trading multiples, such as market-to-book (or the alternative price-to-book or P/E ratio) and price-to-tangible book value (P/TBV), several times larger than 1.0 and trending upwards. While fluctuations over time are expected, the continued widening gap between market and book values is evidence of the rising role of unrecognized intangibles and this is expected to continue under current US GAAP, particularly for companies that grow organically.

In addition, the mismatch between revenue and related expenses has also been widening significantly. Many technology, healthcare and consumer brand-based businesses expense large investments in R&D and brand creation, but related revenues are typically recognized many years later. This creates a pattern of profitability that is lumpy, and some may view it as disconnected from the underlying economics.

The Committee recognizes that the topic of intangibles is a very broad one. The nature of intangibles can be dramatically different, with certain types having unique economics and potentially different treatment to capture their economic substance. At this juncture, the Committee believes that the project should start slowly, using a phased approach. We believe the first phase of the project should be limited to improved disclosures about the nature and the contribution of intangible assets to the strategy of the company and its ability to generate future cash flows and economic benefits, using primarily information that management relies on to run the business. When requiring new intangible disclosures, care should be taken to avoid duplication with existing requirements from other Accounting Standards Codification (ASC) Topics (e.g., software, segments, etc.)

In general, the Committee does not recommend that the accounting for intangible assets is substantially changed in this first phase, with certain exceptions. First, addressing certain differences between the accounting for a business combination vs. an asset acquisition would be useful. In addition, we believe that targeted projects that address the recognition and measurement of emerging assets and/or technologies should continue to be pursued by the Board such as recent projects have aimed to address (e.g., crypto assets, environmental credits).

In a second phase, once stakeholders have had the opportunity to consider the information obtained from expanded intangible asset disclosures, as well as the additional disclosures obtained through the implementation of *Accounting Standards Update (ASU) 2024-03—Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (DISE project) and *ASU 2023-07—Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, the FASB should evaluate whether changes to recognition and measurement of intangible assets is warranted or if additional disclosure improvements are needed.

We understand that it is difficult for investors to decide what changes to recognition and measurement they need and how they would use that information in their own fair value estimates without first having improved disclosures on a consistent basis across companies in the same industry. In this phase, the FASB could evaluate whether to pursue recognition and measurement of additional classes/types of intangibles, including certain internally generated ones, based on information obtained from the prior phase.

The following are additional considerations and potential improvements that could be made to this topic:

- <u>Framework for disclosures</u>: a broad framework for disclosures could be useful. While there are very different types of intangibles, there are some commonalities within each type. ASC Topic 805 *Business Combinations* outlines broad categories of intangible assets (e.g. technology-based, marketing-based, contract-based, etc.). Therefore, the type of disclosure may be different depending on the intangible asset type. Of particular interest, it may be helpful for more information to be disclosed regarding the following:
    - <u>Nature and Location of R&D Expenditures:</u> For preparers undertaking material R&D activities, a description of what the R&D expenditure is attempting to achieve and how it connects to value drivers. In other words, where is value being created by making such an expenditure. Some of this information may already be required to be disclosed under *ASU 2023-07.* The location of the R&D expenditure within financial statements could also be useful (e.g., under which category of the income statement is the R&D expense reported).
    - <u>Maintenance vs. New R&D:</u> Some companies where R&D expenses are material to their business may already have internal systems in place to allow the distinction between R&D expenditures to maintain existing products and/or services vs. creating new ones. Investors could benefit from seeing not just total R&D expenditures in a reporting period, but also their bifurcation between maintenance and new development.
    - <u>Research vs. Development:</u> Some companies where R&D expenses are material to their business may also have internal systems in place to distinguish between research and development expenditures. Investors could benefit from seeing the bifurcation between research and development costs. In addition, it may be helpful to understand how an entity separates research activities from development activities given the different definitions in US GAAP.

    - Existing vs. New Brands: Likewise, disclosure of selling expenditures (e.g. advertising, promotion) used to launch a new product or service vs. maintaining the value of existing ones could be useful to investors.
- Private vs. Public Entities: the Committee believes that any new disclosure requirements should apply equally to public and private issuers. However, the latter should be given additional time to implement such disclosure requirements.
- Asset Acquisition vs. Business Combination: the Committee will address separately the differences in accounting treatment of intangible assets (including IPR&D) acquired through an asset acquisition vs. a business combination in its response to FASB's Invitation to Comment – Agenda Consultation (File Reference No. 2025-ITC100).

Finally, the Committee notes that it is very important to maintain collaboration on this topic with the International Accounting Standards Board (IASB). Many companies have operations outside the United States with IFRS reporting requirements. Significant differences in disclosure requirements would become costly for preparers. Moreover, in a global capital market setting, investors need to compare companies reporting under US GAAP and IFRS when making capital allocation decisions. As noted in the Invitation for Comment, reporting financial information that is relevant "results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole." Aligning or decreasing differences between the recognition, measurement and disclosure of intangible assets between US GAAP and IFRS is an important component in providing decision-useful information without creating additional cost or effort to the system.