

May 30, 2025

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

RE: Invitation to Comment – Accounting for and Disclosure of Intangibles [File Reference No. 2024-ITC200]

Dear Mr. Day:

We appreciate the opportunity to provide our comments in response to the Financial Accounting Standards Board's Invitation to Comment (ITC) on the accounting for and disclosure of intangibles.

We commend the Board's comprehensive efforts to explore whether standard setting initiatives would improve the accounting for and disclosure of intangible assets. While we support the Board's objective to explore improvements to the accounting for intangibles, we do not believe there is a need to significantly revise current US GAAP related to intangibles.

We believe the FASB should instead prioritize achievable, narrow-scope intangible asset projects, which would be more effective in addressing current complexities and enhancing transparency. Namely, we believe the FASB should consider undertaking a project to encourage or require enhanced disclosure to enhance decision-usefulness of information provided on the nature of research and development costs.

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.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Brian Allen at brian.allen@riveron.com.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian Allen', with a large, stylized flourish at the end.

Brian Allen, Senior Managing Director

Appendix – Responses to Questions

Proposed Accounting Standards Update, Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities— Extinguishments of Liabilities (Subtopic 405-20)

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.*

Riveron is a national business advisory firm that partners with clients to successfully navigate accounting, finance, technology, and operations challenges across the business lifecycle. As such, we serve as a practitioner, supporting a wide range of stakeholders – including public and private companies, private equity firms and their portfolio companies – with technical accounting, transaction support, valuation, and financial reporting services.

Our client base includes leading companies spanning a wide spectrum of industries including the manufacturing, retail, life sciences, financial institutions, aerospace, aviation and

defense, engineering and construction, media and entertainment, technology, energy, and healthcare sectors. Our team of 1,000+ employees include professionals with backgrounds in public accounting, corporate finance, valuation, and regulatory reporting, giving us a well-rounded perspective on the practical challenges and implications of financial reporting standards, particularly as they relate to intangibles.

Our point of view in responding to this ITC reflects a combination of practical experience and technical expertise, including:

- Hands-on experience assisting clients in applying current accounting guidance for both acquired and internally developed intangibles;
- Operational considerations, as we frequently advise clients on implementing accounting changes within ERP and reporting environments;
- Transaction-related insights, including the impact of intangible accounting on due diligence and post-transaction reporting;
- Valuation expertise, particularly in the fair value measurement of intangible assets; and
- An understanding of the cost and practicality of proposed changes, especially for private and middle-market companies.

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 there is a pervasive or broad need to improve the accounting for intangibles under GAAP. The current accounting for intangibles is understood and we do not believe there is demand for expanded recognition and measurement guidance.

However, relating to the disclosure of intangibles and the scope of intangible assets guidance we believe there is a better case for change. Below are a few areas we believe the Board could focus on at this time:

- **Scope Clarity** - Modern economic activity increasingly relies on intangible assets such as proprietary software, AI algorithms, data analytics platforms, and customer-related intangibles. Current guidance under ASC 350 and ASC 730 could be updated to address these technological developments. In this regard, we refer you to the comment letter dated January 27, 2025 from Effectus Group regarding the accounting for software costs as an example of how we believe scope clarity would improve financial reporting.
- **Enhanced Disclosure Requirements** - Financial statements and their related disclosures provide little visibility into company investments in research and development expenses. Consideration should be given to whether these expenses could be disaggregated in a manner that would be decision-useful. For example, R&D expenses to maintain existing assets as compared to costs to develop new products would likely be decision-useful information. Enhanced qualitative or quantitative disclosures, such as the nature of R&D initiatives, stage of development, and investment spend by category, would be examples of other potentially decision-useful items. We believe that, in many cases, companies can reasonably differentiate between research and development activities and could further delineate between investments in new products, brands, and innovation versus efforts to maintain or improve existing offerings. Disaggregation would improve users' understanding of how organizations allocate capital toward innovation and sustaining operations.

We also recognize that the ability to make such distinctions can vary significantly across industries (e.g. software and life science industries likely will experience challenges while separating different types of expenses). Therefore, while disaggregation between research and development may be feasible and useful in industries such as manufacturing, financial services, or mature industries, it may present significant operational challenges in emerging industries characterized by rapid iteration and integration between phases. Given this variability, we recommend that the FASB consider offering flexibility in how such disclosures are disaggregated. Specifically, we suggest that companies be permitted – though not required – to disaggregate R&D disclosures if they determine such information is decision-useful and can be reasonably and consistently presented. This optionality would allow companies in industries where the delineation is more straightforward to provide greater transparency, while acknowledging the complexity and operational challenges in other sectors.

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).*

As addressed elsewhere in this letter, we urge the Board to consider enhanced disclosure requirements related to information about material efforts and R&D spend undertaken to develop intangibles that generate revenue and provide value to shareholders, including disclosure of the nature of expenses, project and amount as well as discussions on location in the financial statements and how such costs are being accounted.

We direct the Board's attention to our response to question 2 above as well as questions 7, 8, 11 and 12 below for further recommendations.

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.

Generally yes, the current definitions within ASC 730 are widely understood. However, the definitions should be updated to include software platforms, AI systems, and data models that reflect modern R&D investments that may not be contemplated in the existing definitions or examples. For an example of how we believe the definition in ASC 730 could be improved while resolving an existing perceived issue with accounting guidance, we refer you to the comment letter dated January 27, 2025 from Effectus Group regarding accounting for software costs.

Additionally, companies have faced operability challenges related to exclusions from the R&D definition, specifically "Legal work in connection with patent applications or litigation, and the sale or licensing of patents." In biotechnology, the pursuit of a patent is tightly interwoven with the R&D process. Securing IP rights is often necessary to protect the value of scientific discoveries, attract funding, and advance compounds through development stages. A suggested improvement would be to clarify that costs "incurred to protect or commercialize R&D outputs" (e.g., patent-related legal fees in biotech) may be considered part of the R&D process if they meet certain criteria, rather than excluding them categorically.

Patent applications are often filed early in the development lifecycle, sometimes even before clinical trials begin, making them a natural outgrowth of R&D activities. While patent-related legal fees may create a legal right, their substance is to protect R&D output and are thereby integral to the R&D expenditure. The exclusion of legal costs related to patents has caused companies in the biotech industry some operability challenges in terms of correctly applying the guidance for such costs.

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 believe changing the accounting for development costs within the scope of ASC 730 is a bad idea as it would likely introduce immense operational burdens. Firstly, it can be difficult to objectively distinguish research from development stages, especially in industries such as life sciences, software and SaaS and emerging AI applications. Secondly, such treatment creates an environment with potential manipulation in defining project stages. Additionally, such changes would result in increased audit and compliance costs with likely little return in the decision-usefulness of financial statements. In fact, we suspect most financial analysts would pro forma any capitalized costs out of their models to level the financial reporting playing field between companies with significant R&D expenditures.

Research and development used to be more linear in nature, in that the research stage was clearly defined and generally at a stage of completion before development began. However, R&D processes have evolved to be more iterative in nature, and correctly differentiating between stages is increasingly challenging and would likely require specialist knowledge.

For example, software and SaaS companies often revise product features continuously based on user and product marketing feedback using an agile approach, making it impractical to delineate a clean break between research and development stages. Activities such as bug fixes and feature development are often intertwined within the same development sprint. The nature of agile work blurs the operational and accounting lines between research, development, and maintenance.

Similarly, in emerging areas such as AI-driven R&D or highly adaptive biotech applications (e.g., bespoke CRISPR-based treatments), the distinction between research and development becomes even more ambiguous. In these contexts, iterative trial-and-error processes may incorporate both discovery and applied development within the same operational cycle. For instance, querying an AI model for a solution and evaluating its output iteratively may reflect aspects of both research and development.

Rather than revising the recognition and measurement, we would recommend encouraging enhanced disclosures related to the stages of research and development in industries where it may be practicable, as discussed in Questions 2 and 3.

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.

No. We believe ASC 730 is mature guidance. What issues exist are already being addressed by the Board in its exposure draft regarding accounting for software costs. Some of the other issues are identified elsewhere in this letter related to patent costs in the life science industry (see Question 4) and in-process research and development (see Question 8).

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 expressed in our comment letter dated January 27, 2025 from Effectus Group regarding the accounting for software costs, we do not believe the Board should use the criteria set forth in the first sentence of this question to capitalize costs for purported internally developed intangibles when their recovery is unknowable or quite uncertain. While acknowledging the diversity in guidance related to internally developed and acquired intangibles, we would rather the Board consider expanding disclosures to provide investors with decision-useful information to assess a company's historical and potential future performance. Additional capitalization may create certain issues related to:

- subjectivity of estimation and the reliability of asset values, especially in the early stages of development;
- the judgment required from management regarding the future benefits and feasibility of internally developed intangibles; and
- the potential for earnings manipulation through the capitalization of costs that may not have probable future benefits.

We also believe the existing criteria in ASC 730 (i.e., no alternative future use) should be used in business combinations to determine whether an acquired intangible should be capitalized or expensed.

If the Board proceeds down the path of considering these criteria for capitalization, the comment letter from Effectus Group dated January 27, 2025 includes observations for improvements that could be made to those criteria.

Additionally, please refer to our related responses in Questions 4 and 6 and examples provided in Question 5.

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.

The value of aligning the recognition guidance for intangibles created through M&A and those developed internally is too limited from a practical standpoint. Companies may not be able to reliably calculate historical investments in internally developed intangibles, making retrospective application of any guidance impracticable. Prospective application would create comparability issues among companies and would not result in decision-useful information. Capitalizing internally developed intangibles would also require the use of estimates and frequent impairment analyses, leading to increased internal and external costs for companies, potential earnings manipulation, and complexities due to variability of intangibles nature, values and useful lives.

We recognize, however, that there may be merit in aligning the recognition and measurement of IPRD assets acquired through asset acquisitions and business combinations in specific cases. For example, in the biotech industry, companies frequently acquire IPRD assets primarily related to a single molecule underlying a drug and the fair value of such purchases is generally concentrated in a single IPRD asset. However, in cases where other assets are also acquired, it may not be immediately clear whether the scoping test for business combinations is met, and as such a valuation may be required to determine whether to account for the transaction as an asset acquisition or a business combination. This accounting quandary increases transaction costs for no obvious return in decision-useful information. Additionally, the valuation may rely on whether the transaction is treated as an asset acquisition or a business combination (i.e., whether the workforce needs to be separately valued or subsumed into goodwill) creating a circular exercise. In such cases, aligning the accounting would increase the consistency and relieve an accounting burden.

In addition to considering alignment in recognition and measurement guidance, we believe there is significant value in expanding disclosure requirements, particularly for IPRD assets. Users of financial statements would benefit from enhanced transparency whether the assumptions and forecasts underlying the initial valuation of those assets materialize over time. Such disclosures would provide insight into the performance and reliability of management's expectations and valuation methodologies, thereby increasing the decision-usefulness of the financial statements.

Broadening the scope of disclosures would be more beneficial to users of financial statements, as discussed in Question 7.

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.

The most challenging and expensive aspect of applying the recognition guidance for acquired intangibles is valuation. Valuation of intangibles involves numerous highly subjective assumptions, including discount rates, future cash flows, attrition rates, and risk premiums. These can vary significantly from company to company, creating comparability issues in financial statements. Moreover, the expense of valuations disadvantages smaller

companies. Typically, the level of effort and valuation fees, including related audit fees, are proportional to the materiality of the acquired company to the acquiring company.

These issues could be addressed by:

- providing benchmarks for valuation assumptions for common asset classes (such those discussed in ASC 805-20-55-13 through 805-20-55-45, including, but not limited to intangibles such as customer relationships, trademarks and trade names, non-compete agreements, technology and software (e.g., such benchmarks being, for example, typical useful lives, attrition rates by industry, discount rates); or
- allowing the aggregation of short useful life, hard-to-separate, and low-value intangibles into goodwill (similar to the private company alternative).

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 recommend the Board undertake a broad project to align the recognition guidance for all intangibles or to develop comprehensive guidance for the recognition of internally developed intangibles at this time. While we acknowledge the seductive appeal of a more aligned framework, we believe that such a project would be highly complex, may introduce significant implementation challenges, and could result in limited incremental decision-useful information, if any, for users of financial statements. In fact, we suspect most financial analysts would pro forma any capitalized costs out of their models to level the financial reporting playing field between companies with significant R&D expenditures. We believe this is currently the case with many analysts who follow software and SaaS companies where there is some capitalization of what would otherwise be R&D expenses.

Accordingly, we support a more targeted approach focused on narrow-scope improvements such as the one advocated in the comment letter dated January 27, 2025 from Effectus Group, enhancing disclosure requirements for certain categories of unrecognized intangibles or providing simplifying guidance such as that identified in our response to Question 10. These efforts would better balance cost-benefit considerations while still improving the usefulness of financial reporting in this area.

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 should consider certain tentative recommendations as published by the 2023 European Financial Reporting Advisory Group (EFRAG) "Better Information on Intangibles: Which Is the Best Way to Go?—Recommendations and Feedback Statement". Recommendations which we believe would be relevant to U.S. GAAP users included those related to clarifying the scope of the guidance and requirements for enhanced disclosures linked with the entity's performance. These recommendations may result in information

useful for both assessing the amount, timing and uncertainty of future net cash inflows to the entity and management's stewardship of the intangible asset.

We believe these recommendations are in line with our responses in question 2 and the objectives of increasing the decision-useful information to users of the financial statements.

However, we do not support full alignment with IFRS standards such as IAS 38, due to differences in capital market expectations, operational complexity in applying IAS 38's capitalization criteria, and limited comparability or decision-useful benefits.