



**August 9, 2019**

**MEMBER ACTION REQUESTED:**

Please review project plan and answer questions by **August 20, 2019**

Memorandum

To: Members of the Board  
From: Ricky A. Perry, Jr., Senior Analyst  
Through: Monica R. Valentine, Executive Director  
Subject: Software Licenses Proposed Project  
Leases Implementation Project Plan – **Tab G**<sup>1</sup>

**MEETING OBJECTIVES**

To discuss proposed approach for addressing software licenses in a Technical Bulletin (TB) based on feedback received during the exposure period for Federal Financial Accounting Technical Release (TR) XX, *Conforming Amendments to Technical Releases for SFFAS 54, Leases*.

To discuss and approve project plan for developing and issuing implementation guidance for leases and software licenses.

**BRIEFING MATERIAL**

You may electronically access all of the briefing material at <https://fasab.gov/board-activities/briefing-materials/>.

The briefing materials include this memorandum and the following attachments:

**Attachment 1** – Compendium of Exhibits

- Exhibit A: TR XX ED version of proposed amendments to TR 16 paragraph 26
- Exhibit B: DoD comment letter excerpt
- Exhibit C: SFFAS 6 excerpt
- Exhibit D: SFFAS 10 BFC excerpt

**Attachment 2** – Exposure Draft: *Conforming Amendments to Technical Releases for SFFAS 54*

**Attachment 3** – TB 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*

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<sup>1</sup>The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## Background

On February 14, 2019 the AAPC released for public comment a Federal Financial Accounting TR exposure draft (ED) entitled *Conforming Amendments to Technical Releases for SFFAS 54, Leases*. The ED proposed conforming amendments to TR 10<sup>2</sup> and TR 16 (internal use software). Certain SFFAS 5 and SFFAS 6 paragraphs currently cited in TR 16 paragraph 26 (SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraphs 20 and 29) will be rescinded in FY 2021 when SFFAS 54 becomes effective. These ED proposals are reflected at **Exhibit A**. The full ED is located at **Attachment 2**.

The intent of the proposed amendments to TR 16 paragraph 26 was to ensure reporting entities continue current practice of capitalizing software licenses and amortizing their costs over their useful lives when appropriate.

In its comment letter, the Department of Defense (DoD) disagreed with the amendments for technical reasons and identified opportunities to clarify the application of existing guidance for software licenses. See **Exhibit B**.

## Staff Analysis

Staff believes an alternative approach is necessary to better clarify accounting treatment for software licenses while achieving the original intent of the ED proposals.

Staff wishes to share this alternate approach for removing software licenses guidance from TR 16 for three reasons:

1. To provide an opportunity for Board feedback.
2. To confirm the Board is comfortable with the approach.
3. To inform the Board regarding how software licenses are handled in current guidance.

## Staff recommendations:

- A. Develop a TB to clarify the accounting treatment for software licenses.
- B. Develop alternative amendments and/or rescissions to TR 16 paragraphs 26-27.
- C. Make conforming changes to any cloud computing paragraphs in TR 16 that cite paragraphs 26-27, instead directing users to the TB guidance.

## Basis for recommendations:

- Staff confirmed that SFFAS 6 paras. 17-18 define PP&E in a manner that would likely not result in recognition of software licenses. See **Exhibit C**.
- Staff confirmed that SFFAS 10 does not address non-perpetual software licenses. The SFFAS 10 basis for conclusions (BFC), which is not authoritative, documented the Board's views on how—at that time—the Board believed software licenses should be accounted for by applying lease accounting concepts (which have since been updated) and existing policies for capitalization

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<sup>2</sup>Staff did not identify any significant issues with respect to the proposed conforming amendments to TR 10 during review of comment letters received.

thresholds and bulk purchases to licenses.<sup>3</sup> Nevertheless, since the BFC is not authoritative, SFFAS 10 is effectively silent on software licenses. See **Exhibit D**.

- Given the pending changes to relevant portions of SFFAS 5 and 6, and absence of guidance specific to non-perpetual software licenses in SFFAS 10, development of a TB is a practical expedient for resolving this issue for FY 2021. Issuance of a TB on this narrow area would clarify the matter for the community without requiring preparers and auditors to independently identify applicable accounting principles in a more subjective manner.
- FASAB Rules of Procedure state that TBs are used and developed to “for applying existing FASAB Statements and Interpretations and resolving accounting issues not directly addressed in them by establishing new standards.”
- FASAB due process rules and procedures for TBs, as documented in TB 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance* paragraphs 3-5, state factors to consider when evaluating whether to issue a TB. Issuance of a TB is consistent with these rules, including guidelines reflected in paragraphs 5a-5c. See **Attachment 3**.
- Staff notes that application and research of accounting standards for software licenses may be challenging for some in the community, given the fragmentation of relevant literature across multiple pronouncements and subsequent amendments affecting such literature.
- Staff is sharing this information with the Board so the Board is aware of how software licenses are addressed in current guidance. This may be informative to the Board’s priorities and technical agenda development.
- Although amendments to SFFAS 6 and SFFAS 10 could be viable options for clarifying and/or revising the treatment for software licenses and other related topics in the future, staff recommends promulgating a narrow TB in the meantime, given the number of inquiries staff are receiving on the topic of software licenses. Software licenses and other software-related accounting issues could then be revisited at a later time if / when broader, more pervasive accounting issues surrounding software, cloud computing, and technology are identified.

#### **BOARD QUESTIONS:**

1. Does the Board agree with staff’s recommendation to promulgate guidance on software licenses through use of a TB?
2. Do Board members wish to share their observations and views regarding how software licenses are handled in current guidance?

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<sup>3</sup>As documented in basis for conclusion for SFFAS 6 (paras. 148-149), the Board adopted a materiality approach for capitalization thresholds and bulk purchases. As a result, entities establish their own thresholds as well as guidance on applying their thresholds to bulk purchases.

## Project Plan:

**Project:** Leases Implementation Guidance

**Assigned staff:** Ricky A. Perry, Jr.

### **Purpose/Objectives:**

SFFAS 54 provides a comprehensive set of lease accounting standards to recognize federal lease activities in reporting entities' general purpose federal financial reports and includes appropriate disclosures. The leases implementation guidance project is to provide timely guidance to ensure effective implementation of SFFAS 54. Three sub-projects will contribute to the objectives of the overall project:

1. Conforming Amendments to TRs resulting from SFFAS 54 (CA TR): This sub-project is already underway. The objective is to eliminate references in any existing TRs that conflict with SFFAS 5 and 6, as amended by SFFAS 54.
2. TB on software licenses: This sub-project, pending approval from the Board (see question 2 above), would provide needed guidance on accounting for software licenses once SFFAS 54 becomes effective.
3. TR implementation guidance for SFFAS 54 (S54 TR): This sub-project will clarify, explain, and elaborate on requirements of SFFAS 54.

### **Applicability:**

This project applies to the government-wide reporting entity and to component reporting entities that prepare general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards issued by the Financial Accounting Standards Board*.

### **Resources:**

Resources will include an overall task force, and working groups from the task force supporting each sub-project. Working groups will support the TR projects under the direction of the AAPC, as well as the TB project. Staff will also coordinate with the Executive Director and other staff with particular expertise in areas under consideration.

**Project Timelines** (*next page*)

## Timelines:

Month	CA TR and Software Licenses TB	S54 TR	FASAB/AAPC Meetings
9/19	Determine scope Formulate working group from TF	Formulate working groups from TF TF Meeting #1 Determine scope	
10/19	Determine scope Working group meeting #1	Develop consensus on scope TF Meeting #2 Begin consensus development on scope	FASAB Meeting #1 Brief Board on progress (?)
11/19	1st draft of revised CA TR to AAPC	TF Meeting #3 Provide outline of S54 TR to TF, AAPC	AAPC Meeting #1 Brief AAPC on progress, feedback on CA TR and S54 TR outline
12/19	1st draft of TB to Monica	TF Meeting #4 (tentative) 1st draft of S54 TR to TF	FASAB Meeting #2 Brief Board on progress (?)
1/20	2nd draft of revised CA TR to AAPC	TF Meeting #5 (tentative) 2nd draft of S54 TR to TF, AAPC	
2/20	Pre-ballot revised CA TR with AAPC Pre-ballot draft of TB to FASAB	Pre-ballot ED of S54 TR to TF, AAPC	AAPC Meeting #2 Ballot CA TR, final edits to S54 TR for exposure FASAB Meeting #3 Discuss TB draft, brief Board on S54 TR
3/20	Ballot CA TR with AAPC ED of TB released (~3/2) ED of TB comments due (~3/18) Analyze / review comments w/ TF	ED of S54 TR released (~3/2)	
4/20	Clear CA TR with Board Pre-ballot TB with Board	ED of S54 TR comments due (~4/1) Review/ analyze comments	AAPC Meeting #3 Analyze, review S54 TR ED comments FASAB Meeting #4 Clear CA TR with Board Pre-ballot and ballot TB
5/20	Final edits, ballot TB	Pre-ballot S54 TR Clear S54 TR	AAPC and FASAB electronic communication and approvals
6/20	Issue CA TR, TB, S54 TR (~6/1)		

### BOARD QUESTION:

3. Do Board members agree with the proposed project plan for the leases implementation guidance project?

### MEMBER FEEDBACK

Please provide feedback to Mr. Perry at [PerryRA@fasab.gov](mailto:PerryRA@fasab.gov) with a cc to Ms. Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov), by **August 20, 2019**.

**Exhibit A**

Exposure Draft Version of proposed amendments to TR 16 para. 26:

TECHNICAL RELEASE 16, *IMPLEMENTATION GUIDANCE FOR INTERNAL USE SOFTWARE*

5. This paragraph amends TR 16, paragraph 26, to remove references to leases:

26. **Software License:** If the term of a software license(s) is 2 years or more with periodic payments, the license should be evaluated against the PP&E criteria in ~~lease criteria as stated in SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20~~ to determine if it ~~meets the definition of PP&E is a capital or operating lease. If the license meets the definition of PP&E, then the entity should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed in accordance with SFFAS 6.~~ If the license(s) is perpetual with an upfront cost<sup>9</sup> to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

FN 9 The cost could be charged as a one-time payment or financed over a set period of time.

**Exhibit B**

Excerpt from DoD comment letter (below, and continuing on following page):

**Q2.** The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10, *Accounting for Internal Use Software*, and the lease accounting concepts would not apply.

**Do you agree or disagree with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.**

**DoD Response: Disagree.**

- The revised paragraph 26 of TR 16 requires a software license to be evaluated against the property, plant, and equipment (PP&E) criteria in SFFAS 6 and not in accordance with SFFAS 10. SFFAS 10 does not address the recognition of software licenses other than the language in the Appendix A: Basis For Conclusion, which indicates that software licenses are similar to leases of general PP&E and that the Board believes that it would be appropriate for the federal entity to apply lease accounting concepts and the entity's existing policy for capitalization thresholds and for bulk purchases to licenses.
- To evaluate a software license against the PP&E criteria in SFFAS 6 does not appear to fit the purpose of SFFAS 6, which is to provide accounting standards for Federally owned PP&E; deferred maintenance; and cleanup costs, as stated in paragraph 1 of SFFAS 6. Furthermore, PP&E consists of tangible assets as defined in paragraph 17 of SFFAS 6. Accordingly, we are questioning why the PP&E criteria was selected as the preferred option rather than alternative criteria, since software licenses are not federally owned property nor are they tangible assets as is stated in SFFAS 6.

**Exhibit B (cont'd)**

*Excerpt from DoD comment letter (continued from the previous page):*

- *The TR 16 amendments do not address the treatment of software license if the license does not meet the definition of PP&E. We recommend addressing software license that does not meet the definition of PP&E in the proposed revision to paragraph 26 of TR 16.*
- *Given that ownership is a factor in SFFAS 6 in defining what is considered to be PP&E, we believe that if the software license is not a perpetual license where the license is purchased for a one-time lump payment upfront, or paid over a period-of-time and can be used indefinitely, then the software license should be considered as a subscription or term license versus PP&E because ownership is not a consideration. As any term or subscription software license where the agency will pay yearly/monthly subscription amount(s) to use the software, giving them the ability to have the latest version of the software, but not establishing ownership, should be accounted for as an expense in the Statement of Net Cost. Therefore, the payments for a non-perpetual software license fee should be expensed. An example would be on a straight-line basis over the term of the license, which could result in a prepayment or liability (if the amounts are not payable on a straight-line basis over the license term). Our basis for this approach is based on paragraphs 57-61 (Advances and Prepayments) of SFFAS 1, Accounting for Selected Assets and Liabilities. We recommend that the proposed revision to paragraph 26 of TR 16 be modified to reflect this approach.*

**Exhibit C**

*SFFAS 6 excerpt:*

**Definitions**

17. Property, plant, and equipment consists of **tangible** assets, including land, that meet the following criteria:
  - they have estimated useful lives<sup>17</sup> of 2 years or more;
  - they are not intended for sale in the ordinary course of operations; and
  - they have been acquired or constructed with the intention of being used, or being available for use by the entity.
18. Property, plant, and equipment also includes:
  - assets acquired through capital leases (See paragraph 20), including leasehold improvements;
  - property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and
  - land rights.<sup>18</sup>

**Exhibit D**

SFFAS 10 BFC excerpt (non-authoritative):

**Software Licenses**

66. One respondent asked for guidance on accounting for licenses for COTS software. The Board had not discussed software licenses during its deliberations leading up to the publication of the ED. Software licenses can cover periods ranging from the entire estimated service life of the software (a "perpetual" license) to annual or more frequent periods and are similar to leases of general PP&E.
67. The Board believes that it would be appropriate for the federal entity to apply lease accounting concepts<sup>19</sup> and the entity's existing policy for capitalization thresholds and for bulk purchases to licenses. Immaterial costs would be expensed, but the entity should consider whether period costs would be distorted by expensing the license.

<sup>19</sup>See SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, "Capital Leases," pars. 43-46, and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, par. 20, for federal accounting standards for leases.



Federal Accounting Standards Advisory Board

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CONFORMING AMENDMENTS TO  
TECHNICAL RELEASES FOR SFFAS 54,  
*LEASES: AN AMENDMENT OF SFFAS 5,*  
*ACCOUNTING FOR LIABILITIES OF THE*  
*FEDERAL GOVERNMENT AND SFFAS 6,*  
*ACCOUNTING FOR PROPERTY, PLANT,*  
*AND EQUIPMENT*

**Federal Financial Accounting Technical Release**

**Exposure Draft**

Written comments are requested by April 1, 2019

February 14, 2019

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB’s website at [www.fasab.gov](http://www.fasab.gov).

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### Contact us:

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### **The Accounting and Auditing Policy Committee**

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). FASAB's mission is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

- ◆ ["Charter of the Accounting and Auditing Policy Committee"](#)
- ◆ [Accounting and Auditing Policy Committee Operating Procedures](#)

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## Federal Accounting Standards Advisory Board

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February 14, 2019

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Federal Financial Accounting Technical Release, *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, are requested. Specific questions for your consideration appear on page three, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Committee if you explain the reasons for your position and any alternative you propose. Responses are requested by April 1, 2019.

All comments received are considered public information. Those comments may be posted to the Accounting and Auditing Policy Committee's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

*Wendy M. Payne*

Wendy M. Payne

AAPC Chairperson

## EXECUTIVE SUMMARY

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Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, amended SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. This Technical Release (TR) would provide amendments to existing TRs to acknowledge the guidance in SFFAS 54. TR 10 and 16 include references to lease terminology or lease criteria that have been amended by SFFAS 54. Per SFFAS 54, leases will no longer be categorized as “capital” or “operating.” This proposal would make conforming changes to terminology related to leases. It would also clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10. In this case, the lease accounting concepts would no longer apply.

Specifically, this TR would provide conforming amendments to the following documents:

- TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*
- TR 16, *Implementation Guidance For Internal Use Software*

This proposal does not provide a complete update of the above TRs; the amendments conform the TRs to the provisions of SFFAS 54. The Accounting and Auditing Policy Committee plans to issue a separate TR that addresses SFFAS 54-specific implementation issues.

The provisions of this TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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## QUESTIONS FOR RESPONDENTS

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The Accounting and Auditing Policy Committee (AAPC or “the Committee”) encourages you to become familiar with all proposals in the Technical Release (TR) before responding to the questions in this section. In addition to the questions below, the Committee welcomes your comments on other aspects of the proposed TR. Because the proposals may be modified before a final TR is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Committee believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Committee has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, D.C. 20548

All responses are requested by April 1, 2019.

- Q1. In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, this TR proposes to clarify existing TRs by providing conforming amendments (see paragraphs 3 - 10). These conforming amendments acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance. TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, and TR 16, *Implementation Guidance for Internal Use Software*, are being amended because internal use software has specifically been scoped out of SFFAS 54, so the language in these TRs is not consistent with SFFAS 54.

**Do you agree or disagree with the proposed amendments to TR 10 and TR 16?  
Please provide the rationale for your answer.**

- Q2. The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10, *Accounting for Internal Use Software*, and the lease accounting concepts would not apply.

**Do you agree or disagree with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.**

## PROPOSED TECHNICAL GUIDANCE

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### SCOPE

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1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.
2. The amendments addressed in this TR conform the following documents to the provisions of SFFAS 54, *Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment (PP&E)*:
  - TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*
  - TR 16, *Implementation Guidance For Internal Use Software*

This TR amends certain references to leases and the lease criteria that have been affected by SFFAS 54.

### AMENDMENTS TO TECHNICAL RELEASES 10 AND 16

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#### TECHNICAL RELEASE 10, *IMPLEMENTATION GUIDANCE ON ASBESTOS CLEANUP COSTS ASSOCIATED WITH FACILITIES AND INSTALLED EQUIPMENT*

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3. This paragraph amends footnote 4 of paragraph 3 in TR 10 by removing the reference to capital leases:
 

3. The scope of this guidance is limited to federal real property<sup>4</sup> that contains any form of asbestos. It provides additional clarification of SFFAS 6 and TB 2006-1 for identification and recognition of asbestos-related cleanup costs, and provides a methodology for identifying and recognizing asbestos liabilities associated with federal properties.

FN 4 For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property ~~acquired through capital leases, including leasehold improvements~~ recognized as a result of leases (see SFFAS 54, *Leases*) and leasehold improvements; and 2) real property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or federal contractors).
4. The revised footnote 4 of TR 10 paragraph 3 is as follows:

3. The scope of this guidance is limited to federal real property<sup>4</sup> that contains any form of asbestos. It provides additional clarification of SFFAS 6 and TB 2006-1 for identification and recognition of asbestos-related cleanup costs, and provides a methodology for identifying and recognizing asbestos liabilities associated with federal properties.

FN 4 For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property recognized as a result of leases (see SFFAS 54, *Leases*) and leasehold improvements; and 2) real property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or federal contractors)

#### TECHNICAL RELEASE 16, IMPLEMENTATION GUIDANCE FOR INTERNAL USE SOFTWARE

5. This paragraph amends TR 16, paragraph 26, to remove references to leases:

26. **Software License:** If the term of a software license~~(s)~~ is 2 years or more with periodic payments, the license should be evaluated against the PP&E criteria in lease criteria as stated in SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20 to determine if it meets the definition of PP&E is a capital or operating lease. If the license meets the definition of PP&E, then the entity should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed in accordance with SFFAS 6. If the license~~(s)~~ is perpetual with an upfront cost<sup>9</sup> to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

FN 9 The cost could be charged as a one-time payment or financed over a set period of time.

6. The revised paragraph 26 of TR 16 is as follows:

26. **Software License:** If the term of a software license is 2 years or more with periodic payments, the license should be evaluated against the PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E. If the license meets the definition of PP&E, then the entity should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed in accordance with SFFAS 6. If the license is perpetual with an upfront cost<sup>9</sup> to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

FN 9 The cost could be charged as a one-time payment or financed over a set period of time.

7. This paragraph amends TR 16, paragraph 27 (including footnote 10), to remove references to leases:

27. A license agreement may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming lease capitalization criteria and thresholds are met, software license capitalization amounts<sup>10</sup> may

be derived from the payment schedule contained in the license agreement. ~~As stated in SFFAS 5, if the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.~~ Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.

~~FN 10 SFFAS 5, paragraph 44.~~

8. The revised paragraph 27 of TR 16 is as follows:

27. A license agreement may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming capitalization criteria and thresholds are met, software license capitalization amounts may be derived from the payment schedule contained in the license agreement. Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.

9. This paragraph amends TR 16, paragraph 29, to remove references to leases and to conform to modifications to SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as a result of SFFAS 55, *Amending Inter-entity Cost Provisions*:

29. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with ~~the lease criteria stated in SFFAS 5 and SFFAS 6, and as discussed in paragraph 26 of this TR.~~ SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure should account for the software in accordance with SFFAS 10 and ~~the full cost/inter-entity cost requirements of SFFAS 4, as amended.~~

10. The revised paragraph 29 of TR 16 is as follows:

29. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with paragraph 26 of this TR. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure should account for the software in accordance with SFFAS 10 and SFFAS 4, as amended.

## EFFECTIVE DATE

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11. This TR is effective for periods beginning after September 30, 2020. Early adoption is not permitted.

The provisions of this Technical Release need not be applied to immaterial items.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or other pronouncements. The Handbook is updated annually and includes a status section directing the reader to any pronouncement that changed this Technical Release. Within the text of the Technical Release, the guidance sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statements or other pronouncements for the rationale for each amendment.

### PROJECT HISTORY

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- A1. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and includes appropriate disclosures for both intragovernmental and non-intragovernmental leases. SFFAS 54 was issued on April 17, 2018, and is effective for periods beginning after September 30, 2020. Early adoption is not permitted.
- A2. SFFAS 54 amends the lease accounting standards in SFFAS 5 and 6, which were issued in 1995, and among other things, eliminates the distinction between “capital” and “operating” leases. The issuance of SFFAS 54 required the amendment of several statements and also requires the amendment of TR 10 and 16. This proposal is intended to eliminate references in any TRs that conflict with SFFAS 5 and 6, as amended by SFFAS 54.

### AMENDMENTS TO TECHNICAL RELEASES 10 AND 16

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- A3. TR 10 and 16 include references to lease terminology or lease criteria that have been amended by SFFAS 54. The Accounting and Auditing Policy Committee (AAPC or “the Committee”) believes it is appropriate to amend the TRs to eliminate references to capital and operating leases because the terms were eliminated with the issuance of SFFAS 54.
- A4. SFFAS 54 also amends the scope of the lease accounting standards and provides a definition of lease not clearly stated in previous standards. Paragraph 5.b of SFFAS 54

specifically scopes out “leases (licenses) of internal use software (SFFAS 10, *Accounting for Internal Use Software*, as amended).” Paragraphs 26, 27, and 29 of TR 16 direct the reporting entity to apply the lease criteria in SFFAS 5 and 6 when recognizing software licenses, which is inconsistent with SFFAS 54.

- A5. The Committee is proposing to amend TR 10 and 16 to address these inconsistencies. The proposed amendments to TR 16 direct the reporting entity to apply the PP&E criteria in SFFAS 6 to determine if the internal use software meets the definition of PP&E.

## APPENDIX B: ABBREVIATIONS

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AAPC	Accounting and Auditing Policy Committee
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

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# Technical Bulletin 2000-1: Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance

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## Status

<b>Issued</b>	June 2000
<b>Effective Date</b>	June 2000
<b>Interpretations and Technical Releases</b>	None.
<b>Affects</b>	None.
<b>Affected by</b>	None.

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1. On October 19, 1999, the Council of the American Institute of Certified Public Accountants (AICPA) adopted an amendment to Rule 203 of the AICPA's Code of Professional Ethics. This amendment recognized accounting standards published by the Federal Accounting Standards Advisory Board as generally accepted accounting principles (GAAP) for federal financial reporting entities. The amendment recognized FASAB as the source of GAAP for federal entities. Consequently, the Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems of federal financial reporting entities. This Bulletin describes the purpose and scope of FASAB Technical Bulletins, the procedures for issuing them, and related background information.
  2. The FASAB anticipates that it will communicate primarily through the issuance of Statements and Interpretations. Such pronouncements may require extensive due process, including appointing task forces and holding public hearings. The FASAB also recognizes the need for providing timely guidance to financial statement preparers and attestors for both currently emerging and existing problems.
  3. To provide timely guidance within the context of the standard FASAB procedures, Technical Bulletin procedures provide for both due process (more limited in scope and within a tighter minimum time frame than provided for Statements and Interpretations) and review by FASAB members.
  4. FASAB Technical Bulletins provide guidance for applying FASAB Statements and Interpretations and resolving accounting issues not directly addressed by them. The following kinds of guidance may be provided in a Technical Bulletin:
    - a. Guidance to clarify, explain, or elaborate on an underlying Statement or Interpretation,
    - b. Guidance to address areas not directly covered by existing Statements or Interpretations,
    - c. Interim guidance on problems in applying an existing Statement or Interpretation currently under study by the FASAB, or
    - d. If applicable, guidance for applying FASB or GASB standards to federal activities.
  5. The FASAB staff analyzes an accounting or reporting problem that comes to the FASAB's attention to determine whether the problem may be resolved by issuing a FASAB Technical Bulletin. Generally, a Technical Bulletin can provide guidance if the problem can be resolved within the following guidelines:
    - a. The guidance is not expected to cause a major change in accounting practice.

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- b. The administrative cost involved in implementing the guidance is not expected to be significant to most affected entities.
  - c. The guidance does not conflict with a broad fundamental principle or create a novel accounting practice.

Generally, a FASAB Statement or Interpretation is more appropriate than a Technical Bulletin if any of these guidelines is not met.

6. FASAB members will be provided with copies of all draft Technical Bulletins before their release for comment by interested parties. Within 15 days of sending the draft TB to FASAB members, the Executive Director will review any member comments and consult with members on any issues identified. Based on the comments and consultation, the Executive Director will determine if a majority of members do not object to the proposed Technical Bulletin.
7. If a majority of the FASAB members do not object, the Executive Director will release the proposed Technical Bulletin to selected knowledgeable persons for comment. Those persons include members of the CFO Council, the President's Council on Integrity and Efficiency, the Joint Financial Management Improvement Program, CPA firms, and others the Executive Director and members of FASAB believe should be consulted. Proposed Bulletins will be publicized by electronic communication with interested parties and by posting to FASAB's World Wide Web site during an exposure period of at least 15 days.<sup>1</sup> The FASAB will maintain a public record of proposed Bulletins and all written comments received. The public record will be available for inspection at the FASAB's offices.
8. All comments received on draft Technical Bulletins will be given to the Board for its consideration at a public meeting before final issuance. A Bulletin will not be issued if a majority of the FASAB members object either to the guidance in it or to communicating that guidance in a Technical Bulletin.
9. The FASAB may support use of a Technical Bulletin because the nature of the accounting issue addressed and the guidance provided do not, in its judgment, warrant more extensive due process. If the appropriateness of issuing a Technical Bulletin is in doubt, the FASAB may choose instead to issue a Statement or Interpretation or take other action as it deems appropriate.

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<sup>1</sup>Determination of the length of the exposure period will depend on the nature and urgency of the issue. The Board generally prefers that exposure periods be longer than the minimum required and expects that normally exposure periods will be for at least 30 days.

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10. Each Technical Bulletin will specify an effective date and transition provisions for initial application. While the FASAB expects that most Technical Bulletins will be applied prospectively, Technical Bulletins may require retroactive application if appropriate in the circumstances.
  11. The FASAB monitors the procedures for issuing FASAB Technical Bulletins and may modify these procedures from time to time. Any modification will be announced publicly.
  12. FASAB Technical Bulletins are generally in question-and-answer format and are published with this legend:

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with section III. I. 5 of the Board's rules of procedure, as amended and restated through October 1, 1999 and the procedures described in FASAB Technical Bulletin 2000-1, Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance. The provisions of Technical Bulletins need not be applied to immaterial items.

The FASAB has reviewed this Technical Bulletin and a majority of its members do not object to its issuance.