



May 29, 2020

Memorandum

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Through: Monica R. Valentine, Executive Director
Subject: Software Licenses – **Tab C**¹

MEMBER ACTION REQUESTED:

Please provide preliminary responses to questions 1-3 by June 16.

MEETING OBJECTIVES

1. Discuss drawbacks, limitations, and challenges identified by the working group and staff when developing the attached working draft Technical Bulletin (TB).
2. Revisit the project plan and approach in order to mitigate identified drawbacks, limitations, and challenges associated with a narrow TB, particularly in light of changes in timelines resulting from the three-year Statement 54 deferral.

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: Working Draft: *Technical Bulletin XX, Non-Perpetual Software Licenses*

Attachment 2: Overall leases project plan

For reference: [August 2019 meeting minutes, p. 8-10](#)

Development Phase

The Software Licenses technical bulletin project is in the development phase where the Board deliberates to develop an exposure draft to improve software licenses reporting.

¹The 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 a Technical Release (TR) exposure draft (ED) entitled *Conforming Amendments to Technical Releases for SFFAS 54, Leases*, for comment. The ED proposed amendments to TR 10 and TR 16 (internal use software). Certain SFFAS 5 and SFFAS 6 paragraphs currently cited in TR 16 paragraph 26 will be rescinded in FY 2024 when SFFAS 54 becomes effective.

The intent of the proposed amendments to TR 16 was to ensure reporting entities continue current practice of capitalizing software licenses and amortizing their costs over their useful lives when appropriate. However, staff and ED respondents identified several technical issues and requisite clarifications needed that are beyond the purview of the AAPC and the purpose and scope of TRs.

As a result, in August 2019 the Board agreed with staff's earlier recommendation to develop a TB in collaboration with a working group with an overall objective of clarifying the accounting treatment for non-perpetual software licenses.

Staff collaborated with the working group to draft a TB in January and February to provide to the Board for its consideration. The working group met on February 20, 2020, to discuss their concerns surrounding the TB working draft and its limitations, provide follow-up edits and input to improve the TB to the extent possible, and discuss potential alternative solutions and recommendations to bring to the Board for their consideration.

Staff Analysis

Based on the task force efforts and feedback to-date and inherent constraints of TBs as it relates to purpose, scope, and due process, a TB pronouncement is unlikely to be viewed by the Board, staff, or constituents as a sufficient or appropriate mechanism for addressing the broad and more nuanced needs of the preparer community.

The working draft (Attachment 1) reflects staff and the working group's best effort to clarify accounting treatment under the due process rules for TBs.² In the event that the Board declines to accept staff's below-proposed recommendation, the working group could develop the TB proposal based on preliminary Board feedback.

Staff Recommendation

In light of the recent deferral of Statement 54 and the working group's feedback, staff recommends that the Board pause the development of a TB on non-perpetual software licenses for now, and begin considering projects to comprehensively address intangible assets and service-based IT arrangements (SBITAs). Such actions would be executed with the intent of forgoing the development and issuance of the attached TB.

Basis for Staff Recommendation

- A.** The working group has found that SFFAS 10, *Internal Use Software*, and the working draft TB—which pulls from and aligns with existing guidance to the extent

²See [Technical Bulletin 2000-1](#), *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*.

possible³—to be insufficient for comprehensively, consistently, and cohesively addressing the breadth of accounting issues agencies encounter.

- Cloud computing arrangements and other SBITAs, which are now typical transactions in the federal environment, are not addressed in SFFAS 10 or elsewhere in existing SFFASs and Interpretations, nor would they be addressed by a TB focused narrowly on non-perpetual software licenses. Cloud computing and shared services are briefly addressed in TR 16 paragraphs 28-32; however this implementation guidance does not address the breadth of accounting issues arising in this area; it focuses mostly on software licenses.
- B.** FASAB standards do not address intangible assets other than leases. FASAB staff have historically been contacted about other types of intangible assets, such as census data, right-to-use invention assets, software as a service, and cloud-computing arrangements accounting issues. Although internal-use software is addressed in SFFAS 10, it is vestigially treated as tangible PP&E, which is no longer considered appropriate or in line with other sources of GAAP, and it is widely considered to be non-applicable to SBITAs. As such, staff research finds that the accounting issues being raised by the community are of a nature that warrants a more extensive due process and a broadened project scope.⁴
- C.** Staff reached out to GASB staff and is coordinating an educational session on GASB's SBITA project. The Board will learn more about potential benefits to this approach from the perspective of senior GASB staff to better inform its technical agenda-setting options in light of staff's recommendation.
- D.** In light of the recent deferral of SFFAS 54, the Board has additional time to undertake projects on intangible assets and SBITAs. Intangible assets and SBITA research and development could largely be developed in an efficient manner that is appropriately aligned to and informed by analogous elements of SFFAS 54, *Leases*; existing literature in GASB Statement No. 51, *Intangible Assets*; and GASB's pending pronouncement on SBITAs. The more significant and time-consuming technical work would likely fall under implementation guidance rather than in the development of the related Statements.

In the event that either project does not progress sufficiently leading up to the effective date of SFFAS 54, there is ample time to restart and finalize the software licenses TB project as a temporary solution, using the research and drafting performed to-date as a starting point. Such a decision could be deferred by at least one year. Staff can return to the Board later this calendar year with an educational session on SBITAs and a project plan for the Board's consideration.

³Ibid. par. 4-5.

⁴Ibid. par. 9.

BOARD QUESTIONS:

1. Does the Board agree or disagree with staff's recommendation to pause TB development and begin the process of considering projects on intangibles and SBITAs? This process would continue with the SBITA educational session.
2. In the event that the Board *agrees with* staff's recommendation, do members have feedback on the contingency strategy suggested by staff under item D of the basis for recommendations?
3. In the event that the Board *disagrees with* staff's recommendation, do members have feedback on the draft TB for the working group to consider when they reconvene and continue to develop the proposal?

MEMBER FEEDBACK

Please provide feedback to Mr. Perry at PerryRA@fasab.gov with a cc to Ms. Valentine at ValentineM@fasab.gov, by **June 16, 2020**.



Federal Accounting Standards Advisory Board

NON-PERPETUAL SOFTWARE LICENSES

Technical Bulletin 202#-#

Working Draft – Comments Are Not Requested on This Draft

Written comments are requested by [date at least 15 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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.

Accounting standards are 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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 standards 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 and other items of interest are available at www.fasab.gov:

- [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](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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Federal Accounting Standards Advisory Board

ISSUE DATE

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

The Federal Accounting Standards Advisory Board (FASAB or "the Board") staff requests your comments on the exposure draft of a proposed Technical Bulletin, *Non-perpetual Software Licenses*. Specific questions for your consideration appear on page XX, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your response will be most helpful to FASAB staff if you explain the reasons for your positions and any alternatives you propose. Responses are requested by DUE DATE.

All comments received by FASAB are considered public information. Those comments will be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW, Suite 1155
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not get a 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,

Monica R. Valentine
Executive Director

EXECUTIVE SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

This guidance would clarify the accounting treatment of non-perpetual software licenses.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*, does not specifically address the accounting treatment for non-perpetual software licenses. Paragraph 67 of the basis for conclusions (BFC) for SFFAS 10 documented the Board's views—at that time—on the appropriate accounting treatment for software licenses:

“The Board believes that it would be appropriate for the federal entity to apply lease accounting concepts¹⁹ 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.

¹⁹See SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraphs 43-46, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraph 20, for federal accounting standards for leases.”

Although reporting entities have followed the above-cited practices, BFCs are not considered authoritative. Moreover, SFFAS 54, *Leases*, will rescind paragraphs 43-46 of SFFAS 5 and paragraph 20 of SFFAS 6 when it becomes effective.

In light of these forthcoming rescissions to relevant guidance, numerous stakeholders in the federal financial management community requested that the Board clarify the accounting treatment for non-perpetual software licenses so that federal reporting entities continue to have authoritative guidance to support their accounting practices and policies.

MATERIALITY

The provisions of this Statement 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.

TABLE OF CONTENTS

Executive Summary 1

Questions for Respondents..... 3

Proposed Technical Guidance 4

 Scope..... 4

 Definitions 4

 Recognition and Measurement 4

 Effective Date..... 5

Appendix A: Basis for Conclusions..... 6

 Project history 6

Appendix B: Illustration 7

Appendix C: Abbreviations 8

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) staff encourages you to become familiar with the proposed guidance in the Technical Bulletin (TB) before responding to the questions in this section. In addition to the questions below, staff also welcomes your comments on other aspects of the proposed TB. Because the proposed guidance may be further modified before a final TB is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

FASAB staff believes this TB would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. Staff has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and challenges and communicate any concerns that you may have regarding this proposed guidance.

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

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

All responses are requested by [DATE].



Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.

Q2. New Question

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. This guidance applies to all reporting entities that present general purpose federal financial reports (GPFFR), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of 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*.
2. This Technical Bulletin (TB) provides guidance on accounting for non-perpetual software licenses; namely, it describes the application of existing SFFAS to software licenses and resolves accounting issues not directly addressed by existing SFFAS.
3. Perpetual software licenses are not discussed in this TB. The accounting treatment for perpetual software licenses is discussed in SFFAS 10, *Accounting for Internal Use Software*.

DEFINITIONS

4. **Non-perpetual software license** – A legal contract or agreement whereby one entity (licensor) conveys the right to use software to another party (licensee) for a period of time in exchange for consideration.
5. To determine whether a contract or agreement conveys the right to use the underlying non-perpetual software licenses, a federal entity should assess whether the contract or agreement gives the licensee both of the following:
 - a. The right to obtain economic benefits or services from use of the underlying license as specified in the contract or agreement
 - b. The right to control the nature and manner of use of the underlying license as specified in the contract or agreement

RECOGNITION AND MEASUREMENT

6. A licensee should recognize expenses for non-perpetual software licenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The licensee should recognize a capital asset if payments are made in advance of the reporting period to which they relate or an accounts payable liability if payments are to be made subsequent to that reporting period.
7. If a non-perpetual software license includes upfront costs, the licensee should account for those upfront costs as a capital asset and capitalize them in a manner consistent with SFFAS 10, paragraphs 16-27.

- a. SFFAS 10 paragraph 16 provides for only capitalizing upfront costs of internally developed software with a service life of 2 years or more. In this case, non-perpetual software licenses with terms of 2 years or more would be capitalized.
 - b. SFFAS 10 paragraph 24 provides for the establishment of capitalization thresholds for internal use software and considerations for doing so. Likewise, entities may establish capitalization thresholds to non-perpetual software licenses by applying and assimilating this guidance to non-perpetual software licenses.
8. Non-perpetual software license capital assets should be amortized by the licensee in a systematic and rational manner over the shorter of the license term or the estimated useful life of the underlying software license.
 9. Licensees should account for impairments of any non-perpetual software license capital assets (see par. 7-8) in a manner consistent with SFFAS 10, paragraphs 28-31.
 10. A licensor should recognize non-perpetual software license revenues based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The licensor should recognize an unearned revenue liability (or other current liability) if payments are received in advance of the reporting period to which they relate or an accounts receivable asset if payments are to be received subsequent to that reporting period.¹
 11. If a non-perpetual software license includes upfront costs to the licensee to use the software, the licensor should account for such receipts as unearned revenue and recognize exchange revenue in a manner consistent with SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraphs 83-86; SFFAS 5, *Accounting for Liabilities of The Federal Government*, paragraphs 19 and 22; and SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraphs 36 and 37.

DISCLOSURES

12. This TB does not provide additional disclosure requirements.

EFFECTIVE DATE

13. The requirements of this TB are effective for periods beginning after September 30, 202X.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

¹ SFFAS 1, par. 40-52 and 83-86.

APPENDIX A: BASIS FOR CONCLUSIONS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board’s rules of procedure, as amended and restated through December 2003, 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.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section—not the material in this appendix—should govern the accounting for specific transactions, events or conditions.

This guidance may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this guidance. Within the text of the Statements, the authoritative 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 Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. Project History
- A2. Project History

APPENDIX B: ILLUSTRATION



This appendix illustrates the application of the proposed provisions of this Technical Bulletin to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Technical Bulletin or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the proposed provisions of this Technical Bulletin may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Technical Bulletin.

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APPENDIX C: ABBREVIATIONS

BFC	Basis for Conclusions
CFR	Consolidated Financial Report of the U.S. Government
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Reports
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

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	Deferral SFFAS	Implementation Guidance on Leases	Omnibus SFFAS / Interpretations	Conforming Amendments TR	Software Licenses Technical Bulletin	Training / Outreach	
FY 2020 Q1	Draft Exposure Period	Draft	Research			Draft FY 20 content	
FY 2020 Q2	Exposure Period	Draft	Research		Draft	Provide	
FY 2020 Q3	Finalize Issuance	Draft	Draft		Draft	Provide	
FY 2020 Q4		Draft	Draft	Finalize	TBD	Provide	
FY 2021 Q1		Exposure Period	Exposure Period			Draft FY 21 content	
FY 2021 Q2		Finalize	Finalize			Provide	
FY 2021 Q3		Finalize	Finalize			Provide	
FY 2021 Q4		Issuance	Issuance			Draft FY 22 content	
FY 2022 Q1						Draft FY 22 content	
FY 2022 Q2						Provide	
FY 2022 Q3		Research				Provide	
FY 2022 Q4		Research				Provide	
FY 2023 Q1		Research				Provide	
FY 2023 Q2		Research				Provide	
FY 2023 Q3		Research				Provide	
FY 2023 Q4		Research				Issuance	Provide
FY 2024 Q1	SFFAS 54 effective						

Yellow highlighted cells = AAPC project

Note: Conf. Am. TR finalization and issuance is staggered to enable simultaneous issuance thereof in tandem with the Software Licenses Technical Bulletin