FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

Intangible Assets

June 7, 2021

To: Members of the Board
From: Josh R. Williams, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Intangible Asset Research Findings** (Topic D)

INTRODUCTION

Staff formed a task force to assist with the project's objective to research the significance of intangible assets throughout federal reporting entities for the Board to consider ultimately approving a project to develop accounting and financial reporting guidance for intangible assets. The attached analysis, survey results, and presentation consolidate and explain the research findings. Based on these findings, staff will present approaches for intangible asset guidance to the Board so they may consider adding the topic to the FY 2022 technical agenda.

For this topic discussion, staff is seeking the Board's feedback on research conducted by staff on federal intangible assets.

REQUEST FOR FEEDBACK BY June 18, 2021

Please review the attached material and provide feedback by June 18, 2021. Staff is not asking the Board specific questions for this meeting because the material and associated presentation serves as an information session.

Please submit responses to Josh Williams at williamsjr@fasab.gov with a cc to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

The purpose of the attached material is to present ideas for intangible asset guidance along with associated benefits and concerns. Staff is not currently requesting the Board approve any specific items. The Board should consider the material and associated presentation for future technical agenda deliberations.

ATTACHMENTS

1. Staff Analysis
2. Survey Response Summary
3. Research Presentation

REFERENCE MATERIAL

1. Consolidated Survey Responses

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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Staff Analysis
Intangible Assets
June 7, 2021

CONTEXT

The Board approved the intangible assets research topic during the December 2020 meeting. Initial deliberations of this topic began as part of the now archived software licenses project. Members decided to archive the software licenses project due to the breadth of guidance potentially needed to address intangible assets. The Board predominantly agreed intangible assets are an important and timely project and agreed with the proposed approach to begin with a broad mindset to consider a wide range of possibilities and then narrow the scope based on identified criteria. Some members expressed the importance of meeting financial statement user needs that current guidance does not already address and cautioned that an overly broad scope could over burden preparers.

Task Force Efforts

Staff formed a task force in February 2021 to assist with the intangible assets research topic. Task force volunteers consisted of approximately 60 people from a variety of backgrounds, including federal reporting entities and audit firms, amongst others. The task force research objectives were to

a. identify existing intangible assets throughout federal reporting entities,

b. consider the benefits to users of federal financial reports from reporting such intangible assets, and

c. consider if preparers can reasonably measure and recognize the identified intangible assets in the financial reports.

Staff developed a survey to gather information about intangible assets that exist throughout federal reporting entities and potential benefits to recognizing such intangible assets in federal financial reports. The task force then coordinated responses for their organizations. Based on initial survey responses, staff next followed-up with task force members by asking specific questions to better understand complexities of recognizing identified assets and requesting opinions on guidance ideas.

The survey's intent was to first request a broad range of information from respondents with general, open-ended questions, and then follow-up with targeted questions based on initial responses. Not every participant responded to the follow-up questions but staff believes the breadth and detail of the information derived from this method is more

helpful than a typical survey that asks yes/no questions or rates the importance of issues on a scale basis.

In addition to the survey, staff researched past Board meeting material and coordinated meetings with several federal reporting entities to understand entity specific processes for identified intangible assets. Staff also met with staff from other accounting standard-setting bodies to understand why they have or have not issued intangible asset guidance and inquire of any advice or lessons learned with previously issued guidance.

Research results

The survey responses are for discussion and research purposes only and do not represent the official positions of the agency/organization or FASAB. Staff included the consolidated survey responses as reference material. Staff encourages Board members to reference this document for responses from specific federal reporting entities. Additionally, attachment 2 provides the overall response summary for each survey question.

The ensuing analysis will not focus on individual responses from the survey. Staff formed guidance approaches, along with potential benefits and concerns of those ideas, holistically from all of the survey responses as well as federal reporting entity and other standard-setting body meetings. Staff will not form a conclusion or make a recommendation based on any particular response.

ANALYSIS AND RECOMMENDATION

The objective for this analysis is to brief the Board on identified federal reporting entity intangible assets and approaches for potential financial reporting guidance based on the task force research efforts. Staff does not intend to ask the Board to vote on any particular proposal. The goal is to provide the Board a beginning framework of ideas and suggestions they can consider when later deliberating whether to add the project to the technical agenda.

RECOMMENDATION

Staff recommends the Board review the following research analysis and guidance approaches, along with the attached survey responses. Staff will brief the attached presentation to the Board during the meeting. Staff will not ask the Board any questions about specific criteria at this time but encourages them to provide their thoughts and concerns about the research results and associated guidance approaches.

Question for the Board:

1. Does the Board have any suggestions, concerns, or general thoughts about the research results and associated guidance approaches?

ANALYSIS

Research revealed many potential intangible assets across federal reporting entities. However, survey respondents stressed several complexities and concerns with recognizing them in financial reports. It is important to consider the costs vs. benefits of guidance development throughout the process. This analysis will highlight perceived benefits and concerns of recognizing identified intangible assets in financial reports. The proceeding paragraphs will address the following criteria regarding guidance approaches:

a. Definition

b. Scope out criteria

c. Scope in criteria

d. Recommended path forward

Staff is not asking the Board to vote on any of the suggested criteria. However, staff thought it best to present specific definition and scope ideas, along with benefits and concerns of those ideas, to serve as a starting framework for further deliberation. The Board will ultimately deliberate and vote on specific guidance criteria if the project moves to the development phase.

Definition

The Statement of Federal Accounting Concept (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, defines an asset as "a resource that embodies economic benefits or services that the federal government controls." With this definition, staff referenced GASB 51 and IPSAS 31 as inspiration in forming the definition of an intangible asset. Additionally, staff analyzed potential intangible assets identified by the survey to determine key criteria that isolate an intangible asset from other types of assets. Therefore, staff suggests the following definition for an intangible asset:

A resource that embodies economic benefits or services that the federal government controls and

a. lacks physical substance,

b. is not a monetary resource, and

c. has an initial useful life greater than two years.

When determining if an asset lacks physical substance, it is important to determine if the actual resource to the entity does or does not lack physical substance rather than the container or vessel that may hold or represent the resource. For example, software may come in the form of a tangible disk but the actual resource is computer code that lacks physical substance. Another example is a document that represents a patent but it is the patented idea that is the resource, which lacks physical substance.

The second criteria originally said that an intangible asset is "non-financial in nature". However, some task force feedback indicated this term is confusing because intangible assets can have financial value. The original intent of the term "non-financial in nature" meant that an intangible asset is not a monetary related resource (for example cash or financial securities). Therefore, staff concluded it is best to use the term "monetary" so there is no confusion with the definition.

Staff chose a useful life greater than two years for the definition because that is the standard useful life used in existing FASAB guidance for recognizing assets.

Scope out criteria

The suggested definition could encompass many seemingly intangible assets that existing FASAB guidance more appropriately addresses and should therefore scope out of potential intangible asset guidance. For example, existing lease guidance already addresses temporary land rights, such as easements, whereas land guidance covers permanent land rights. Additionally, public-private partnership (P3) arrangement guidance should address scenarios when an intangible asset is associated with P3 arrangements. Finally, natural resources, such as oil and gas reserves, as well as water and timber rights, exist at some federal reporting entities and potentially represent an intangible right-to-use asset. However, natural resource guidance already exists and is the best framework for additional guidance needs for natural resource rights.

A notable characteristic of land and natural resource rights is that while the right to the asset is intangible, the actual resource is tangible. For example, land is tangible real property and oil is a depleted tangible resource. Additionally, P3 guidance is more appropriate with intangible assets associated with these types of arrangements because they can involve complex relationships that present questions of asset control between partners. Finally, research showed that resources pertaining to the outer-continental shelf (OCS) occur through rents and royalty fees related to oil or gas extraction. Therefore, existing guidance is more appropriate for OCS assets.

Based on research, staff does not see a need for recognition guidance for goodwill. While internally generated goodwill exists within federal reporting entities, it is not separately identifiable from the entity as a whole. Additionally, the survey did not reveal instances of acquisition transactions that can result in externally generated goodwill.

Staff considered if public-private acquisitions could occur within federal reporting entities with hospital administration missions. However, upon further correspondence with specific entities, staff is confident these types of transactions do not occur.

Scope in criteria

Research identified potential intangible assets at federal reporting entities that staff sees a potential need for either new or updated reporting guidance. Staff grouped the assets into three main categories for analysis purposes:

a. Intellectual property

b. Software

c. Other

Intellectual property

The survey identified many instances of intangible assets at federal reporting entities that represent products of the human intellect such as inventions, brands, and organized data. For deliberation purposes, staff decided to label these types of assets as intellectual property. This category can include trademarks, patents, research reports, and data sets, amongst other licensed intellectual property.

The survey revealed that these types of intangible assets exist throughout many federal reporting entities but, with a few exceptions, they are not recognizing them in their financial reports. This lack of recognition is most likely because FASAB has not issued guidance on intangible assets, other than software.

Intellectual property – benefits and reporting ideas

Research revealed potential reporting options of these intangible assets along with associated benefits. The following paragraphs address these ideas and benefits.

Several survey respondents indicated their federal reporting entity receives revenue through license fees primarily from trademarks and patents. The license fee amounts generally appear incidental to the purpose of the intangible asset and serve to cover program costs of research and development (R&D) efforts. Additionally, no federal reporting entity responded that they sell their intellectual property in the private market. Because of this, staff's opinion is there is no practical benefit to recognize intellectual property value based on discounted cash flows or market valuations. However, one option would be to disclose revenue that these assets generate in notes or required supplementary information (RSI) because they are specific economic benefits that fund government efforts to produce assets valuable to society.

Another benefit of intellectual property is they can provide service capacity to federal reporting entities for delivering their mission. This can occur through brand awareness and reputation, or more efficient and effective operations. These benefits are similar to

the reasons federal reporting entities capitalize buildings or software on their balance sheets. Therefore, another recognition option would be to capitalize purchase or development costs associated with bringing intangible assets to use. If the value is not measurable, the entity could potentially disclose the intangible assets along with the associated operational benefits they provide to the entity.

Intellectual property service capacity can also include societal knowledge benefits. Federal reporting entities stated that a primary purpose for patenting inventions or developing data sets is for public knowledge. This includes making patented inventions available for public use to promote and share R&D related outputs with society. Another example is making data sets available for use to private businesses, corporations, state governments, other federal agencies, or congress for decision-making, policy, or operational reasons. Cost capitalization is also a recognition option for this benefit as well as qualitative disclosure regarding the benefits bestowed on society from these assets.

Intellectual property – reporting guidance benefits

Staff identified potential benefits to developing reporting guidance for intellectual property. One benefit pertains to basic accrual accounting concepts. Intellectual property, like buildings or software, can require significant upfront cost to purchase or develop and then provide long-term benefits to the federal reporting entity. In this scenario, it is appropriate to capitalize the cost to bring the asset to service and recognize the expense over the timeframe the asset provides benefits to the entity.

Another potential reporting benefit comes from recognizing federal government assets created from R&D efforts funded from taxpayer dollars. Transparency in government operations and spending is crucial for a well-functioning democratic system of government. Improved accountability and transparency of assets derived from federal budgets could demonstrate useful resources from federal investment and highlight the associated benefits to society. Additionally, there are opinions that the U.S. government should increase their role in R&D efforts throughout the nation. Increased efforts to track government R&D spending to outputs could instill more confidence in congress with appropriating funds for future R&D efforts. Annual financial reports can help them identify useful outcomes directly to R&D resources.

Another potential benefit is that asset recognition can lead to improved oversight of R&D programs and therefore more effective management of federal resources. Reporting requirements can lead to enhanced systems and controls that enable management to account for relevant data that fosters sound decision making. This would require cost accounting efforts to identify full cost of resources that directly and indirectly contribute to the production of outputs and assign those costs to outputs. Federal reporting entities do not appear to do this, which is understandable since there is no current FASAB guidance for intangible assets, other than software.

Intellectual property – reporting guidance challenges, concerns, and complexities

The task force, particularly federal reporting entities, reported several concerns with developing recognition guidance for intellectual property. Staff noticed a general sense of unease and concern from federal reporting entities that new guidance could lead to burdensome and non-practical requirements. Some task force members stressed it is important to continuously weigh the costs vs. benefits of guidance throughout the process and that they currently think the costs outweigh the benefits. Any additional reporting requirements should focus on the needs of federal financial report users and clearly benefit federal agency or stakeholder decision making.

Multiple survey respondents stated that it is difficult to directly link development cost to an intangible output. When a building is constructed, one can observe the construction effort and the project moving towards a completed output. Additionally, software development projects typically have a goal and developers work towards a final output. It is often not the same with intellectual property. Research and development efforts can occur for years without a clear goal or objective and yet a usable idea or invention could unexpectedly result one day. This makes it difficult to accurately allocate prior cost directly to the output. Survey responses indicated there is a difference between federal reporting entities that have an applied research and a basic research mission. Federal reporting entities with an applied research mission are more likely to work towards a particular goal or output in their R&D efforts.

Another reported concern is that benefits are not as directly linked to intellectual property compared to tangible property or software. Federal reporting entities indicated they may develop and use an invention but will not patent it until later, if ever. In addition, the developed invention or patent may go unused for several years after development, if at all. Finally, a federal reporting entity often times does not use the invention directly in their operations but can through a third party that is licensing their patent. Some agencies did report more directly using their developed invention assets to achieve their mission objectives and that they retain a form of control over non-patented inventions.

Regarding societal benefits of patents or other invention assets, several respondents indicated that other federal reports exist that convey this information, such as the Technology Transfer Report. Additionally, some noted that federal reporting entities often provide public access to their data sets on their websites. Staff agrees it is important not to over-burden preparers with reporting requirements that result in duplicative effort and results without additional benefit.

Another concern involves complexities amongst intragovernmental use of data sets. Some federal reporting entities stated that they sometimes develop data sets that other entities use in their operations and mission delivery. Additionally, a federal reporting entity may use another entity's data set and expand upon it for their purposes. These scenarios point to resource control complexities and the risk of reporting the same asset value in financial reports multiple times amongst federal reporting entities. Another

example is when a federal reporting entity develops intellectual property through a contractor and the contractor maintains ownership while the reporting entity maintains certain rights. This indicates challenges in determining if a federal reporting entity has control over the resource when they share and/or possess partial rights associated with the intellectual property.

Intellectual property – capitalized asset example

One federal reporting entity reported they currently recognize a purchased data set as a capitalized intangible asset on their balance sheet and amortize it over the estimated useful life. They purchased data rights from a contractor so they could retain and use the information after expiration of the contract. The data set purchase provides future economic and service benefits through cost savings and facilitating contract award competition. Other service benefits include responding to data calls for Congress and Small Business Administration studies.

The federal reporting entity decided to capitalize the data set as an intangible asset to match expenses in the periods that the asset provides benefits. Expensing the entire purchase amount in the transaction period is misleading because the asset provides benefits to the entity's operations over the long-term. The federal reporting entity stated that FASAB did not have guidance addressing this scenario so they used the generally accepted accounting principle (GAAP) hierarchy to reference FASB guidance for this particular transaction.

This is a great example of an intangible asset that requires significant upfront cost and provides long-term economic benefits to the federal reporting entity, much like a building or software. It highlights cost capitalization as one of the primary asset recognition ideas. However, purchased intangible assets are likely much less complicated to measure than internally developed ones. In this purchase scenario, there is a documented transaction to support the capitalized amount whereas an internally developed intangible asset would comprise many different transactions.

Intellectual property – other standards setting body guidance

Staff considered GASB 51 and IPSAS 31 for research purposes. The two standards appear to take different approaches for intangible asset guidance. The guidance in GASB 51 is broad, less prescriptive, and leaves a lot of room for management judgement to determine what development costs to capitalize. For example, the guidance provides a framework of decision criteria for management that includes determination of an objective, the technical feasibility of the effort, and the intent to complete the effort.

The guidance in IPSAS 31 appears to offer more detailed and rigid cost capitalization requirements and leaves less discretion to management. The guidance generally says to expense research cost and to capitalize development cost for internally developed

intangible assets. The two standards have other notable differences that are not necessary to deliberate at this time.

Staff's opinion is that the less prescriptive guidance that leaves more judgement to management is the optimal model based on the federal government environment. Overly prescriptive guidance can put too much burden on preparers to force cost capitalization when it may not be practical or accurate. The IPSAS 31 model could lead to increased asset values on federal reporting entity balance sheets that are inaccurate and misleading to users. A broader and less rigid guidance could lead to less intangible assets capitalized but it is important to meet a high bar when recognizing asset value. Some concerns of leaving recognition discretion to management is that it can lead to inconsistent application across federal reporting entities, disagreements between auditors and management, as well as restatements, creating more preparer burden.

Software

Unlike intellectual property, FASAB software guidance already exists. Based upon prior Board deliberations, task force efforts, technical inquiries, and current task force research, staff is confident there is a need to update software guidance. A previous FASAB working group determined that current software guidance is insufficient at comprehensively, consistently, and cohesively addressing the breadth of accounting issues agencies encounter. Although current FASAB guidance refers to software as property, plant, and equipment (PP&E), software is a quintessential intangible asset. If an intangible asset statement is eventually developed, software guidance should become part of it.

Staff observed from survey responses that there are inconsistent recognition practices amongst federal reporting entities regarding software licenses, cloud based computing arrangements, and website development. Some federal reporting entities reported they view these types of resources as general operating costs and always expense them whereas some reported that they could represent assets to the entity and either expense or capitalize the costs based on criteria from existing guidance. This inconsistency in practice signals a need for additional guidance.

Lack of guidance is likely a major reason there is inconsistent software license and cloud-computing arrangement recognition across federal reporting entities. Technical Release (TR) 16 speaks to these transactions but not extensively and the guidance is outdated. For example, TR 16 currently says to consider software licenses with lease criteria for expense and capitalization decisions. The new SFFAS 54 Lease standard will make this irrelevant beginning in fiscal year 2024, leaving software licenses unaddressed. Additionally, the technical release speaks to cloud computing arrangements from the perspective of a federal reporting entity providing them as a service to other parties, but does not address the much more common scenario of entities acquiring these services as part of their operations. In fact, FASAB guidance does not address subscription based information technology arrangements (SBITA), which are now typical transactions across federal reporting entities.

The typical life cycle development of software has evolved from traditional waterfall style approaches to more agile and iterative-based approaches. Research indicates the primary difference between agile and waterfall approaches is that waterfall projects progress sequentially whereas agile projects progress in repetitive cycles. The waterfall approach occurs in several distinct phases. Instead of creating a sequential timeline for one large software development project, agile approaches break the project into individual deliverables. Once each deliverable is completed, developers use feedback from the previous phase to plan the next one. The process can then return to a previous phase to offshoot for a new deliverable. Several task force members stated they see value in updating software guidance to address this development life cycle evolution.

Task force members mentioned other software guidance issues that include recognizing updates that modernize legacy systems, as well as differences between software enhancements, personalization, and general upkeep. Some federal reporting entities requested more guidance on system enhancements, term based IT arrangements that include base and option years, as well as differences in government operated internal cloud arrangements vs. subscribing to vendor cloud computing services.

Staff strongly believes that the research results support the need to update FASAB's software guidance. The fast and ever changing environment of software likely necessitates frequent updates. The effort should address recognition inconsistencies, gaps in current guidance, and more modern development life cycle approaches.

Other intangible assets

Research identified additional reporting ideas for intangible assets that do not fit into the prior two primary categories of intellectual property or software. This includes electromagnetic spectrum rights and various organizational knowledge based assets. Staff sees these ideas as potential options that warrant more consideration.

Other intangible assets – electromagnetic spectrum

Research indicates it is not practical or beneficial to recognize a value for federal reporting entity spectrum assignments because the cost those entities incur covers administrative expenses to manage assignments and does not directly correlate with the market value of spectrum rights. Additionally, modifications of federal reporting entity assignments occur many times a year.

Staff thinks however that it is potentially beneficial for federal reporting entities to disclose their end of reporting period number of spectrum assignments in financial report notes or RSI. Private entities bid large amounts of money for spectrum licenses in private auctions, indicating their high value. Therefore, there are potential benefits if federal agencies were more transparent about this valuable asset they use to improve the effectiveness and efficiency of their operations.

Research suggests there is no need for additional guidance for private sector auctions of electromagnetic spectrum licenses. The federal reporting entity that manages spectrum auctions already recognizes auction revenue extensively in their financial reports. Due to the unpredictable nature with how often auctions occur and how much revenue an auction will generate, staff believes it is unpractical to assign a market value to the spectrum licenses. Doing so could also result in negative ramifications for future auctions. Additionally, costs associated with managing and administering spectrum auctions predominantly include labor and software, for which guidance already exists.

Other intangible assets – organizational knowledge assets

Some survey respondents described additional types of potential intangible assets within federal reporting entities. This includes human resource related assets such as training and professional expertise, amongst other organizational assets. Federal employee knowledge is a tremendous asset to federal government operations and mission delivery but they are difficult to measure and therefore more appropriate as disclosures instead of balance sheet items.

Some task force members stated knowledge assets, and possibly other intangible assets, may not neatly fit into the definition of an asset, particularly regarding economic benefits and control criteria. Additionally, some organizational resources are difficult to identify separately from the organization as a whole. Staff agrees this is a complexity to consider for potential guidance development and that there is no apparent benefit to recognizing cost associated with these assets. However, some form of disclosure could prove beneficial to users. At least one federal reporting stated they already address human resource development and knowledge resources in the management, discussion, and analysis (MD&A) section of their financial report.

Recommended path forward

Based on research results, staff is confident that it is beneficial to move forward in considering software guidance updates but not as confident with the need for new reporting guidance for intellectual property or other intangible asset categories. Research shows these assets exist throughout federal reporting entities but there are significant concerns on the practicality of identifying and measuring their value and that reporting requirements would create too much preparer burden relative to the user benefits.

Several survey respondents stressed that they have legitimate concerns with trying to capitalize development cost of these intangible assets. They also have concerns about disclosure guidance creating duplicate and unnecessary requirements due to existing reports that may already meet the same objective. One federal reporting entity particularly has concerns that the proposed intangible asset definition and scope is too broad. They indicated that guidance that is too open ended could lead to confusion on what resources preparers are supposed to recognize. They suggested an asset should have a determinable monetary value to be eligible for reporting, even disclosure.

If the Board were to move forward with guidance development, staff would recommend a principles based and nonprescriptive approach that leaves more judgement to management. Optimal guidance would offer financial reporting direction when a federal reporting entity determines they have a potential intangible asset and need financial reporting instructions while also leaving a lot of discretion to management to determine if a situation warrants recognition. Staff has concerns with issuing overly rigid guidance that is burdensome to preparers and forces them to capitalize development costs that may be misleading and inaccurate.

Staff recommends the Board move forward to develop software guidance updates but to consider further the benefits, challenges, and complexities of developing guidance for intellectual property and other categories. Staff recommends the Board issue an "Invitation to Comment" based on proposed guidance approaches for intellectual property and other asset categories. This would allow federal reporting entities and others to communicate more formally their thoughts and concerns to the Board based on specific guidance ideas.

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Summary of Research Survey Responses

No.	Question	Response Summary
1)	Do trademarks exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Several federal reporting entities reported owning registered and unregistered trademarks. This can include brands, logos, and signage such as TSA pre-check, uniform trade dress, national park logos, Health Resources and Service Administration (HRSA) logo, Space Delta Force, Air Force Symbol, and Air Force One. 2) Some agencies do not trademark their identifiers but protect them through statutes.
2)	Are there user benefits to federal reporting entities recognizing trademarks in financial reports? If yes, provide detailed examples and analysis in column E.	1) Some respondents reported that trademarks provide brand reputation and awareness. 2) Several respondents indicated that their trademarks sometimes earn revenue through license use fees. However, the amounts are generally insignificant and not the primary purpose of trademarks amongst federal reporting entities. 3) Several respondents indicated that their trademarks do not provide many benefits and exist mostly to control and prevent unauthorized use of their property. 4) Several respondents stated there is little benefit to recognizing trademarks in financial reports unless they generate revenue with a few agreeing that some kind of notes or RSI disclosure could provide user benefits. 5) Many respondents feel strongly there is no benefit to estimating and recognizing a market value for trademarks and that the efforts would place too much burden on preparers and not result in an accurate value. 6) A few respondents supported the idea of cost recognition if costs are significant and measurement is practical.
3)	Do patents exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Several federal reporting entities reported owning patents and non-patented inventions. 2) The USPTO FY20 AFR indicates that 4,781 patents were assigned to federal agencies from FY16-20. According to the table, the most patents were assigned to Navy, HHS, NASA, and Army. 3) Some examples include a Firearm Training Apparatus, Method of Analyzing Tamper Evident Tape Residue, Method to Detect Concealed Items, vaccines and therapeutics, a control station that enables efficient human collaboration with automated object tracking, and removal of Phosphorus from water.

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4)	Are there user benefits to federal reporting entities recognizing patents in financial reports? If yes, provide detailed examples and analysis in column E.	1) Several respondents indicated their patents earn revenue through license fees. However, the amounts are generally insignificant and not the primary purpose entities patent inventions. Additionally, a significant amount of the license revenue can go to the inventor. 2) Several respondents indicated that a primary purpose of their patents is to make the idea or technology available for public use. 3) Some respondents indicated that patents or an invention could also provide operational related benefits to the federal reporting entities. 4) Several respondents stated there is little benefit to recognizing patents in financial reports unless they generate revenue with some agreeing that some kind of notes or RSI disclosure could provide benefits to users and some indicating that revenue recognition that already occurs is sufficient. 5) Some respondents indicated there is benefit to disclosing the societal benefits that agency developed patents provide; however, they pointed out that other existing reports (e.g. Technology Transfer Reports) already serve this purpose. 6) Some respondents agreed, in theory, with the benefit of recognizing patents or inventions in AFRs if they provide operational or mission related benefits but many stressed that it is difficult to do this in practice because of many identified complexities with directly linking development cost to patents, along with ownership and patent use complexities.
5)	Do copyrights exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Respondents pointed out that, with a few exceptions, most material produced by the federal government is not subject to copyright protections and is available to the public. The federal government can copyright works abroad and can own copyrights when it receives assignment of them from third parties.
6)	Are there user benefits to federal reporting entities recognizing copyrights in financial reports? If yes, provide detailed examples and analysis in column E.	1) Due to the fact that government produced material is generally not subject to copyright protections, respondents reported little benefit to recognition. For copyrights that do exist, most reported it is not practical to assign a value to the copyrights. 2) A few respondents indicated possible benefits to disclosing these copyrights in the AFR for tracking and accountability purposes.
7)	Do software-licensing agreements exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Most respondents stated that a significant number of software licenses exist at their federal reporting entity. These arrangements include perpetual licenses and annual licenses with renewal options.
8)	Do licensing agreements for anything other than software exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Most responses concerned licenses related to software. 2) However, a few reported other possible licenses at their federal reporting entity. Examples include legal research subscriptions and other research information based services.

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9)	Are there user benefits to federal reporting entities recognizing various licensing agreements (including software) in financial reports? If yes, provide detailed examples and analysis in column E.	There was a wide range of responses related to recognition benefits of software licenses. 1) Some stated they view software licenses as an annual operating expense while others reported they currently expense or capitalize software licenses depending on certain criteria. 2) Some agreed in theory that software licenses could represent asset value to the entity if it meets useful life requirements.
10)	Are there website development costs associated with federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Many respondents reported both development and maintenance cost related to websites.
11)	Are there costs associated with internet domain names for federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Several respondents reported annual internet domain fees that are generally insignificant in amount.
12)	Are there user benefits to federal reporting entities recognizing website development and/or internet domain name costs as resources in financial reports? If yes, provide detailed examples and analysis in column E.	1) Many respondents reported they already reference SFFAS 10 to consider expensing or capitalizing website related cost. 2) Some noted though that website development occurred years ago and annual cost represent maintenance and data related updates. 3) A few reported they always expense website related costs but that websites represent intangible infrastructure and should be considered an asset. 4) It appears entities always expense internet domain costs because they are an insignificant annual expense.
13)	Do subscription based information technology (SBITA) arrangements (such as cloud computing) exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Many respondents stated that a significant number of SBITA's exist at their federal reporting entity. 2) Some responses for SBITA's blended with software licenses. However, respondents did report subscribing to cloud based storage and operating subscriptions, as well as software as a service. 3) In general, it appears a key difference between SBITA's and software licenses is that SBITA's tend to include broader infrastructure and service components rather than just rights to software technology.
14)	Are there user benefits to federal reporting entities recognizing subscription based information technology (SBITAs) arrangements (such as cloud computing) in financial reports? If yes, provide detailed examples and analysis in column E.	There was a wide range of responses related to SBITA recognition benefits. 1) The majority of respondents reported they view SBITA's as an annual operating expense. 2) A few indicated they already consider SBITA's for capitalization if the arrangement meets certain useful life criteria. 3) A few respondents indicated they recognize a pre-payment asset for upfront annual payments. 4) Some respondents stated SBITA's could be considered

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	assets depending on useful life and control criteria. 5) Some respondents also reported that SBITA subscriptions could sometimes require upfront agency investment to utilize the SBITA.
15) Do federal reporting entities possess permanent land rights (such as easements or right-of-ways)? If yes, provide detailed examples and analysis in column E.	1) A few federal reporting entities reported permanent land rights in the form of easements or right-of-ways.
16) Are there user benefits to federal reporting entities recognizing various permanent land rights (such as easements or right-of-ways) in financial reports? If yes, provide detailed examples and analysis in column E.	1) Respondents generally indicated the cost associated with permanent land rights is insignificant. 2) They pointed out that the new SFFAS 59 Land guidance already addresses permanent land rights and they do not see a need for updated guidance.
17) Do federal reporting entities possess timber rights? If yes, provide detailed examples and analysis in column E.	1) A couple of federal reporting entities reported that timber related transactions linked to owned property occur in their operations. However, they do not consider them separate timber rights from the land and any revenue from sold timber is incidental and not the primary purpose of the land. 2) One federal reporting entity reported that they currently recognize timber rights, tied to owned land, as an asset in their AFR, although it is uncommon.
18) Do federal reporting entities possess water rights? If yes, provide detailed examples and analysis in column E.	1) A couple of federal reporting entities reported water rights related to national parks, the arctic refuge, and land acquired for environmental remediation. 2) One federal reporting entity indicated they report land that contains water rights but do not recognize water rights as a separate asset in their AFR.
19) Do federal reporting entities possess oil or gas reserves? If yes, provide detailed examples and analysis in column E.	1) A couple of federal reporting entities reported oil and gas related resources. 2) One entity manages oil and gas reserves on federal land and the outer continental shelf. They recognize a royalty fee schedule in RSI per SFFAS 38 guidance. 3) Some oil reserves are present at park units that the entity does not consider a resource because they do not derive any benefits from it. 4) Another entity owns extracted oil and recognizes it as an inventory asset valued at historical cost. They do not derive royalty fees from it.

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20)	Do federal reporting entities possess mineral deposits? If yes, provide detailed examples and analysis in column E.	1) A couple of federal reporting entities stated they possess mineral deposits. 2) One entity reported they do not quantify the mineral deposits because they are incidental to the project purpose. Mineral deposits are also located at park units but the entity does not derive any benefit from them. 3) Another federal reporting entity stated they issue leases for mineral exploration. They also possess historic mines, but they are not open to the public and do not provide economic benefit.
21)	Do federal reporting entities possess any other natural resources not already asked? If yes, provide detailed examples and analysis in column E.	1) One federal reporting entity stated they issue leases for renewable energy resources (e.g. wind, wave, and solar). The renewable resource does not provide benefits to the entity until they issue a lease. 2) Another federal reporting entity mentioned restricted airspace as a type of natural resource but did not see any recognition practicality or benefits.
22)	Are there user benefits to federal reporting entities recognizing various natural resources (such as timber, minerals, water, oil, and gas) in financial reports? If yes, provide detailed examples and analysis in column E.	Most respondent answers are summarized in the previous questions about individual natural resource related rights. 1) One federal reporting entity reiterated they report oil, gas, coal and other natural resources net present value of proved reserves in the Required Supplementary Information (RSI) per SFFAS 38 and Technical Bulletin 2011-1. 2) Another federal reporting entity stated they believe they already report natural resources as assets where appropriate. They do not believe that additional reporting or disclosures would provide additional benefits.
23)	Is the electromagnetic spectrum used as a resource by federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Some federal reporting entities stated the electromagnetic spectrum is a resource that presents many benefits to their operations and mission. Examples include radio, infrared, visible light and other portions of the electromagnetic spectrum that are used in operations for communications & surveying activity as well, as other scientific study and operational needs. Additionally, a vast amount of IT and telecommunications networks depend upon the use of the electromagnetic spectrum to transmit and receive voice and video data for command, control, communications, computer networking, location tracking, navigation, synchronized timing, and collection and dissemination of information to meet mission requirements. 2) One respondent mentioned economic benefits associated with spectrum license auctions to the private sector. Another mentioned regulation aspects of the spectrum.
24)	Are there user benefits to federal reporting entities recognizing resources associated with the electromagnetic spectrum in financial reports? If yes, provide detailed examples and analysis in column E.	1) The consensus from respondents is that recognizing a value for federal reporting entity spectrum rights is not practical and could lead to inaccurate asset values because there are no market transactions or auctions, like there is for private sector licenses. 2) Some respondents agreed that spectrum assignment disclosure in notes or RSI is a potential option. 3) One federal reporting entity stated they recognize

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		equipment pertaining to the spectrum as an asset, but not the spectrum itself.
25)	Do federal reporting entities derive natural resources or any other benefits from the outer continental shelf? If yes, provide detailed examples and analysis in column E.	1) One federal reporting entity stated that they collect oil and gas royalties, rents, and bonuses from lease sales and production on the OCS.
26)	Are there user benefits to federal reporting entities recognizing resources associated with the outer continental shelf in financial reports? If yes, provide detailed examples and analysis in column E.	1) A federal reporting entity stated that monetary benefits (e.g. royalty, rent and bonus payments) associated with natural resources are already reported in the financial statements as part of Fund Balance with Treasury. They currently disclose net present value of proved oil, gas, coal and other natural resources in RSI as required by SFFAS 38 and Technical Bulletin 2011-1. There is no benefit to the entity until they extract the oil or gas.
27)	Are there research and development costs associated with federal reporting entities? If yes, provide detailed examples and analysis in column E.	1) Some federal reporting entities stated they have R&D facilities and that R&D efforts are a significant part of their operations and contribute to the advancement of their mission. One example includes desalination and water purification R&D. 2) One federal reporting entity suggested the idea of regulation development associated with cloud computing security. 3) Another federal reporting entity stated they issue many grants related to R&D, with COVID-19 as a recent example. 4) Another example is an entity that develops tools and data to improve the health care system and help Americans, health care professionals, and policymakers make informed health decisions. 5) Another stated they perform research to generate knowledge and promote its use to improve the abilities of people with disabilities and to expand society's capacity to provide full opportunities and accommodations for its citizens with disabilities. 6) Another example is basic and applied research related to the welfare of veterans. 7) Some respondents related R&D cost to the creation of other intangible assets, such as internal use software, technology infrastructure development, data sets, and inventions or patents.

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28)	Are there user benefits to federal reporting entities recognizing research and development costs as part of products or outputs in financial reports? If yes, provide detailed examples and analysis in column E.	1) One federal reporting entity opined that R&D is both pure research and applied research and development. They suggested a similar approach from SFFAS 10 be applied to R&D for other types of outputs. For example, costs incurred to prove a concept and develop working prototypes are expensed, while later stage full development of products for use or sale by a federal reporting entity are capitalized as an element of project costs. 2) Some federal reporting entities stated they already disclose R&D efforts in their MD&A and/or footnotes. They also indicated that other reports already disclose some of this information, such as USAspending.gov, and that recognizing further in the AFR may require duplicative efforts and not provide additional benefits. 3) One respondent noted concerns similar to those of patent and data set recognition. The future benefits of R&D are not guaranteed, which makes it difficult to measure and assign value to assets in an exploratory state. Any R&D could lead to the proof that the objective cannot be met. 4) Some respondents agreed there is benefit to capitalizing development costs that lead to an output if it benefits the entity's operations or society as a whole. However, the guidance process would have to work out measurement and other practicality issues. 5) One respondent emphasized that it is a missed opportunity to not recognize R&D as assets or resources regardless of the outcome.
29)	Do dataset resources (such as census data, earth science data, crop data, climate data etc.) exist at federal reporting entities? If yes, provide detailed examples and analysis in column E.	Survey respondents provided many examples of data-sets/reports throughout federal reporting entities that provide internal operation and societal benefits. Examples include: 1) Federal campaign finance data that is available for public consumption and used internally in operations 2) An oil spill analysis that results in future reduced cost of oil clean-up activities 3)Census data that is provided for many purposes such as state and local government needs, university research needs, private enterprise needs, pension actuary analysis, and public health information 4) Geospatial, geologic, and soil map data 5) Weather and earthquake data 6) Election Administration and Voting Survey Comprehensive Report. This is an analysis of state-by-state data that covers various topics related to the administration of federal elections. 7) Government owned real property inventory and aircraft assets 8) Claims payments, beneficiary characteristics, and other related information for Medicare and Medicaid programs. 7) Various healthcare (including veteran related healthcare) and welfare administration data sets 8) Mental health and drug-use statistics 9) Housing and urban development related data-sets 10) Bank or financial institution related data

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30) Are there user benefits to federal reporting entities recognizing dataset resources (such as census data, earth science data, crop data, climate data, etc.) in financial reports? If yes, provide detailed examples and analysis in column E.	Many respondent concerns were similar to concerns about patent recognition. Response highlights are below. 1) One federal reporting entity stated they already recognize and amortize a purchased data set as an intangible asset on their balance sheet. 2) Some respondents indicated that many data sets produced by federal reporting entities are freely available to the public as required by the Data Act. 3) Some respondents stated that data set development relates to internal use software development and that they sometimes capitalize data sets as part of software. 4) One federal reporting entity stated FASAB should provide guidance for capitalization and amortization of data set related costs with criteria to define when capitalization or expensing of costs is appropriate, as well as for determining amortization periods. 5) One federal reporting entity said that they produce data sets to provide to other entities sometimes free and sometimes at cost. 6) Some respondents stressed the complexity of assigning a cost value to data sets but some stated disclosure seems practical and could provide user benefits. Disclosures could address costs associated with maintaining and investing in data related infrastructure (IT systems, security, personnel). 7) A few respondents stated that data set resources offer significant long term value to federal reporting entities. Big data is becoming more of an asset across all entities and financial reports should recognize it somehow. 8) Some view internal data sets as just an internal program expense. 9) Congress and private entities use election data to make decisions regarding election administration. 10) Some federal reporting entities stressed possible recognition complexities with ownership/control of publicly available data as well as intragovernmental use. For example, one entity may produce a data set that another entity uses and benefits from and may even expand or alter the data set for their purposes. Some respondents argue that publicly available data set do not represent a unique benefit to the federal reporting entity and is therefore not an asset.
31) Are there transactions in federal reporting entities that result in goodwill? If yes, provide detailed examples and analysis in column E.	1) Some respondents identified potential instances of internally generated goodwill such as donated items that benefit operations and conservation efforts and related public outreach. One respondent mentioned societal goodwill. 2) No respondents identified any instances of acquisition type transactions that could generate external goodwill.
32) Are there user benefits to federal reporting entities recognizing goodwill in financial reports? If yes, provide detailed examples and analysis in column E.	1) The consensus is that internally generated goodwill exists at federal reporting entities but that it is not identifiable as a separate asset from the entity as a whole, is highly subjective, and not measurable. 2) Respondents did not identify any instances of external goodwill.

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33)	Are there other potential types of intangible assets that could be relevant to federal reporting entities not already asked in the survey? If yes, provide detailed examples and analysis in column E.	1) One federal reporting entity indicated their capitalized software assets are intangible assets. 2) One federal reporting entity recommended we consider monetary type assets such as mortgages, loans, notes, stock, and other instruments of property ownership. 3) One federal reporting entity requested guidance related to subscription and external cloud hosting resources. 4) One federal reporting entity mentioned unique know-how resources related to mission critical capabilities. They stated they already disclose this in the performance section of the AFR, which is sufficient in their opinion. 5) One respondent discussed the benefits of disclosure related to reputational, relationship, geopolitical, and supply chain/sourcing capital. Recognition of these assets can lead to more management/oversight attention and reduce internal/external risks. 6) One federal reporting entity states that technology is licensed as an invention without obtaining a patent. However, inventions are reported to Congress via the Technology Transfer Report and it is unlikely that other financial reports are useful source of this data. 7) One federal reporting entity mentioned rights to information (beyond data sets) such as legal case data, accounting standards, reports/surveys, training resources, and business sector information. Entities acquire rights to many online resources with search tools. 8) One respondent discussed unique aspects of the federal government such as its ability to print money, control/regulate currency, and borrow debt. The ability to borrow at an "unlimited" capacity (debt ceiling is raised as needed) is inherently different and fundamentally dissimilar to corporate business. The ability to coin, regulate, and borrow is an intangible asset unique to the federal government as expressed powers in the constitution. They noted that it is likely very difficult to recognize a value for this kind of asset. 9) One respondent stated that AFRs should discuss management or internal control types of intangible assets. Examples include business systems, accounting, asset management, procurement planning, oversight/ enforcement responsibilities, regulatory obligations, disposition of complaints, responsiveness to the public, capability and results to prevent waste, fraud and abuse, KPI results, governance, employee satisfaction, measurement of centers of excellence amongst other things that could have a material impact on reputation, goodwill, and public trust. Essentially, management related intangible assets.

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34)	Are any intangible assets either identified or not identified in this survey already recognized in federal reporting entity financial reports? If yes, provide detailed examples and analysis in column E.	1) One federal reporting entity reports license documentation for merchant mariners as software. 2) One federal reporting entity stated they discuss R&D related cost and activities in their MD&A. 3) One federal reporting entity stated they recognize power rights as an "other" asset in their consolidated AFR. 4) One federal reporting entity mentioned some types of tangible heritage assets that provide intangible type societal benefits such as a ceremonial practice, or legendary/cosmological event that is said to have taken place there, or simply because there is a sacred type of resource or plant that was traditionally gathered at that location.

Intangible Assets Research Board Meeting Presentation

Josh Williams

June 22, 2021

FASAB

DISCLAIMER

- Views expressed are those of the speaker.

- The Board expresses its views in official publications.

Research Efforts

- Task force survey
- Agency meetings
- Previous task force efforts
- Previous board deliberations
- Other standard setting body guidance
- Other standard setting body meetings
- Publications/articles

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Facts and Statistics

Software development has evolved from waterfall to iterative approaches

21.9% of U.S. R&D comes from federal funds

Source of revenue for some agencies

U.S. public sector intangible asset value estimated at over 11% of GDP

Federal cloud computing predicted to grow 10% annually from FY19-24

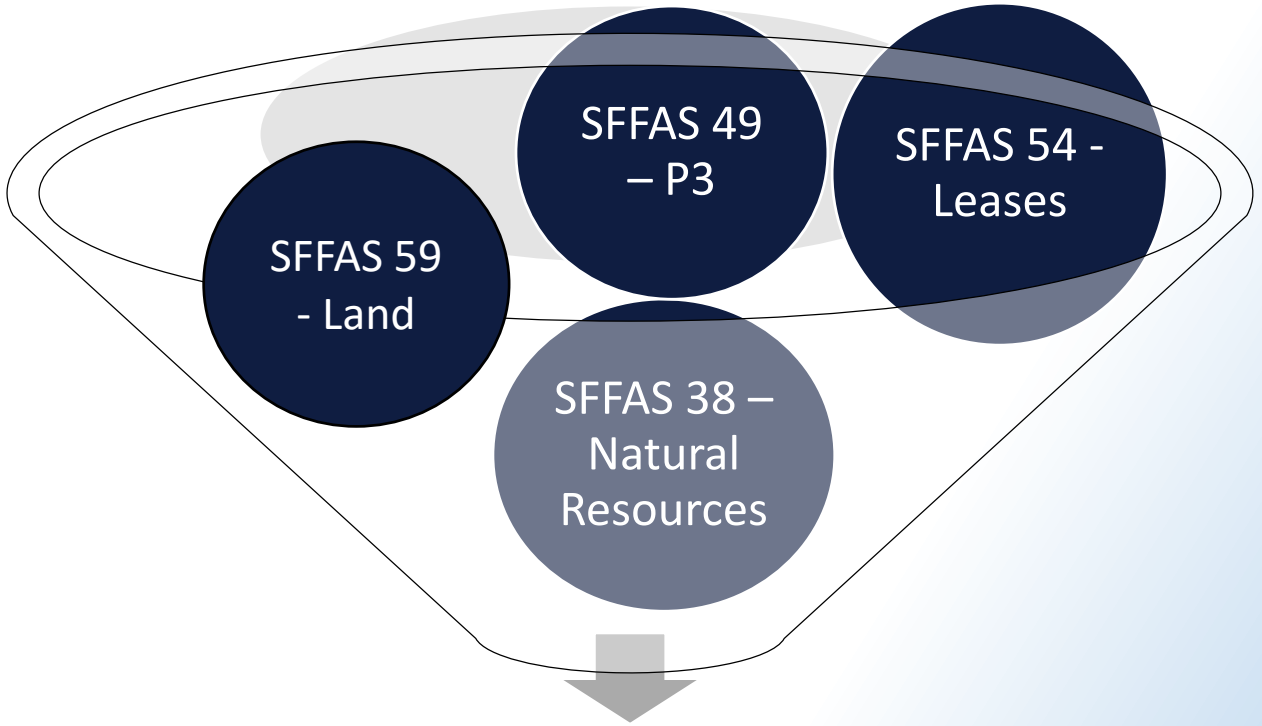
4,781 patents issued to federal agencies between FY16-20

Potential Intangible Asset Definition

- A resource that embodies economic benefits or services that the federal government controls and
  - Lacks physical substance
  - Is not a monetary resource
  - Has an initial useful life greater than two years

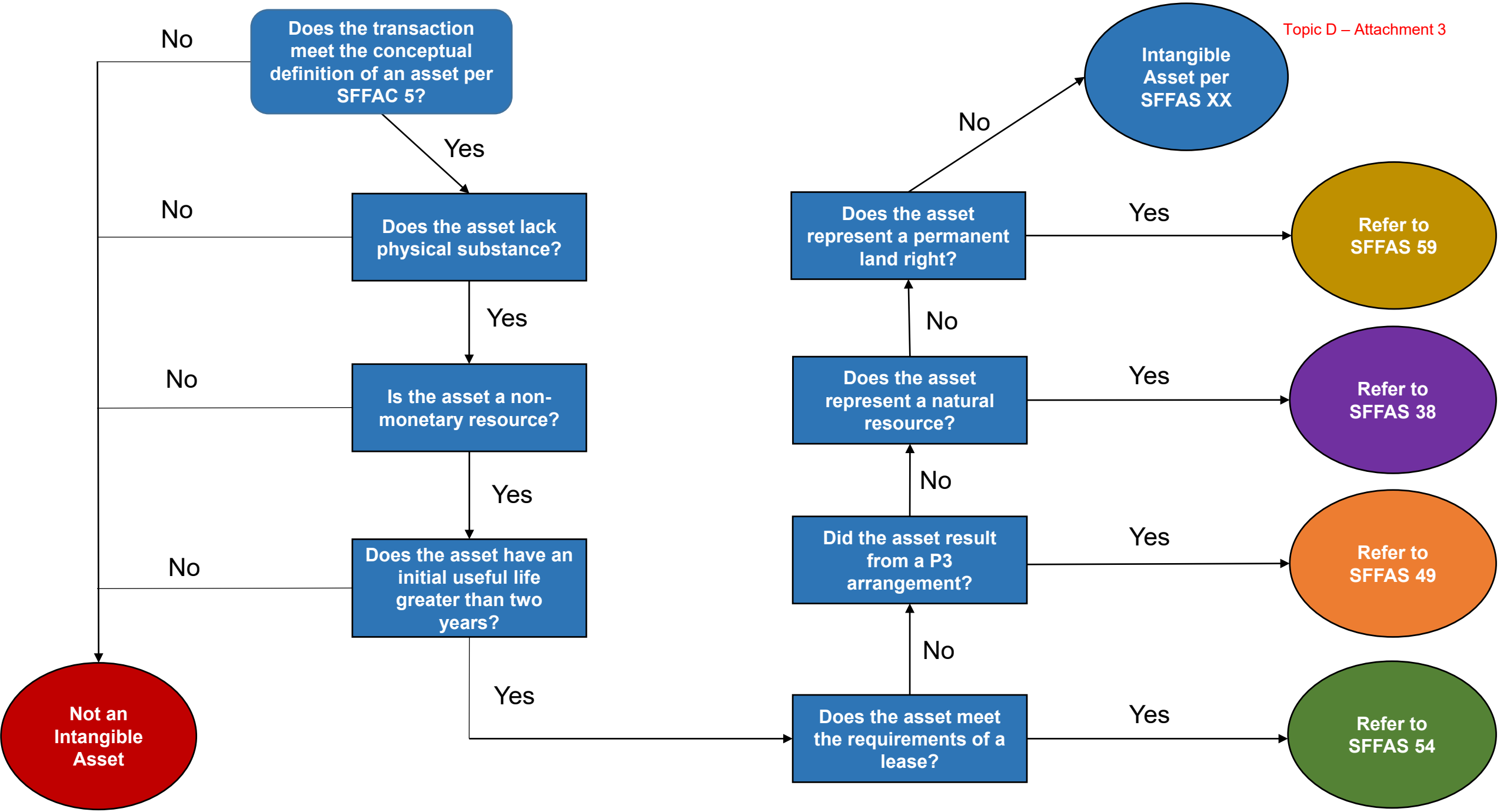
Patent Pending

Scope Out



Intangible Asset Guidance

FASAB


Does the transaction meet the conceptual definition of an asset per SFFAC 5?
No
Yes
Does the asset lack physical substance?
No
Yes
Is the asset a non-monetary resource?
No
Yes
Does the asset have an initial useful life greater than two years?
No
Yes
Not an Intangible Asset
Does the asset meet the requirements of a lease?
No
Yes
Refer to SFFAS 54
Did the asset result from a P3 arrangement?
No
Yes
Refer to SFFAS 49
Does the asset represent a natural resource?
No
Yes
Refer to SFFAS 38
Does the asset represent a permanent land right?
No
Yes
Refer to SFFAS 59
Intangible Asset per SFFAS XX

Potential Intangible Asset Categories

Intellectual Property

- Trademarks
- Patents
- Research reports/data sets
- Other licensed intellectual property

Software

- Update to SFFAS 10, IUS
  - Licenses
  - SBITA
  - Modernization
  - Agile development

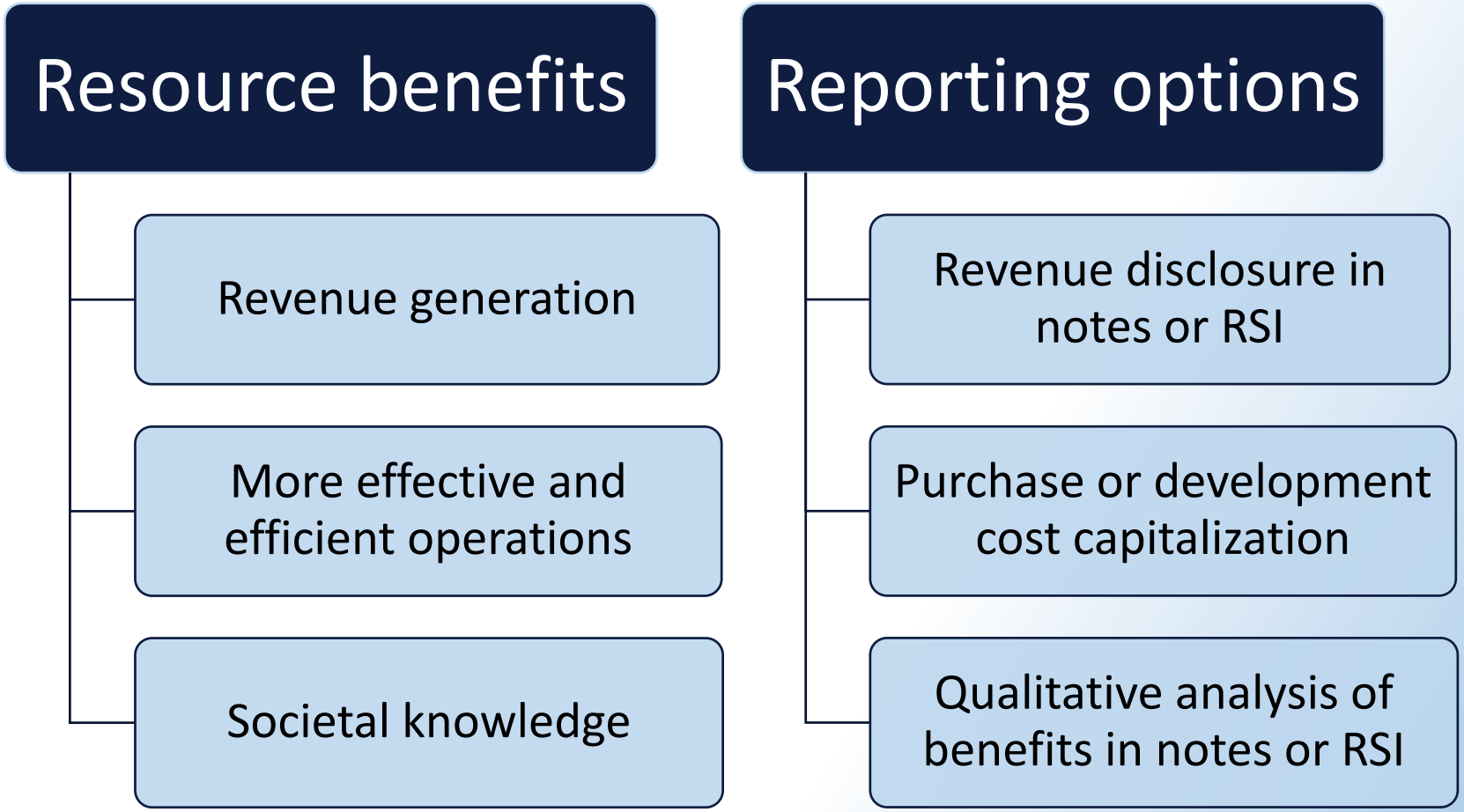
Other

- Electromagnetic spectrum
- Knowledge assets
  - Training
  - Expertise
  - Methodologies

Suggested Exclusions

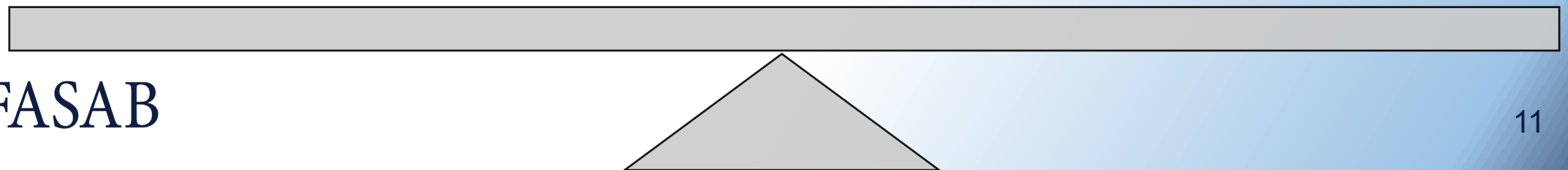
Natural Resources	• A depleted tangible resource • More appropriate for SFFAS 38 • Includes outer continental shelf resources
Land Rights	• Represents tangible real property • Temporary land rights covered by SFFAS 54, Leases • Permanent land rights covered by SFFAS 59, Land
Goodwill	• No instances of externally generated goodwill identified • Internally generated goodwill exists but not identifiable

Intellectual Property Guidance Ideas



Pros and Cons of Recognition

Pros	Cons
Match expenses to derived economic benefits	Difficult to link development cost to resulting asset
Recognize long term resources created by upfront R&D efforts	Benefits not as directly linked to asset compared to tangible property or software assets
Transparency of government assets derived from taxpayer funds	Some existing reports already provide information on societal benefits of patents
Asset recognition can lead to improved management of R&D costs	Complexities due to instances when an entity develops a resource that benefits another entity



GSA Capitalized Intangible Asset

Capitalized data set acquired from third party

- Provides data on corporations, used in support of day-to-day activities of the government wide acquisition community
- Allows long term use and retention of the proprietary information for federal historical record keeping purposes
- Also conveys a future economic benefit through cost savings as the proprietary data will not have to be purged from federal systems when no longer in active use
- Recorded as an intangible asset on balance sheet relying on FASB guidance for support
- Amortized over estimated useful life

GASB vs. IPSASB

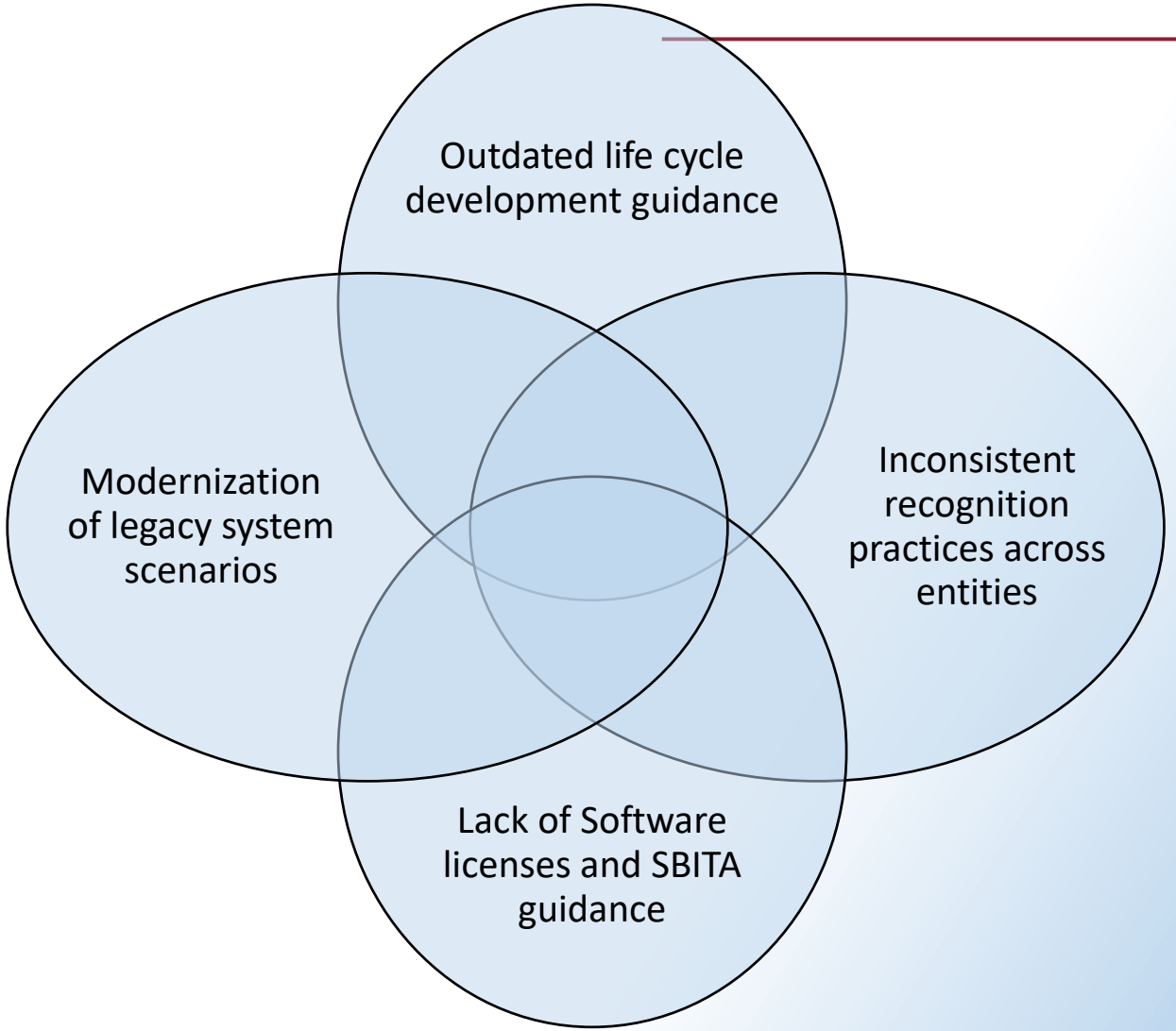
GASB

- Internally generated asset recognition requires more management discretion
- Requires determination of objective, technical feasibility, and intent to complete

IPSASB

- Internally generated asset recognition guidance is more R&D prescriptive
- Research cost are generally expensed and development cost are generally capitalized

Current Software Guidance Issues



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Software Guidance Update Ideas

COTs and Internally Generated Software

- Address new and more agile software development processes
- Consider modernization issues
- Website development costs

Software licenses and SBITA's

- Consider perpetual licenses
- Consider term or lease oriented software assets
- To provide consistent guidance for an increasing use of cloud based IT and software as a service arrangements

Other Intangible Asset Ideas

Electromagnetic Spectrum

- Disclosure of entity frequency assignments

Knowledge Assets

- Disclosure of significant training-based resources
- Disclosure of professional expertise resources
- Disclosure of other significant organizational resources

Final Thoughts

Staff recommends

- Moving forward to develop guidance updates for software
- Issuing an Invitation to Comment on specific guidance approaches for all other potential intangible assets

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