

Memorandum

Conforming Amend TR

June 3, 2024

To: Members of the Board
From: Alan Perry, Assistant Director
Josh Williams, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: AAPC Proposed Technical Release 23

INTRODUCTION

The attached proposed Technical Release 23, *Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21* provides conforming amendments to previously issued technical releases to ensure GAAP guidance is consistent. The proposed Technical Release 23 was approved by the AAPC for submission to the FASAB. The document was reviewed by the AAPC and the FASAB staff. The AAPC review process included a 60-day exposure draft comment period.

NEXT STEPS & REQUEST FOR FEEDBACK

The next step for the document is to provide the Board with a 45-day review period to gain negative assurance from a majority of the Board before it is issued. If you have a concern with the proposed technical release, it can be discussed during the June 11-12, 2024 FASAB meetings. Please let staff know by **June 7, 2024**, if you would like to discuss the technical release at the June meeting.

If you object to the proposed technical release, please notify staff by **July 18, 2024**. If neither a majority of the Board nor a federal member objects to the technical release by July 18, 2024, it will be released as final on **July 22, 2024**.

Please provide any questions to [Josh Williams](#) and [Alan Perry](#) with a cc to [Monica Valentine](#).

ATTACHMENT & WEBSITE LINKS

- ❖ Technical Release 23, *Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21*
- ❖ [AAPC May 8, 2024 Briefing Package](#) (Includes Staff Analysis of Responses)
- ❖ Exposure Draft [Comment Letters](#)

OMNIBUS TECHNICAL RELEASE AMENDMENTS 2024

CONFORMING AMENDMENTS TO TECHNICAL RELEASES 10, 16, 20, AND 21

Federal Financial Accounting Technical Release 23

Board Review Copy

Month XX, 2024

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](#)
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The Accounting and Auditing Policy Committee

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

The AAPC serves as a permanent committee established by FASAB. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

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

Additional background information on the AAPC is available from [FASAB's website](#).

SUMMARY

This Technical Release (TR) amends TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*; TR 16, *Implementation Guidance for Internal Use Software*; TR 20, *Implementation Guidance for Leases*; and TR 21, *Omnibus Technical Release Amendments 2022*.

The amendment to footnote 5A in TR 10 aligns the footnote with the guidance provided under paragraph 18 of Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*. This amendment also supersedes and replaces relevant portions of a previous amendment to this footnote under TR 21.

The amendments to TR 16 restore portions of prior guidance for perpetual software licenses based on Board requirements under SFFAS 10, *Accounting for Internal Use Software*. These amendments also supersede previous amendments in TR 20 that rescinded portions of this guidance.

MATERIALITY

The provisions of this Technical Release need not to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹ 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.

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TECHNICAL GUIDANCE

SCOPE OF TECHNICAL GUIDANCE

1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but does not substitute for or take precedence over the standards.
2. This TR updates TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*; TR 16, *Implementation Guidance for Internal Use Software*; TR 20, *Implementation Guidance for Leases*; and TR 21, *Omnibus Technical Release Amendments 2022*.

AMENDMENTS TO TR 10 AND TR 21

3. Paragraph 8B, footnote 5A, of TR 10 is amended as follows (TR 21, par. 4, amendments to this footnote are superseded and replaced):

^{5A} For the purpose of this document, real property is defined as federal facilities and installed equipment within general PP&E, heritage, and stewardship categories. It includes 1) ~~real property acquired through leases, including leasehold improvements, and~~ 2) real property owned by the reporting entity in the hands of or leased to others (for example, state and local governments, colleges and universities, or federal contractors), and 3) real property acquired through contracts or agreements that transfer ownership (see SFFAS 6, par. 18). Installed equipment “fixture” is defined in GAO-08-978SP, Volume III, Third Edition of the Principles of Appropriation Law (13-199) as those equipment items that are (1) permanently attached to the realty, or (2) if not permanently attached, (a) it is necessary and indispensable to the completion and operation of the building, or (b) the structure was designed and built for the purpose of housing the equipment.

AMENDMENTS TO TR 16 AND TR 20

4. Paragraph 8 of TR 16 is amended as follows:

8. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards, but it is not a substitute for and does not take precedence over the standards. This TR clarifies but does not change guidance in SFFAS 4, ~~5~~, 6 (as amended), and 10.

5. Paragraphs 26A and 27A are added to TR 16 as follows (TR 20, par. 101, is superseded):

26A. Perpetual Software License: If a software license is perpetual with an upfront cost^{9A} to use the software for its entire lifetime, then the entity is purchasing IUS and should apply

its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

^{9A}The cost could be charged as a one-time payment or financed over a set period of time.

27A. A license agreement may include costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus maintenance or technical support costs.

6. Paragraph 29 of TR 16 is amended as follows (TR 20, par. 102, is superseded):

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

7. Paragraph 32 of TR 16 is amended as follows:

32. If the shared service arrangement includes a perpetual software license, the customer should account for the software license element of the arrangement consistent with the acquisition of their other software licenses, as discussed in paragraph 26A-24 of this TR. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

EFFECTIVE DATE

8. This TR is effective for reporting periods beginning after September 30, 2023.

The provisions of this Technical Release 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, <i>Objectives of Federal Financial Reporting</i> , chapter 7, titled <i>Materiality</i> , for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

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

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

PROJECT HISTORY

- A1. The Accounting and Auditing Policy Committee (AAPC or “the Committee”) identified conforming amendments to footnote 5A of TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*. These amendments conform the footnote with relevant portions of SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraph 18, as amended by SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 35. SFFAS 60 amendments to SFFAS 6 are effective for reporting periods beginning after September 30, 2023.
- A2. The AAPC agreed to amend TR 16, *Implementation Guidance for Internal Use Software*, to remove reference to SFFAS 5, *Accounting for Liabilities of the Federal Government*, when describing the scope of TR 16. After TR 20, *Implementation Guidance for Leases*, removed all software license guidance that relied on capital lease guidance, TR 16 no longer clarifies SFFAS 5 guidance.
- A3. Due to the issuance of SFFAS 54, *Leases*, TR 20 amended TR 16 to remove software license guidance that applied to the now rescinded capital lease guidance in SFFAS 5 and SFFAS 6, creating a gap in software license guidance. However, TR 20 also removed guidance for perpetual software licenses that was based on SFFAS 10, *Accounting for Internal Use Software*. The AAPC agreed that this aspect of the rescinded guidance did not rely on the rescinded capital leases guidance.
- A4. The AAPC agreed to amend TR 16 to restore prior guidance on perpetual software licenses, including perpetual software licenses that are part of cloud-computing arrangements and shared services, that TR 20 rescinded. These amendments do not update or add any new guidance for software licenses beyond what previously existed in TR 16.
- A5. The AAPC expressed its awareness of and reminded exposure draft (ED) respondents that the Board has an ongoing project that may affect guidance on information technology topics including, but not necessarily limited to, software licenses, cloud computing, and shared services. The Committee concluded it would be prudent to restore prior perpetual software

license guidance in TR 16 in the meantime so that the gap in software license guidance is not greater than it needs to be.

- A6. The AAPC agreed that these amendments should be effective for reporting periods beginning after September 30, 2023, to allow the effective date to coincide with the effective reporting period of SFFAS 54.

SUMMARY OF OUTREACH AND RESPONSES

- A7. The AAPC released an ED proposal on February 15, 2024, with public comments requested by April 15, 2024. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A8. The AAPC received 17 comment letters in response to the ED. Respondents were generally supportive of the proposed amendments to TR 10 and TR 16 (and the corresponding changes to TR 21 and TR 20, respectively).
- A9. Some respondents questioned the reference to leasehold improvements in the conforming amendment to footnote 5A of TR 10. The conforming amendment does not create a new requirement, nor does it require federal lessees to recognize a liability for asbestos cleanup in non-applicable circumstances. Leasehold improvements are alterations to a leased property that are paid for (financed) by the lessee (par. 11 of SFFAS 54). Accordingly, TR 10 could apply to lessees that have implemented leasehold improvements that contained asbestos. In response to the AAPC's request for comment, one respondent cited a known example, and another indicated that asbestos-related cleanup cost liabilities on leasehold improvements could occur in rare situations. Accordingly, the AAPC concluded that the conforming amendment should include reference to leasehold improvements, as proposed in the ED.
- A10. Some respondents requested additional guidance in TR 16 to define various software license terms, address development costs, and provide clarity around maintenance and technical support costs associated with software licenses. This TR only restores portions of prior TR 16 guidance for perpetual software licenses based on Board requirements under SFFAS 10. The Board will consider these and other issues as part of the software technology project.
- A11. A few respondents requested additional guidance in TR 16 addressing how to account for term-based software licenses. Due to the issuance of SFFAS 54, the capital lease guidance from SFFAS 5 and 6 no longer exists and, therefore, is not applicable to term-based software licenses that TR 16 previously referenced. Furthermore, SFFAS 54 scopes out software licenses. Therefore, level-A lease guidance no longer provides for accounting for term-based software licenses. Accordingly, the AAPC is unable to provide guidance on term-based software licenses at this time. The Board will consider these and other issues as part of the software technology project.

AAPC AND BOARD APPROVAL

A12. The TR was approved by the AAPC for release to FASAB for issuance. The Board reviewed this TR and ... [pending results of Board review]

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APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
FASAB	Federal Accounting Standards Advisory Board
IUS	Internal Use Software
SFFAS	Statement of Federal Financial Accounting Standards
TR	Federal Financial Accounting Technical Release

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