FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

Intangible Assets

November 20, 2024

To: Members of the Board
From: Josh R. Williams, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Intangible Assets** (Topic A-2)

INTRODUCTION

During prior intangible asset deliberations, the Board developed a working definition of intangible assets for internal use and agreed to further assess the costs versus benefits of developing reporting guidance for intangible assets. The attached analysis recommends:

1. Concept statement amendments that address intangible assets in the federal government

2. A framework for intangible asset guidance

Staff requests the Board's feedback on the recommendations.

REQUEST FOR FEEDBACK

Prior to the Board's December meeting, please review the attached staff analysis and respond to the questions by December 6, 2024.

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

NEXT STEPS

Pending Board feedback, staff will develop a draft exposure draft for an omnibus concept amendment statement for the proposed concept amendments and will coordinate with stakeholders to further develop guidance recommendations for intangible assets for the Board to consider at a future meeting.

ATTACHMENTS

1. Staff Analysis

2. Intangible Asset Working Definitions

3. Intangible Asset References in FASAB Handbook

Analysis
Intangible Assets
November 20, 2024

CONTEXT

Background

The Board originally approved this project as a research topic during the December 2020 meeting. Research indicated various intangible assets existed in the federal government including patents, trademarks, copyright licenses, data rights, power rights, spectrum rights, and software-based resources.[1]

Research indicated that the federal government acquires intangible assets from other entities for operational use and mission delivery. Additionally, some federal entities internally develop intellectual property for internal use and/or to make available to the public.

The Board generally agreed there was a need to update software guidance and that numerous other intangible assets exist in the federal government. However, some members had concerns with the practicality of measuring the value of many intangible assets.[2]

During the August 2021 meeting, the Board added an intangible assets project to the technical agenda with the following objectives:

1. Develop updates for software reporting guidance
2. Develop a working definition of intangible assets for the Board's internal use
3. Further assess the costs versus benefits of developing reporting guidance for intangible assets

The Board agreed it was necessary to further consider the costs versus benefits of reporting guidance for intangible assets before deciding whether to develop broad principal-based intangible assets standards. Staff then formed working groups to work on the first two objectives.[3]

During the February 2022 meeting, the Board developed the following non-authoritative working definition of intangible assets for the Board's internal use:

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[1] See Attachment 2 for a list of intangible asset related working definitions for the Board's deliberations.

[2] FASAB Board material, *Topic D – Intangible Asset Research Findings*, June 7, 2021

[3] FASAB Board material, *Topic D – Intangible Asset Project Proposals*, August 5, 2021

A recognizable intangible asset is a resource that

- Lacks physical substance
- Represents a nonmonetary asset
- Has a useful life greater than two years
- Is identifiable as a separate asset from the entity
- Embodies future economic benefits or services
- The entity controls
- Has measurable value[4]

Following this meeting, staff continued to focus time and resources on the software guidance update objective. In 2024, staff began researching cost and benefit options for an intangible asset guidance framework for the Board to consider.

During the August 2024 meeting, the Board discussed an accounting guidance framework for software licenses as part of the software guidance update objective. During the deliberations, staff noted how the Federal Accounting Standards Board (FASB), International Public Sector Accounting Standards Board (IPSASB), and to an extent, the Governmental Accounting Standards Board (GASB) all provide accounting guidance for software licenses in their intangible assets standards. This is not currently an option for FASAB because it has never issued broad intangible asset guidance.

One member stated that not having an intangible asset guidance framework limits FASAB's options for addressing guidance needs for software licenses and other intangible assets that are becoming more common in the federal government. The member suggested that principal-based guidance for intangible assets would provide preparers direction on how to identify and account for intangible assets. Several members agreed the Board should consider addressing the gap in intangible asset guidance through a standard or at least begin by updating relevant concepts.

Research

For this session, staff coordinated with the task force and other federal and non-federal stakeholders to research intangible assets that federal entities acquire from public and private entities. Additionally, staff researched prior Board material, GAO audit reports, internet articles, and other standard-setter concepts and standards for developing this analysis. Staff specifically researched the following documents:

- FASAB Board material, *Topic F, Intangible Asset Working Definition*, Feb 1, 2022

[4] FASAB Board material, *Topic F – Intangible Asset Working Definition*, February 1, 2022

- FASAB Board material, *Topic D, Intangible Asset Project Proposals*, Aug 5, 2021
- FASAB Board material, *Topic D - Intangible Asset Research Findings*, Jun 7, 2021
- FASB ASC 350-30, *General Intangibles Other than Goodwill*
- FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting, Chapter 4, *Elements of Financial Statements,* December 2021
- GAO Report to Congressional Committees, GAO-22-104752 – *Defense Acquisitions: DoD Should Take Additional Actions to Improve How it Approaches Intellectual Property*, November 2021
- GAO Report to Congressional Requesters, GAO-24-107061 – *Biomedical Research: Improvements Needed to the Quality of Information about DoD and VA Contributions to Drug Development,* September 2024
- GAO Report to Congressional Requesters, GAO-21-52 – *Biomedical Research: NIH Should Publicly Report More Information about the Licensing of Its Intellectual Property*, October 2020
- GASB Concepts Statement No. 4, *Elements of Financial Statements*, June 2007
- GASB Statement, No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, June 1999
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, June 2007
- IPSAS 31, *Intangible Assets*, January 2010
- IPSASB, The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Chapter 5, *Elements in Financial Statements*
- IFRS Conceptual Framework for Financial Reporting, Chapter 4, *The Elements of Financial Statements*
- SFFAC 1, *Objectives of Federal Financial Reporting,* September 2, 1993
- SFFAC 2, *Entity and Display*, June 6, 1995
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, December 26, 2007
- SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, August 16, 2011

To further understand intangible assets in the federal government and obtain feedback on the types of intangible asset information that could be useful in federal financial reports, staff spoke with:

- IPSASB staff
- A scientist from a federal research and development center
- A university science professor
- An economist from an economic policy think thank
- A private citizen with state and federal government financial management experience
- Staff from GAO Contracting and National Security Acquisitions
- Staff from GAO Science, Technology Assessment, and Analytics

Staff has included insight and opinions from the task force and stakeholders throughout this analysis.

RECOMMENDATIONS AND ANALYSES

As previously stated, FASAB is the only major accounting standard setter that has not issued a standard for intangible assets.[5] Furthermore, FASAB's conceptual framework only marginally addresses intangible assets compared to the conceptual frameworks of the other accounting standard-setters.

Research identified many examples of intangible resources in the federal government that could meet the SFFAC 5 asset characteristics.[6] Furthermore, research indicates that the value of both private and governmental entities increasingly consist of intangible value as opposed to physical property, plant, and equipment (PP&E) or inventory.[7]

For the Board's consideration this paper recommends the following:

1. Concept statement amendments that address intangible assets in the federal government

[5] FASB, IPSASB, GASB, and the International Accounting Standards Board (IASB) all issued intangible asset standards over a decade ago.

[6] See FASAB Board material, *Topic D – Intangible Asset Project Proposals*, August 5, 2021 and FASAB Board material, *Topic F – Intangible Asset Working Definition*, February 1, 2022

[7] HM Treasury, *Getting smart about intellectual property and other intangibles in the public sector,* 2018

2. A framework for intangible asset guidance that encompasses intangible assets acquired from other entities and internal use software

Staff believes it is an appropriate time for the Board to consider addressing intangible asset guidance because it relates to the Board's current deliberations on accounting for software licenses in Topic A-1.

RECOMMENDATION NO. 1

Staff believes it would be a beneficial and relatively efficient first step for the Board to update its conceptual framework to address intangible assets in a similar manner as other standard setters. This would provide the Board a foundation for developing authoritative guidance for intangible assets in the future.[8]

Staff is proposing amendments to the following FASAB concept statements to address intangible assets:

- SFFAC 2, *Entity and Display*, June 6, 1995

- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, December 26, 2007

The following section provides proposed amendments in tracked changes along with analysis and reasoning for the proposals.

ANALYSIS

In general, FASAB Concept Statements currently use "intangible" to describe non-physical aspects of a resource. For example, SFFAC 1, *Objectives of Federal Financial Reporting* refers to intangible factors of a private entity's financial condition such as the quality of an entity's information and analysis capabilities, and human resource development. Additionally, SFFAC 5 mentions a "right" and property easements as examples of intangible assets. The Basis for Conclusions section of SFFAC 5 acknowledges that an asset can be both tangible and intangible.

Some standards also use "intangible" when addressing specific issues. For example, SFFAS 3, *Accounting for Inventory and Related Property* uses the term when providing examples of forfeited property. Additionally, a footnote in SFFAS 6, *Accounting of Property, Plant, and Equipment* states that amortization is applied to intangible assets in the same manner that depreciation is applied to tangible assets. Technical Bulletin

[8] The preamble to the FASAB Statement of Federal Accounting Concepts states in part, *"The FASAB conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives … Statements of federal financial accounting concepts are not GAAP."*

2017-1, *Intragovernmental Exchange Transactions* refers to information systems, written materials, and information as intangible value sometimes sacrificed in intragovernmental exchange transactions. The basis for conclusions in TB 2024-1, *Seized and Forfeited Digital Assets* refers to digital assets as intangible forms of value.

In summary, the Board has acknowledged a difference between tangible and intangible resources and has used the term "intangible" periodically when addressing other topics but has not specifically addressed the existence and role of intangible assets in the federal government at the foundational level.[9] The remainder of this analysis will address the following:

- How FASB, GASB, IASB, and IPSASB have addressed intangible assets in their conceptual frameworks

- An analysis of staff's proposed amendments for addressing intangible assets in FASAB's conceptual framework

Staff requests the Board's feedback on the proposed amendments addressing intangible assets in FASAB's conceptual framework.

FASB, GASB, IPSASB, and IASB Intangible Asset Concepts

FASB, GASB, IPSASB, and IASB all address intangible assets in their conceptual framework. This section discusses the different ways each standard-setter addresses intangible assets in its concept statements.

<u>FASB</u>

FASB addresses intangible assets in Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting, Chapter 4, *Elements of Financial Statements*. In discussing the essential characteristics of an asset:[10]

- Paragraph E23 states in part, *"Legally enforceable rights to economic benefits can be obtained without legal ownership of the underlying benefit itself as is the case, for example, when property is leased or intellectual property is licensed … Other legally enforceable rights that give rise to assets include the right to require other parties to make payments or render services and the right to use a patent or a trademark."*

- Paragraph E24 states in part, *"An entity also can obtain economic benefits from a right in the absence of legally enforceable rights. For example, an entity might not have legally enforceable rights to secret know-how but can otherwise obtain economic benefits from it. The entity may use or sell the knowledge and restrict*

[9] See Attachment 3 for a comprehensive list of "intangible" references in the current FASAB Handbook.

[10] Paragraph E16 states, *"An asset is a present right of an entity to an economic benefit."*

or otherwise prevent or limit others' access to the benefits (such as a trade secret)."

- Paragraph E27 states, *"Assets may be intangible, and even if they are not separable or exchangeable, they may be useable by an entity in producing or distributing goods or services. For example, a license may be nontransferable and therefore not exchangeable; however, the license provides the right to engage in economically beneficial activities."*

- Paragraph E34 states in part, *"Some intangible assets arise from rights conveyed legally by contract, statute, or other means. For example, trademarks may be registered with the government … The existence of contractual or other legal rights is a common characteristic of an intangible asset. However, if the right can be identified and, particularly, the identified right can be separated from the entity, it gives credibility that the right exists and that it is to an economic benefit.*

- Paragraph E36 states, *"Some intangible items that do not arise from rights conveyed by contract or other legal means are nonetheless capable of being separated and exchanged for something of value. If an item is capable of being separated and exchanged for something of value, that would be evidence that a right exists and that the right is to an economic benefit. Others cannot be separated from an entity and sold or otherwise transferred, but still may represent rights to economic benefits. Generalizations about facts and circumstances that bring about internally generated intangible assets are so varied that whether an asset has been created often must be resolved at the standards level."*

<u>GASB</u>

GASB addresses intangible assets in Concepts Statement No. 4, *Elements of Financial Statements.* In discussing the essential characteristics of an asset:[11]

- Paragraph 10 states in part, *"An asset may be tangible and have physical form, such as buildings and equipment, or may be intangible, such as the right to use intellectual property."*

In discussing uncertainties on whether an item meets the definition of an asset:

- Paragraph 41 states, *"Assessment of whether or not an item meets the definition of a particular element often requires consideration of future events, which are uncertain. Software specific to a government program may become obsolete if new technology is developed."*

[11] Paragraph 8 states, *"Assets are resources with present service capacity that the government presently controls."*

IPSASB

IPSASB addresses intangible assets in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Chapter 5, *Elements in Financial Statements*. In discussing the essential characteristics of an asset:[12]

- Paragraph 5.13 states in part, *"Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets … An asset arises when the power is exercised and the rights exist to receive resources."*

- Paragraph 5.7A states in part, *"Rights to service potential or to the capability to generate economic benefits take many forms, including:*

  (b) Rights that do not correspond to an obligation of another party, for example

  (i) Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from a leased object; and

  (ii) Rights to use intellectual property"

- Paragraph 5.7B states in part, *"– Many rights are established by binding arrangement, legislation, or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument such as a student loan, or from owning software or the right to use intellectual property. However, an entity might also obtain rights in other ways, for example:*

  (a) By acquiring or creating know-how that is not in the public domain, such as a traffic management plan;"

IASB

IASB addresses intangible assets in IFRS Conceptual Framework for Financial Reporting, Chapter 4, *The Elements of Financial Statements*. In discussing the essential characteristics of an asset:[13]

[12] Paragraph 5.6 states, *"An asset is a resource presently controlled by the entity as a result of past events." Paragraph 5.6A states" A resource is a right to either service potential or the capability to generate economic benefits, or a right to both."*

[13] Paragraph 4.3 states, *"An asset is a present economic resource controlled by the entity as a result of past events."*

- Paragraph 4.6 states in part, *"Rights that have the potential to produce economic benefits take many forms, including:*

  (b) rights that do not correspond to an obligation of another party, for example:

  (i) Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from a leased object; and

  (ii) Rights to use intellectual property"

- Paragraph 4.7 states in part, *"Many rights are established by contract, legislation or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an entity might also obtain rights in other ways, for example:*

  (a) by acquiring or creating know-how that is not in the public domain;"

- Paragraph 4.9 states in part, *"… rights available to all parties without significant cost—for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain—are typically not assets for the entities that hold them."*

- Paragraph 4.22 states in part, *"… an entity could control a right to use know-how that is not in the public domain if the entity has access to the know-how and the present ability to keep the know-how secret, even if that know-how is not protected by a registered patent."*

Staff Analysis

All four standard setters address intangible assets to a significant degree in their conceptual frameworks when discussing the elements of financial statements. Staff observed some common themes across each standard setters conceptual framework.

The most common similarity is that all conceptual frameworks use various intangible assets as examples when discussing how resources could represent assets based on the primary asset characteristics.[14] For example, the standard setters all state that the right to use intellectual property or a license of intellectual property may meet the essential characteristics of an asset.

Additionally, three of the standard setters refer to acquired or created "know-how" as a potential intangible asset. The conceptual frameworks use know-how as an example of

[14] Which is generally that the entity has control over a future economic benefit or service of the resource.

an intangible resource that could meet the essential characteristics of an asset if it is not in the public domain and the entity has the ability control the intangible asset.

Two standard setters specifically refer to software as intangible assets. One standard setter discusses the electromagnetic spectrum as an example of a public-sector sovereign power that may give rise to assets if the entity can exercise that power and regulate others access by issuing spectrum licenses.

The concepts state that entities often control intangible assets through legal arrangements, such as a patent or copyright. However, the concepts make it clear that entities can control intangible assets in other ways.

One standard setter discusses how intangible resources that are not separable or exchangeable can still represent assets if the entity can receive economic benefits or services from the intangible asset. However, the concepts acknowledge that these types of resources, such as internally generated intangible assets, can be difficult for preparers to identify as assets.

Staff believes all of these examples from other standard setters' concepts are relevant to the U.S. federal government. Staff will address this further in the next section.

Proposed Amendments to FASAB Conceptual Framework

Based on the conceptual framework examples discussed in the prior section and all research conducted, staff proposes several amendments (in tracked changes) to FASAB's conceptual framework.

<u>SFFAC 2, Entity and Display</u>

Paragraph 84 of SFFAC 2 discusses asset categories that reporting entities may present on their balance sheets. For example, the concepts currently list fund balance with treasury, cash, investments, receivables, and inventory as common balance sheet items.

Public and private entities that recognize intangible assets typically recognize them separately from other types of assets (e.g., PP&E, inventory, accounts receivables, cash).[15] Furthermore, staff believes that intangible assets are especially unique from other assets due to their lack of physical substance and that federal financial reports would better inform users if intangible assets were recognized separately from other types of assets.

[15] U.S. General Services Administration 2022 Annual Financial Report, pg. 74

U.S. Department of Energy 2023 Annual Financial Report, pg. 108

United Kingdom Department for Business, Energy & Industrial Strategy, 2023 Annual Report and Accounts, pg. 190

Therefore, staff recommends adding the following language to paragraph 84:

> 84. The elements most likely to be presented in the balance sheet of a Federal suborganization/organization, program, or the entire government would be as follows:[16]
>
> - **Property, plant, and equipment**. Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. Some PP&E are held by the Federal Government but not used to provide a service. They are in themselves a service. Examples are heritage assets such as monuments and museum collections; the service is the sense of tradition, understanding, and pride visitors receive visiting these sites. Information pertaining to these assets would not necessarily be displayed in the balance sheet, but rather as required supplemental information.
>
> - <u>**Intangible assets.** Intangible assets consist of non-monetary assets that lack physical substance with an expected useful life of two years or more. Intangible assets may be presented in the balance sheet if they are identifiable and measurable as separate assets from the Federal Government. Like PP&E, some intangible assets are used to provide a service, such as software, or are themselves a service, such as datasets and heritage assets.</u>

Staff referred to the PP&E description and the Board's intangible asset working definition to develop the intangible asset description in paragraph 84 above. The amendment explains the characteristics of an intangible asset that reporting entities could recognize on the balance sheet: (1) A non-monetary asset lacking physical substance, (2) with a useful life of two years or more, and (3) is identifiable and measurable as a separate asset from the reporting entity.[17]

Per the February 2022 Board material, there are a wide array of intangible resources that are intrinsic in a federal entity's operations and structure that would be impractical for management to identify and recognize with a measurable value. Therefore, staff

[16] Even though SFFAC 2 was issued as concepts for the Board, the current language in paragraph 84 reads as if the Board was observing the types of assets that federal entities were already recognizing. However, staff believes paragraph 84 is the optimal location for the Board to describe intangible assets as a potential asset category because this is where the Board's conceptual framework describes major asset categories that federal entities may recognize in financial statements.

[17] SFFAS 6, paragraph 17 states that PP&E has a useful life of two years or more. The useful life language for PP&E in paragraph 84 of SFFAC 2 is not consistent with SFFAS 6 and should have been updated when SFFAS 6 was issued.

believes the “identifiable”[18] criteria of the working definition is essential for balance sheet recognition.[19]

Currently, paragraph 84 of SFFAC 2 provides a description and examples of PP&E that do not provide a service but are themselves a service, such as heritage assets. Staff recommends similar language for intangible assets that provide a service and are themselves a service.

For example, internal use software is a common type of intangible asset that all federal entities use to provide service to the public. There are also several examples of intangible assets that are themselves the service to the public, including datasets such as Census[20], campaign finance[21], and weather data[22]. Furthermore, one federal entity provided an example of historical immigrant and naturalization records as an example of an intangible heritage asset.

<u>SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements</u>

Paragraphs 21-35 of SFFAC 5 discuss the essential characteristics of assets that are similar to the other standard setter concepts discussed previously. Paragraph 22 states, *“To be an asset of the federal government, a resource must possess two characteristics. First, it embodies economic benefits or services that can be used in the future. Second, the government controls access to the economic benefits or services and, therefore, can obtain them and deny or regulate the access of other entities.”*

Based on the other standard setter conceptual frameworks and research of intangible assets in the federal government, staff proposes the following amendments to SFFAC 5.

<u>SFFAC 5 – Essential Characteristics of Assets</u>

Paragraphs 24-25 of SFFAC 5 discuss the essential characteristics of assets at a high level. Staff recommends the following amendments:

> 24. In addition to the two essential characteristics identified in paragraph 22, many resources have other features that help identify them as assets. For example, they may be acquired at a cost and owned by the federal government. However, those features are not characteristics of all assets. Whereas access to

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[18] Per the February 2022 Board material, an intangible asset is identifiable if the asset (1) can be separated from the entity as a whole and sold, rented, licensed, or transferred; or (2) derives from a contractual, legal, or other binding arrangement.

[19] The working definition also states that a recognizable intangible asset should embody future economic benefits or services that the entity can control and that it has a measurable value. These criteria are inherent in all recognizable assets according to the concepts from SFFAC 5 and staff does not believe it is necessary to restate them specifically for intangible assets.

[20] Data (census.gov)

[21] Campaign finance data | FEC

[22] Climate (weather.gov)

economic benefits or services often is obtained through legal ownership of the underlying item of property, legal rights to economic benefits or services can be obtained without ownership of the property—for example, under certain lease or licensing arrangements.

25. The federal government's resources often are tangible and exchangeable, and the government often has legally enforceable rights of access to the resulting benefits. But the absence of those features is not sufficient to preclude an item from qualifying as an asset. For example, an intangible resource, such as ~~an easement on~~ intellectual property or natural resource rights, is an asset if the federal government can benefit from it and regulate or deny the access of other entities. A resource may embody economic benefits even though the federal government cannot exchange, ~~it or~~ sell, or license it—for example a machine or software that continues to provide a needed service even though there is no market for the machine or software. Similarly, the fact that the government's ability to access or use a resource is not legally enforceable does not mean that the resource is not an asset, if the government nevertheless can obtain the economic benefits or services it embodies and deny or regulate other entities' access to or use of those economic benefits or services.

Paragraph 24 briefly discusses how the federal government can obtain legal rights to the economic benefits or services of property without owning the property, such as a lease. Staff recommends adding "licensing" to paragraph 24 because research and stakeholder feedback indicates that the federal government can also obtain legal rights to the economic benefits or services of intangible property when licensing intellectual property, such as software or patented technology.[23]

Paragraph 25 currently discusses how federal government resources can be tangible or intangible. However, staff recommends expanding the discussion to provide some example of intangible resources in the federal government.

Staff believes that using the term "intellectual property" (e.g., patents, trademarks, copyrights, software) and natural resource rights (e.g., water rights, timber rights, power rights, oil rights, electromagnetic spectrum) generally covers the types of intangible resources in the federal government.

Furthermore, staff recommends adding language to paragraph 25 that discusses how intangible software, like a tangible machine, can provide the federal government service benefits even if there is no market for the federal government to license the software to another entity. Staff believes this would address the very common scenario with internal use software in the federal government.

[23] GAO Report to Congressional Committees, GAO-22-104752 – *Defense Acquisitions: DoD Should Take Additional Actions to Improve How it Approaches Intellectual Property*, November 2021

SFFAC 5 - Economic Benefits or Services

Paragraphs 26-28 of SFFAC 5 provide a detailed discussion on how a resource must have the ability to provide economic benefits or services to be considered an asset of the federal government. Staff recommends the following amendments:

> 26. A characteristic possessed by all assets is the ability to provide economic benefits or services. Some sources use the terms economic benefits and services (or service potential) interchangeably. However, as used in this Statement, economic benefits may result in inflows of cash, cash equivalents, goods, or services to the federal government, whereas the services embodied in an asset may benefit the government in other ways. For example, assets such as public parks, museums, ~~and~~ art galleries, and intangible datasets, technical reports, and intellectual property often provide recreational, educational, and research opportunities to the public at no charge or for a reduced fee or voluntary contribution, thereby assisting the federal government to achieve its objectives and meet its mission to provide public services.
>
> 27. The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or intangible, such as a right to use property, plant, and equipment or intellectual property. Not all properties embody economic benefits or services and the assumption that a particular type of property will always be an asset is not justified. For example, whereas equipment normally is expected to provide economic benefits or services, sometimes it has become unusable and has no scrap value. If so, it no longer embodies economic benefits or services and does not meet the definition of an asset.
>
> 28. The economic benefits or services embodied in resources may be shared by the government and another entity through specific arrangements. For example, the government and another entity may enter into a joint venture and share an interest in the resources committed to the joint venture. If so, each party may possess assets comprising its respective share of the benefits or services. Additionally,~~Similarly,~~ lease agreements unbundle the economic benefits or services embodied in leased property and may, for example, give the lessee the right to hold and use the property and the lessor the right to receive rentals and any residual value. Thus, both parties may have assets corresponding to their respective rights. Similarly, a license of intellectual property may allow the licensee to use the underlying intangible asset, while the licensor has the right to receive license fees in exchange.

Staff recommends adding language to paragraph 26 to discuss how federal intangible resources, such as public datasets (e.g., Census, weather, and campaign finance data (discussed previously), technical reports (e.g., flood hazard maps[24]), and intellectual

[24] FEMA Flood Map Service Center | Welcome!

property (e.g., NASA's patent portfolio[25]) can embody services by providing educational, and research opportunities to the public in the same manner as tangible parks and museums.

Paragraph 27 currently uses the term "intangible" by stating in part, "The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or intangible, such as a right." Staff recommends expanding on this sentence to provide PP&E and intellectual property as examples of rights to both tangible and intangible property, respectively. This would distinguish a leasing of tangible property from licensing intangible property, such as copyrighted software or a patented technology.

Paragraph 28 currently discusses how leases unbundle the economic benefits or services embodied in leased property between different parties, such as the right to use the property and the right to receive cash inflows in the form of rental fees. Staff recommends adding language to paragraph 28 to discuss the licensing of intellectual property as a similar example with intangible property.

For example, federal entities sometimes acquire a license of software to install and operate the software on their own hardware while the licensor receives license fees in return. Another example is how some federal entities license patented technology or a trademark to the public for a fee.[26]

SFFAC 5 - Control by the Federal Government

Paragraphs 29-33 of SFFAC 5 provide a detailed discussion on how the federal government must have control of a resource for it to be an asset. Staff recommends the following amendments:

> 29. The second essential characteristic of an asset is control, which refers to the ability of the federal government to obtain the economic benefits or services embodied in a resource and to deny or regulate the access of others. It is possible that the government does not actively exercise control. Nevertheless, as long as the government currently has the ability to exercise control, the item is an asset of the government. In exercising control of the economic benefits or services, the government may, depending on the nature of the resource, hold or direct use of the resource; exchange it; use it to obtain cash, cash equivalents, goods, or services; exact a price for other entities' use of the economic benefits or services; or use it to settle liabilities. Many resources are subject to certain legal or other external constraints, such as public land subject to preservation requirements or license restrictions on the use of intellectual property. Such

25 T2 Patent Portfolio | T2 Portal (nasa.gov)

26 GAO Report to Congressional Requesters, GAO-21-52 – *Biomedical Research: NIH Should Publicly Report More Information about the Licensing of Its Intellectual Property*, October 2020

restrictions on the use of a resource do not negate the government's control of the economic benefits or services embodied in the resource.

30. The ability of the federal government to control access to the economic benefits or services embodied in a resource normally stems from legal rights and may be evidenced by title deeds, contractual/license agreements, patents, trademarks, possession, or other devices that protect the government's interests. However, legal enforceability of a right is not a prerequisite to the establishment of control of access to economic benefits or services, because the government may be able to exercise control in some other way. For example, the Federal Government may not have legally enforceable rights over institutional knowledge or inventions but can otherwise prevent or limit others' access to the economic benefits or services. If the right can be identified and separated from the federal government, it gives credibility that the Federal Government has control of a right to an economic benefit or service.

31. Possession or ownership of a resource normally entails control of access to the economic benefits or services embodied in it, but that is not always the case. Whereas control of access is an essential characteristic of an asset, possession or ownership is not. For example, the government may grant another entity, acting as an agent of the government, physical possession of goods for sale and retain the right to receive the proceeds of sale. The goods are assets of the government because it controls access to the economic benefits embodied in the goods. The agent has physical possession of the goods, but they are not the agent's assets because it does not control access to the economic benefits. Also, as discussed in paragraph 27, through a lease or licensing arrangement the government may control access to the economic benefits or services embodied in a resource that it does not own.

32. Sometimes the federal government cannot control the economic benefits or services that it obtains from a resource because it cannot deny or regulate the access of other entities. In those circumstances, the resource does not meet the definition of an asset of the federal government. Public goods are an example. Public highways and intangible works in the public domain provide economic benefits to the entities that use them. However, they are assets only of the entity that has the capacity to control their use or regulate other entities' access to them by, for example, the use of tolls, issuing licenses, or other restrictions. Similarly, natural resources, such as air and water do not qualify as assets of the federal government when it has only general access to them along with all other entities, even if the government has incurred costs to help clean the environment.

33. The federal government obtains most of its resources from cash or credit transactions. The government may acquire resources in exchange for other resources or for an obligation to transfer resources or provide services in the future, or resources may result from the exercise of the government's powers, such as, for example, the imposition of taxes, penalties, fines, and forfeitures. Assets may arise through the federal government's ability to exercise other

sovereign powers, such as the power to access and regulate use of the electromagnetic spectrum by issuing licenses to the public. Government resources also may result from events such as accretion and discovery.

Paragraph 29 discusses ways that the federal government may control an asset. The paragraph currently states that the ability to hold an asset denotes control. However, this phrase is more applicable to tangible assets because one cannot hold an intangible asset. Staff recommends adding language to discuss how a federal entity's ability direct use of an asset is evidence the entity controls an intangible asset.

For paragraph 29, staff also recommends adding license restrictions as an example of how intangible assets can be subject to legal constraints when discussing how restrictions on the use of a resource does not necessarily negate the federal government's control of the economic benefits and services of a resource. Like leases and land easements, research and working group feedback indicate that software and other intellectual property licenses can include various terms of use, such as limitations on length of use and the ability to resell the intellectual property to third parties.

Paragraph 30 discusses how a federal entity normally exercises control over a resource with legal rights even though legal rights are not required to exercise control. Staff recommends adding language to paragraph 30 to provide license agreements, patents, and trademarks as examples of legal rights that may provide the federal government control over an intangible resource.

Furthermore, staff recommends adding language to paragraph 30 that discusses institutional knowledge or inventions as examples of possible intangible assets that the federal government could control even without formal legal rights. During research, multiple federal entities stated they may develop inventions or technical knowledge that could provide benefits or services to the entity even if they do not actually patent the technology.

Finally, staff recommends adding language to paragraph 30 to caveat that the ability to identify and separate an intangible resource from the larger federal entity can indicate control over a specific economic benefit or service. As discussed previously, the non-physical nature of intangible resources can make it difficult to identify an asset and staff believes reiterating this concept is useful for potential asset recognition considerations.

For paragraph 31, staff recommends adding "licensing" to provide an example of intangible assets that the federal government may control even without ownership. Staff addressed this same concept previously for SFFAC 5, paragraph 27.

Paragraph 32 discusses public goods as an example of resources that provide economic benefits or services in which the federal government may or may not have the ability to control, such as public highways. Some federal entities have reported making patented technology available to the public for free or by licensing the rights for a fee. Therefore, staff recommends adding language in paragraph 32 to discuss intangible works in the public domain as an example of an intangible resource that would not represent an asset to the federal government unless the government could exercise control over the economic benefits and services, such as by issuing licenses.

Paragraph 33 discusses how the federal government may obtain economic benefits by exercising powers, such as the imposition of taxes, penalties, and forfeitures.[27] Staff recommends adding language to paragraph 33 that discusses the electromagnetic spectrum as an example of the government exercising a sovereign power to obtain economic benefits and services. Through U.S. statute, the federal government can obtain and control economic benefits and services of the electromagnetic spectrum by auctioning spectrum licenses to non-federal users for fees and allocating spectrum rights for federal operational purposes.[28]

Staff Recommendation

The Board's conceptual framework is not authoritative guidance. However, the recommended amendments discussed above would provide members foundational guidelines to reference if the Board decides to develop authoritative accounting guidance for intangible assets.

Staff notes that the intangible resources discussed in the recommended concept amendments would not necessarily represent recognizable assets on a balance sheet if they do not possess both essential characteristics of an asset and/or are not measurable. However, staff believes the recommended amendments provide a good discussion of how the essential asset characteristics may apply to intangible resources in the federal government.

Pending Board feedback, staff believes the recommended concept amendments could be issued through an omnibus concept amendment document.

Question for the Board:

1. Does the Board support moving forward with the recommended conceptual framework amendments? Please provide your feedback on staff's analysis and recommendation.

RECOMMENDATION NO. 2

As previously stated, FASAB has never issued principal-based guidance for intangible assets. During recent software license deliberations, the Board discussed the idea of

[27] Although the concepts are clear that governmental powers (e.g., power to tax) do not represent an asset until the government exercises the power.

[28] Who Regulates the Spectrum | National Telecommunications and Information Administration (ntia.gov)

how principal-based guidance for intangible assets could provide preparers direction on how to identify and account for intangible assets.

For the Board's consideration, staff developed a framework for authoritative guidance on intangible assets that encompasses:

- Intangible assets that federal entities acquire from other entities
- Internal use software that includes guidance updates the Board develops as part of the software technology project

The following section provides an analysis for staff's recommendation.

ANALYSIS

Characteristics of Intangible Assets in the Federal Government

Research indicates that federal entities sometimes purchase, license, or internally develop intangible assets for internal use and to make available to the public. Research however indicated significant challenges with identifying and measuring a value for intangible assets, especially ones internally developed by the entity.

Staff believes the Board should first consider the costs and benefits of developing recognition guidance specifically for intangible assets that federal entities acquire (i.e., purchase or license) from another entity.

The working group indicated that federal entities sometimes acquire intangible assets from other federal and non-federal entities, including, patents, copyrights, licenses (such as software licenses discussed in depth in Topic A-1), rights to contract vendor data, and power rights. Furthermore, federal entities may purchase individual intangible assets or acquire intangible assets as part of broader procurement contracts.

A recent GAO report states that DoD acquires and licenses intellectual property from private contractors, including, computer software, technical data, and user manuals.[29] The report states that DoD often acquires intellectual property as part of larger weapon-system contracts.

Some non-federal stakeholders staff spoke with stated that federal entities often acquire intellectual property as part of research oriented third-party arrangements. One stakeholder stated that federal entities could acquire various natural resource rights from non-federal entities as part of land purchases.

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[29] GAO Report to Congressional Committees, GAO-22-104752 – *Defense Acquisitions: DoD Should Take Additional Actions to Improve How it Approaches Intellectual Property*, November 2021

Finally, Board members have discussed the prevalence of software technology (e.g., cloud-service arrangements and software licenses) within the federal government as part of its ongoing project to update SFFAS 10, *Accounting for Internal Use Software*. Per topic A-1, there is potential overlap between software and intangible asset accounting guidance because federal entities often acquire software by licensing the copyright of the software from private entities.

The remainder of this analysis will address the following:

- FASB, GASB, and IPSASB guidance frameworks for acquired intangible assets and internal use software

- An analysis of staff's proposed framework for an intangible asset standard

Staff requests the Board's feedback on the proposed guidance framework for intangible asset guidance.

Other Standard-setter Intangible Asset Guidance Frameworks

FASB, GASB, and IPSASB have all issued similar intangible asset standards that provide guidance on acquired intangible assets and internal use software.[30] In this section of the issues paper, staff will discuss the different ways each standard-setter addresses acquired intangible assets and internal use software in their broad intangible assets guidance.[31]

<u>FASB</u>

FASB provides recognition guidance for acquired intangible assets in the following paragraphs from ASC 350-30, *General Intangibles Other than Goodwill*:[32]

- Paragraph 350-30-25-1 states, *"An intangible asset that is acquired either individually or with a group of other assets shall be recognized."*

FASB provides measurement guidance for acquired intangible assets in the following paragraphs from ASC 805-50-30, *Acquisition of Assets Rather than a Business*:

- Paragraph 805-50-30-1 states in part, *"Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition …"*

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[30] Staff has not included IASB guidance in the analysis because the IPSASB and IASB guidance are very similar.

[31] Staff also referenced this material in Topic A-1 because the other standard-setters apply their intangible asset guidance to software licenses.

[32] FASB defines intangible assets as - Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

- Paragraph 805-50-30-2 states in part, *"Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition."*

FASB also provides recognition and measurement guidance for internally developed software and cloud computing in ASC 350-40, *Internal-Use Software*, which is part of FASB's broader ASC 350, *Intangibles – Goodwill and Other* standards.[33]

GASB

GASB provides recognition and measurement guidance for acquired intangible assets in the following paragraphs from Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*:[34] [35]

- Paragraph 6 states, *"An intangible asset should be recognized in the statement of net assets only if it is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:*

    a. The asset is separable, that is, the asset is capable of being separated or divided from the government and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability

    b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations."

- Paragraph 5 states in part, *"All intangible assets subject to the provisions of this Statement should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets, including the areas of recognition, measurement, depreciation (termed amortization for intangible assets), impairment, presentation, and disclosures should be applied to intangible assets, as applicable."*

In reference to GASB 51, paragraph 5, GASB provides guidance for accounting for capital assets in the following paragraphs of GASB Statement, No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*:

[33] FASB ASC 350-40-15-2

[34] GASB 51, par. 2 states that intangible assets lack physical substance, have a nonfinancial nature, and an initial useful life extending beyond a single reporting period.

[35] GASB 51, par. 1 provides easements, water rights, timber rights, patents, trademarks, and computer software as examples of intangible assets.

- Paragraph 18 states, *"Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any."*

- Paragraph 19 states in part, *"As used in this Statement, the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period."*

- Paragraph 21 states in part, *"Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets … Inexhaustible capital assets such as land and land improvements should not be depreciated."*

GASB provides guidance for perpetual software licenses and internally generated software within its intangible assets standard.[36] However, GASB has issued a separate standard for cloud computing and term-based software licenses.[37]

<u>IPSASB</u>

IPSASB provides recognition and measurement guidance for acquired intangible assets in the following paragraphs from IPSAS 31, *Intangible Assets*:[38] [39]

- Paragraph 18A states in part, *"The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill."*

- Paragraph 19 states, *"An asset is identifiable if it either:*

  (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

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[36] GASB No. 51, par. 7-15.

[37] GASB No. 96 applies a right-to-use framework for subscription-based information technology arrangements.

[38] IPSAS 31, par. 16 defines an intangible asset as an identifiable nonmonetary asset without physical substance.

[39] IPSAS 31, par. 17 provides computer software, patents, copyrights, motion picture films, service user lists, acquired fishing licenses, and import quotas as examples of intangible assets.

(b) *Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations."*

- Paragraph 28 states, *"An intangible asset shall be recognized if, and only if:*

  (a) *It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and*

  (b) *The cost or fair value of the asset can be measured reliably."*

- Paragraph 31 states, *"An intangible asset shall be measured initially at cost in accordance with paragraphs 32-43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date."*

- Paragraph 32 states, *"Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for separately acquired intangible assets.*

- Paragraph 33 states, *"In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets."*

- Paragraph 34 states, *"The cost of a separately acquired intangible asset comprises:*

  (a) *It's purchase price, including import duties, and non-refundable purchase taxes, after deducting trade discounts and rebates; and*

  (b) *Any directly attributable cost of preparing the asset for its intended use."*

IPSASB has not issued specific accounting guidance for internally developed software or cloud computing. However, internally developed software applies to the scope of IPSASB's broader internally generated intangible assets from IPSAS 31.[40]

[40] IPSAS 31, par. 60

Staff Analysis of Other Standard Setter Guidance Frameworks

Staff believes that the intangible asset guidance from all three standard setters are fundamentally similar with regards to (1) recognition and measurement of acquired intangible assets and (2) internal use software. However, there are some key differences.

All three standard setters provide high-level, principle-based guidance for intangible assets that a reporting entity acquires from other entities. The frameworks require that a reporting entity capitalize the cost exchanged to acquire an intangible asset and to amortize the cost in future reporting periods. One notable difference is that GASB and IPSASB have issued specific language requiring that an intangible asset be "identifiable" to recognize it as an asset.

All three standard setters provide accounting guidance for internal use software as part of their larger intangible assets standards. However, there are some notable differences.

For example, both FASB and GASB provide specific guidance for internally developed software as part of their intangible asset guidance while IPSASB only provides broad guidance for internally developed intangible assets, with no specific guidance for internally developed software. Furthermore, FASB addresses cloud computing in its internal use software guidance, GASB addresses cloud computing in a separate standard, and IPSASB has not issued guidance for cloud computing.

Recommended Intangible Asset Guidance Framework

Based on the previous analysis, staff recommends the following framework for an intangible asset standard:

Intangible Asset Guidance Framework

1. Guidance requiring reporting entities to recognize identifiable intangible assets that a reporting entity acquires from another entity for use in providing goods or services.

    a) An intangible asset is identifiable if either:

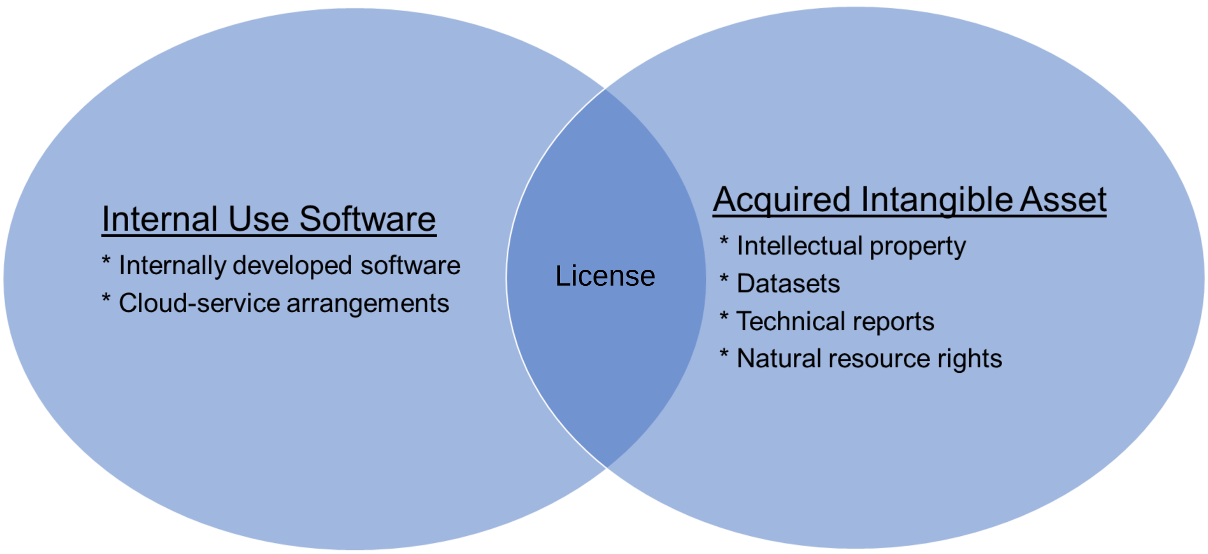
        i. The asset is capable of being separated from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability; or

        ii. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

b) Reporting entities should measure the value of the recognized intangible asset based on the transaction costs of the asset acquisition.

2. Rescind SFFAS 10, *Accounting for Internal Use Software* and reissue the internal use software guidance, including updates from the Board software technology project, as a component of the intangible asset standard.

Intangible Asset Standard Framework



Acquired Intangible Assets – Cost-Benefit Analysis

Staff combined aspects from all three other standard setters to recommend the guidance framework. The scope for this recognition guidance would only apply to intangible assets with the following characteristics:

- The federal entity can identify the intangible asset through a contract (e.g., data or natural resource rights) or a legal arrangement (e.g., patent, trademark, copyright, or license), or by being able to separate and exchange the individual intangible asset. This language would effectively scope out intangible resources inherent within or not separable from the federal entity, such as goodwill or any technical knowledge or datasets that a federal entity may benefit from, but not be able to identify as a distinct asset from the federal entity as a whole.

- The federal entity uses the intangible asset as part of its operations to provide goods or services to support the mission of the entity and/or in business-type activities.[41] This language would effectively scope out any intangible assets that

[41] This reflects the same characteristics of general PP&E in SFFAS 6, par. 23.

would apply to stewardship property or heritage assets, such as publicly available research data and historical genealogy records.

- The federal entity acquires the intangible asset from another federal or non-federal entity through an exchange transaction, typically by paying cash from appropriated or collected funds. Staff believes this language limits asset recognition to only intangible assets that clearly have measurable value. This language would effectively scope out internally developed intangible assets (except for internal use software) and other intangible resources that the federal government may inherently possess through sovereign power.

Per the February 2022 Board meeting material, task force members have voiced concerns that the scope of intangible asset reporting guidance could be so broad that it would encompass many opaque resources that are difficult for management and auditors to agree on what is a measurable intangible asset. Staff believes the proposed framework would alleviate this concern by establishing a clear and narrow scope around intangible asset recognition requirements.

Staff spoke with several federal and non-federal stakeholders who supported the idea of federal entities accounting for and reporting acquired intangible assets as capital assets on the balance sheet. For example, some legislative branch stakeholders strongly supported the idea of federal entities measuring and recognizing a value for acquired intellectual property, such as patents and datasets, on federal balance sheets.

These stakeholders believed that the federal government should improve transparency around costs (and revenues) associated with federally owned intellectual property. They stated that some federal entities pay for multiple overlapping forms of intellectual property because management does not have oversight of the intellectual property they acquire from other entities. However, they cautioned that some types of intellectual property could be difficult to measure if the larger contracts/arrangements do not specifically identify them.

A scientist from a federal research center also stated that federal entities sometimes acquire the rights to underlying intellectual property as part of service contracts with private entities. They stated that it would be beneficial for federal entities to identify and recognize these types of intellectual property so that management does not overpay for duplicate resources that they already own or have rights to.

An economist from an economic policy think tank supported FASAB developing guidance that would lead to more transparency and accountability of intellectual property in the federal government. He specifically believed there would be public transparency and operational cost benefits if federal entities were to identify and measure a value for acquired intellectual property. He cautioned not to overburden federal entities with too much bookkeeping but thought that the requirement to recognize a value for acquired intangible assets would be reasonable and that it could benefit federal program management internal decision making.

Another stakeholder stated that a lot of federal entities acquire intangible assets as part of larger contracts and research arrangements and believed that for operational purposes, it would be beneficial for federal entities to account for their rights to intellectual property as part of working relationships with other parties. However, they cautioned that it can be difficult to identify and allocate the cost of intangible assets if acquired as part of larger arrangements.

One stakeholder from academia indicated that federal entities could potentially recognize a value for natural resources that agencies acquire as part of new land purchases. However, they cautioned that it would be difficult to measure the value of the natural resource separate from the land due to lack of market data.

A preparer from a federal entity believed there would be operational and cost management benefits with accounting for intangible assets acquired specifically for business-type activities (i.e., matching exchange revenue to associated expenses for self-sustaining activities). The preparer did not envision as many reporting benefits for recognizing the cost of acquiring intangible assets only used as part of federal mission programs for providing services to the public.

A few other preparers supported the Board developing guidance for intangible assets and believed that acquired intangible assets should be recognized as assets, similar to PP&E. One federal entity supported capitalizing and amortizing acquired intangible assets if the upfront costs were significant and the arrangement was long-term (i.e., two years or more).

However, multiple federal entities believed it would be difficult to identify and measure a value for acquired intangible assets, especially if acquired as part of larger contracts or cooperative arrangements. One federal entity believed that the capitalized cost to acquire an intangible asset may not accurately depict its true value.

Several preparers did not believe guidance for acquired intangible assets would typically apply to their federal entity. One preparer stated that the cost to identify and account for acquired intangible assets would be burdensome and would not provide value to their financial report.

IUS Categorized as an Intangible Asset – Cost-Benefit Analysis

Other standard setters have long considered internal use software as within the scope of intangible asset guidance. However, FASAB's SFFAS 10 refers to internal use software as tangible PP&E, which staff believes is inaccurate.[42] While some software could be integral to tangible PP&E, the underlying resource associated with software (i.e., software code) lacks physical substance.

[42] SFFAS 10, par. 15 states that the internal use software guidance applies to software used as general PP&E and SFFAS 6, par. 17 states the PP&E consists of tangible assets, including land.

When developing the intangible asset working definition, the working group and other stakeholders generally agreed that internally developed software, software licenses, and cloud computing could apply to the working definition. Furthermore, other federal stakeholders often refer to software as forms of intellectual property and some have referred to cloud storage and artificial intelligence as intangible assets.

Per Topic A-1, the Board continues to deliberate the costs vs. benefits of updating recognition guidance for software as part of the software technology project. Staff notes that including software in the scope of an intangible asset standard would affect where internal use software guidance is located in the FASAB Handbook but would not in of itself change any current reporting requirements in SFFAS 10.

However, categorizing software as an intangible asset could affect how federal entities display capitalized IUS assets on their financial statements. Federal entities currently include IUS assets as part of the total PP&E asset value on the balance sheet along with a footnote breakout. Including software within the scope of an intangible asset standard could result in federal entities recognizing capitalized software assets separate from PP&E.

<u>Staff Analysis and Recommendation</u>

In summary, staff recommends that the Board develop an intangible assets standard that provides accounting guidance for:

- Intangible assets that federal entities acquire from other entities

- Internal use software that includes the guidance updates the Board develops as part of the software technology project

Staff believes that feedback from federal and non-federal stakeholders indicates that there would be accountability and transparency benefits with federal entities recognizing acquired intangible assets in their financial statements. Furthermore, staff believes that capitalizing and amortizing the cost to acquire intangible assets over their useful life would contribute to the Board's operational performance objective for financial reporting per the following paragraphs from SFFAC 1*:*

- Paragraph 65 discusses accounting for assets by stating in part, *"Expected benefits often are not cash inflows but rather are the services provided by the asset. Sometimes those services are provided to the government itself (e.g., government office buildings or motor pools). More often, the services are provided to the public (e.g., education and research and development).*

- Paragraph 123 states in part, that the operating performance objective *"arises from a democratic government's duty to be accountable to its citizens for managing resources and providing services economically and efficiently and for* *effectiveness in attaining planned goals. Also, the government should be accountable for raising resources efficiently."*

- Paragraph 124 states, *"Because government services are not usually provided in exchange for voluntary payments or fees, expenses cannot be matched against revenue to measure "earnings" or "net income" as would be done in business accounting. Moreover, directly measuring the value added to society's welfare by government actions is difficult. Nonetheless, expenses can be matched against the provision of services year by year. The resulting cost can then be analyzed in relationship to a variety of measures of the achievement of results."*

Per paragraphs 123-124 above, staff believes that capitalizing acquired intangible assets would improve accountability and transparency over federal resources and would match the cost to acquire an intangible asset with the economic benefits and services the intangible asset provides the federal entity in future reporting periods.

Staff understands the measurement challenges with intangible assets that concern some stakeholders. However, the proposed framework would only apply to intangible assets in which the value is measurable based on the cost to acquire a specifically identifiable intangible asset. In accordance with SFFAC 5, a reporting should not recognize an intangible asset if management cannot distinctly measure the intangible asset separately from the reporting entity.

Furthermore, staff believes it would be beneficial for federal entity balance sheets to report IUS assets as an intangible asset, separate from PP&E. This would provide more transparency of software assets in the financial reports and would be consistent with how private entities, state governments, and international governments report capitalized software.

Finally, staff believes it would be practical to include software guidance in an intangible asset standard due to the potential overlap between intangible asset and software license guidance (see Topic A-1).

Question for the Board:

2. Does the Board support moving forward with an intangible asset standard based on the recommended framework? Please provide your feedback on staff's analysis and recommendation.

Next Steps

Pending Board approval and feedback, staff will develop a draft exposure draft for the proposed intangible asset concept amendments for the Board to consider at a future meeting.

Pending Board approval and feedback, staff will also coordinate with stakeholders to develop further recognition and measurement guidance recommendations, such as useful life estimation and amortization, for acquired intangible assets for the Board to consider at a future meeting.

Disclaimer: 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.

Intangible Asset Working Definitions

Copyright - a type of intellectual property that protects original works of authorship as soon as an author fixes the work in a tangible form of expression. A "work", as defined in the U.S. Copyright Act, can include literary works, choreography, films, music, computer programs and code, plays, sculptures, paintings, and architecture.

Dataset – a collection of data related to a particular topic, theme, or program

Data rights - includes any recorded information of a scientific or technical nature (e.g., product design or maintenance data, computer databases, and computer software documentation).

Electromagnetic Spectrum - The range of electromagnetic radio frequencies (waves per second) used to transmit sound, data, and video across the country. It carries voice between cell phones, television shows from broadcasters to the television, and online information from one computer to the next, wirelessly. The electromagnetic spectrum includes (from longest wavelength to shortest): radio waves, microwaves, infrared, optical (or visible), ultraviolet, x-rays, and gamma-rays.

Intangible Assets – consist of non-monetary assets that lack physical substance

Intellectual Property - Creations of the mind such as musical, literary, and artistic works; inventions; and symbols, names, images, and designs used in commerce, including copyrights, trademarks, patents, and related rights. Under intellectual property law, the holder of one of these abstract "properties" has certain exclusive rights to the creative work, commercial symbol, or invention by which it is covered.

License - a contract between an intellectual property owner and a third party who wishes to use the intellectual property. A license generally permits certain uses for a certain period of time. The range of permitted uses may be broad or narrow; the time period may be limited or expansive.

Patent – a type of intellectual property that provides an owner of an invention the legal right to exclude other people or entities from making, using, or selling the invention for a specified period.

Software - a set of instructions that tell a computer to operate and perform specific tasks. Software is often used to describe the intangible functional aspects of a computer and includes application and operating system programs, procedures, rules, and any associated instructions pertaining to the operation of a computer system or program.

Sovereign power – is the ability to make and enforce laws.

Technical Report - is a deliverable that describes the process, progress, or results of technical or scientific research or the state of a technical or scientific research problem. It might also include recommendations and conclusions of the research.

Trademark – a type of intellectual property that provides legal rights for a particular sign, design, name, or symbol that identifies a product or service from a specific entity.

Water Right – the legal right to use water from a particular source, such as a stream, lake, reservoir, or irrigation channel.

FASAB Handbook Intangible Asset References

Statement of Federal Financial Accounting Concepts 1: Objectives of Federal Financial Reporting

182. Increasingly, managers and investors in the private sector are attending to other factors that may sometimes be useful indicators of an entity's financial condition, including such intangible factors as the quality of the entity's

- information and analysis capabilities,
- strategic planning,
- human resource development and management, and
- constituent satisfaction.

Statement of Federal Financial Accounting Concepts 5: Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

25. The federal government's resources often are tangible and exchangeable, and the government often has legally enforceable rights of access to the resulting benefits. But the absence of those features is not sufficient to preclude an item from qualifying as an asset. For example, an intangible resource, such as an easement on property, is an asset if the federal government can benefit from it and regulate or deny the access of other entities. A resource may embody economic benefits even though the federal government cannot exchange it or sell it—for example a machine that continues to provide a needed service even though there is no market for the machine. Similarly, the fact that the government's ability to access or use a resource is not legally enforceable does not mean that the resource is not an asset, if the government nevertheless can obtain the economic benefits or services it embodies and deny or regulate other entities' access to or use of those economic benefits or services.

27. The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or intangible, such as a right. Not all properties embody economic benefits or services and the assumption that a particular type of property will always be an asset is not justified.

Appendix A: Basis for Conclusions

A7. Assets: Tangible or intangible items owned by the federal government which would have probable economic benefits that can be obtained or controlled by a federal government entity.

Statement of Federal Financial Accounting Standards 3: Accounting for Inventory and Related Property

67. This subsection defines "forfeited property" and presents the accounting and reporting standards for it. Presented below are examples of forfeited property.

- monetary instruments,
- intangible property,
- real property and tangible personal property,
- property acquired by the government in satisfaction of a tax liability, and
- unclaimed and abandoned merchandise.

68. Definition. "Forfeited property" consists of (1) monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.

70. Intangible property, real property and tangible personal property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained. The property shall be valued at its fair value at the time of forfeiture. A valuation allowance shall be established for liens or claims from a third-party. This allowance shall be credited for the amount of any expected payments to third-party claimants.

Appendix A: Basis for Conclusions

150. One respondent noted that the definitions of seized and forfeited property seem to be limited to monetary instruments, real property and tangible personal property. The respondent asked that this definition be extended to intangible assets (e.g., savings and loan charters). The Board did broaden the definition to address intangible property.

Statement of Federal Financial Accounting Standards 6: Accounting of Property, Plant, and Equipment

35. Footnote 41 - Software and land [See SFFAS 10 for standard regarding internally developed software] rights, while associated with tangible assets, may be classified as intangible assets by some entities. In this event, they would be subject to amortization rather than depreciation. "Amortization" is applied to intangible assets in the same manner that depreciation is applied to general PP&E—tangible assets.

Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software

Appendix A: Basis for Conclusions

69. The issue of whether to capitalize all, some, or no data conversion cost is a difficult one. Some argue that the cost of converting existing data to a new software system is analogous to the types of cost that the Accounting Principles Board Opinion (APB) No. 17, *Intangible Assets*, requires to be expensed as incurred because they are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole—such as goodwill (APB 17, par. 24). The Board is persuaded that data conversion costs are operating costs and should be expensed.

Statement of Federal Financial Accounting Standards 54: Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment

Appendix A: Basis for Conclusions

A33. The Board also reconsidered the broad scope of the lease definition, which included all nonfinancial assets not specifically excluded in the standards. During deliberations after receiving comment letters, the Board determined that the broader lease definition would necessitate the development of a definition of "nonmonetary assets" and "intangibles," plus the inclusion of a more developed list of excluded transactions. Also, several respondents and task force members advocated a more narrow definition of leases. In an effort to reduce preparer burden, the Board reconsidered its decision and reevaluated the benefits of a narrower lease definition. The Board decided to narrow the scope of the definition to only include PP&E.

Technical Bulletin 2017-1: Intragovernmental Exchange Transactions

15. What types of value may be considered sacrificed and received for an intragovernmental transaction to be classified as an exchange transaction?

18. Parties considering whether they sacrificed and received value may consider value that is:

a. direct (such as goods or services made available to them through the actions of the other party);

b. indirect (such as goods or services made available to support their mission as a result of the actions of the other party);

c. tangible (such as property, plant, or equipment);

d. intangible (such as information systems, written materials, or information);

e. quantitative (such as a specific amount of a good or service); or

f. qualitative (such as guidance or advice that may not be measurable).

Appendix A: Basis for Conclusions

A21. Certain respondents requested clarity regarding if the receiving entity is directly billed by the vendor. Staff notes that that paragraph 13 explains the ways value may be sacrificed [making a payment, providing something of value, performing a service, or arranging a contract or agreement or coordinating funding on behalf of another party] and paragraph 18 explains the type of value that should be considered [direct, indirect, tangible, intangible, quantitative, and qualitative]. If no value is sacrificed, such as for amounts directly billed to and paid by the receiving entity, then the transaction would not meet the definition of an exchange transaction.

Technical Bulletin 2024-1, Seized and Forfeited Digital Assets

Appendix A: Basis for Conclusions

A8. Whether digital assets are categorized as crypto assets or central bank digital currencies, the Board believes they represent intangible forms of value in which ownership and transactions are tracked through decentralized or centralized digital networks. Some reporting entities deal with a wide range of different types of seized and forfeited digital assets. This TB does not specifically exclude any type of digital asset from applying to the reporting requirements in SFFAS 3.

A9. Other standard setters, regulators, academics, and legislators have considered whether digital assets generally possess monetary properties or more closely relate to financial securities, derivatives, investments, intangible assets, or some combination thereof. This TB does not address this issue but considers only whether to categorize digital assets as monetary or nonmonetary property for the purposes of applying the reporting requirements in SFFAS 3.

Appendix E: Consolidated Glossary

<u>Assets</u> - Tangible or intangible items owned by the federal government which would have probable economic benefits that can be obtained or controlled by a federal government entity. (Adapted from Financial Accounting Standards Board, Statement of Concepts No. 6, Elements of Financial Statements)

<u>Forfeited property</u> - is property for which title has passed to the Government. Forfeited property includes (1) monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; (2) property

acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.

Product - Any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources.

Property, Forfeited - Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) for which title has vested in the Federal government, over any other asserted legal interest in the property, by exercise of a legal forfeiture process.

Property, Seized - Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) over which the federal government has exercised its power under law to assert possession and control in opposition to any other party asserting a legal interest in the property.

Service - An intangible product or task rendered directly to a customer.