

## Memorandum

### Intangible Assets

February 5, 2025

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

#### INTRODUCTION

At the December 2024 meeting, the Board agreed to move forward to develop concept statement amendments and accounting standards for intangible assets. The objective of this meeting is for the Board to review and consider the following staff recommendations:

1. Minimal concept amendments to address intangible assets at a high level
2. Scope, definition, and recognition language for an intangible asset Statement

Staff requests the Board's feedback on the recommendations.

#### REQUEST FOR FEEDBACK

**Prior to the Board's February meeting**, please review the attached staff analysis and respond to the questions by February 20, 2025.

Please submit responses to Josh Williams at [WilliamsJR@fasab.gov](mailto:WilliamsJR@fasab.gov) with a cc to Monica Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov).

#### NEXT STEPS

**Pending Board feedback**, staff will develop a draft exposure draft 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

# Analysis

## Intangible Assets

February 5, 2025

### INTRODUCTION

#### Project Purpose

This material pertains to the Board's project to develop accounting guidance for intangible assets.

#### Background

The Board originally approved this project as a research topic. 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.<sup>1</sup>

During the December 2024 meeting, the Board generally supported moving forward to further deliberate concept amendments to address intangible assets. The Board also agreed on a framework to move forward on developing authoritative accounting guidance for intangible assets.

#### Summary of Recommendations and Analyses

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

1. Minimal concept amendments to address intangible assets at a high-level
2. Scope, definition, and recognition language for an intangible asset Statement

Staff requests the Board's feedback on the recommendations.

### RECOMMENDATION NO. 1

Based on Board deliberations during the December 2024 meeting, staff is proposing a few amendments to the following FASAB concept statements to address intangible assets at a high-level:

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

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<sup>1</sup> See Attachment 2 for a list of working definitions for Board's deliberations.

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

The recommended amendments are reduced versions of the amendments that staff proposed during the December 2024 meeting. The following section provides the proposed amendments in tracked changes along with an analysis for the proposals.

## ANALYSIS

### Prior Board Deliberations and Research

During the December 2024 meeting, staff recommended concept statement amendments in SFFAC 2 and 5 that would provide the Board foundational guidelines to develop authoritative accounting guidance for intangible assets.<sup>2</sup> While there was a wide range of opinions among members, the Board generally supported moving forward to develop some concept amendments for intangible assets.

Some members supported all the proposed amendments. However, some members believed that the concepts should address intangible assets only at a very high level to guide the Board in setting standards.

The members cautioned that adding detailed discussions and examples of intangible assets in the concept statements could overly restrict the Board when developing authoritative standards. One member had concerns that adding intangible assets as a distinct type of asset in SFFAC 2 could imply that intangible assets should be distinctly displayed on federal balance sheets as opposed to other types of assets that SFFAC 2 does not address.

Based on the deliberations, the Board agreed to further consider minimal concept amendments in both SFFAC 2 and 5 to address intangible assets at a high level.<sup>3</sup>

### Research

For these proposals staff researched the following:

- FASAB Board material, *Topic A-2, Intangible Assets*, Nov 20, 2024
- FASAB Board material, *Topic F, Intangible Asset Working Definition*, Feb 1, 2022
- FASAB Board meeting minutes, Topic A-2, Intangible Assets, Dec 10, 2024
- SFFAC 2, *Entity and Display*, Jun 6, 1995

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<sup>2</sup> See FASAB Board Material, [Topic A-2, Intangible Assets](#), November 20, 2024, for previously proposed concept amendments.

<sup>3</sup> See Board minutes from December 2024 meeting - [https://files.fasab.gov/pdf/files/december\\_10\\_2024\\_minutes.pdf](https://files.fasab.gov/pdf/files/december_10_2024_minutes.pdf)

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

## Proposed Amendments to FASAB Conceptual Framework

In the following sections, staff is proposing amendments to SFFAC 2 and SFFAC 5 in tracked changes.

### SFFAC 2, Entity and Display

Based on prior Board deliberations, staff proposes the following amendment to SFFAC 2, 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:

- **Intangible assets.** Intangible assets consist of nonfinancial assets that lack physical substance with an expected useful life of two years or more. Like PP&E, some intangible assets are used to provide a service or are themselves a service.

Per the Board's feedback during the December 2024 meeting, staff streamlined the intangible asset description for the SFFAC 2, paragraph 84 amendment. For example, members stated that the previously recommended amendment provided too many examples of intangible assets and contained recognition requirement language more suited to a standard.

Therefore, staff removed the examples (datasets and heritage assets) and the language that discussed the requirement that reporting entities should only present intangible assets in the balance sheet if they are identifiable and measurable.

Staff believes the newly proposed amendment appropriately mirrors the PP&E description in paragraph 84 without being too detailed or prescriptive. The proposed amendment defines an intangible asset and states that the federal government may use intangible assets, like PP&E, to provide a service or are themselves the service.<sup>4</sup>

### SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

Based on prior Board deliberations, staff proposes the following amendments to SFFAC 5, paragraphs 24-26 and 31.

<sup>4</sup> Staff also replaced the word "non-monetary" with "non-financial" in the definition of intangible asset. Staff believes that "non-financial" is more appropriate because the term can encompass monetary assets and other types of assets discussed in SFFAC 2, paragraph 84, such as investments and receivables. Staff will discuss this more in depth in the next recommendation.

## Essential Characteristics of Assets

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 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 property software, 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.

## Economic Benefits or Services

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, datasets, and patented technology 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.

## Control by the Federal Government

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.

Staff originally recommended several amendments to 10 paragraphs in SFFAC 5 but is now recommending only minor amendments to four paragraphs. For example, staff removed several examples of intangible assets, the discussion of how licenses can unbundle economic benefits and services like leases, and the discussion of institutional knowledge in the context of whether an intangible asset can be identified separately from the federal government.

Staff retained a few references to typical intangible assets in the federal government, such as licenses, software, patents, and datasets. For example, 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 to indicate 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.

Paragraph 25 currently discusses how federal government resources can be tangible or intangible and provides an easement on property as an example of an intangible asset. Staff recommends replacing easement on property with "software" because software is a typical and commonly used intangible asset across the federal government. Furthermore, accounting for permanent and temporary land rights currently fall under SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 54, *Leases*, respectively.

Staff removed some of the intangible asset examples in paragraph 26. However, staff still recommends providing datasets (e.g., Census, weather, and campaign finance data) and patented technology (e.g., NASA's patent portfolio) as examples of intangible assets that can embody services by providing educational, and research opportunities to the public in the same manner as tangible parks and museums.

For paragraph 31, staff recommends adding "licensing" to provide an example of intangible assets that the federal government may control even without ownership. This would distinguish a leasing of tangible property from licensing intangible property, such as copyrighted software or a patented technology.

### **Staff Recommendation**

Staff believes these few amendments provide balance to the concepts that already discuss tangible property, plant, and equipment as types of assets in the federal government. Furthermore, staff believes adding a description of intangible assets in SFFAC 2 and a brief discussion of how intangible assets can apply to the essential

characteristics of assets in SFFAC 5 would provide a foundation for developing authoritative accounting guidance for intangible assets.

### Question for the Board:

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

## RECOMMENDATION NO. 2

During the December 2024 meeting, the Board agreed on a framework to move forward with developing accounting guidance for intangible assets. For this session, staff is proposing scope, definition, and recognition language for an intangible asset Statement.

## ANALYSIS

### Prior Board Deliberations and Research

#### Intangible Asset Working Definition

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

*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*

## Intangible Asset Standards Framework

At the December 2024 meeting, the Board agreed to move forward with the following accounting guidance framework for intangible assets:

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.*

The Board generally agreed it is important to develop guidance to improve accountability and transparency over intangible assets in the federal government and that it would be practical and beneficial for stakeholders to include updated guidance from SFFAS 10 as part of an intangible asset standard due to the potential overlap between intangible assets and internal use software accounting guidance.

## Research

For this recommendation, staff coordinated with the task force and researched the following:

- GASB Statement, No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, par. 18
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, par. 2-3, 6
- FASAB Board material, *Topic A-2, Intangible Assets*, November 20, 2024
- FASAB Board material, *Topic F, Intangible Asset Working Definition*, Feb 1, 2022

- FASAB Board meeting minutes, Topic A-2, Intangible Assets, Dec 10, 2024
- FASB ASC 350-30, *General Intangibles Other than Goodwill*, par. 25-1
- FASB ASC 805-50-30, *Acquisition of Assets Rather than a Business*, par. 1-2
- IPSAS 31, *Intangible Assets*, par. 2-6, 17-19, 32-34, 37
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- SFFAS 6, *Accounting for Property, Plant, and Equipment*, par. 17, 23, 26, 34
- SFFAS 3, *Accounting for Inventory and Related Property*
- SFFAS 54, *Leases*, April 17, 2018

### **Recommended Intangible Asset Scope, Definition, and Recognition Language**

Staff used the intangible asset working definition, intangible asset accounting guidance framework, and FASAB and other standard-setter guidance referenced above to develop the following scope, definition, and recognition language for intangible asset standards:

#### **SCOPE**

1. This Statement establishes accounting and financial reporting standards for intangible assets, as defined in paragraph 3, that reporting entities acquire for one or more of the following purposes:
  - a. For use in providing goods or services, or to support the mission of the reporting entity
  - b. For use in business-type activities
2. This Statement applies to all intangible assets except for the following:
  - a. Assets resulting from lease transactions addressed in SFFAS 54, *Leases*
  - b. Seized and forfeited property addressed in SFFAS 3, *Accounting for Inventory and Related Property*
  - c. Internally developed intangible assets (other than internally developed software addressed in paragraphs XX-XX of this statement)

- d. Goodwill created through the combination of a reporting entity and another entity

## DEFINITIONS

- 3. For this Statement, an intangible asset is an asset that possesses all the following characteristics:
  - a. The asset lacks physical substance. Some intangible assets can be contained or accessed through physical property. For example, software is typically stored and operated through hardware and a tangible legal document can represent and convey information about intellectual property. Additionally, an intangible asset may be associated with a separate physical asset. Reporting entities should not consider these physical modes of containment and associations with physical property when determining whether an asset lacks physical substance.
  - b. The asset is a nonfinancial asset, which means it does not represent cash or other monetary assets, security investments, claims to monetary assets such as accounts or loan receivables, or transactions for goods or services owed to the entity, such as an advance or prepayment.
  - c. The asset has an estimated useful life of two years or more.

## RECOGNITION

- 4. Reporting entities should capitalize the cost incurred to acquire an intangible asset from another entity if it is identifiable. For this Statement, an intangible asset is identifiable if either:
  - a. The asset is capable of being separated from the entity and sold, transferred, licensed, or exchanged, either individually or together with a related contract, asset, or liability; or
  - 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.
- 5. Reporting entities should recognize the acquired intangible asset when it is available for use for its intended purposes.

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### Scope Analysis

The recommended scope language addresses:

- Intangible assets included in the scope of the standards (par. 1)
- Intangible assets scoped out of the standards (par. 2)

Paragraph 1 states that the standards would only apply to intangible assets acquired for purposes similar to general property, plant, and equipment (G-PP&E).<sup>5</sup> The scope would include intangible assets that federal entities acquire to provide goods or services in fulfilling the mission to the public and/or in self-sustaining business type activities.<sup>6</sup> This scope would not include intangible assets acquired for stewardship or heritage asset purposes, such as publicly available research data.

Paragraph 2 establishes the types of intangible assets that would not apply to the scope of the standards. For example, subparagraphs 2.a. and 2.b. state that the intangible asset guidance would not apply to any acquired intangible asset that also applies to the scope of existing leases and seized and forfeited property guidance, respectively.

The Board has described leases as providing the intangible right to derive economic services and benefits from tangible assets.<sup>7</sup> Additionally, SFFAS 3 applies to seized and forfeited intangible property. Therefore, staff believes the intangible asset standard should explicitly scope out potential intangible assets that would fall under the provisions of these Statements.<sup>8</sup>

Subparagraph 2.c. establishes that the intangible asset standards would not apply to internally generated intangible assets, except for internal use software.<sup>9</sup> Research has indicated significant challenges with measuring a value for intangible assets that federal entities develop internally. The Board agreed during the December 2024 meeting on an accounting guidance framework that would only apply to intangible assets in which the value is measurable based on the cost a reporting entity incurs to acquire the intangible asset from another entity.

Subparagraph 2.d. establishes that the intangible asset standards would not apply to goodwill resulting from the combination of multiple entities. During research, staff did not identify any prior examples in the federal environment of entity combinations that could result in goodwill. However, staff believes the intangible asset standard should still clearly scope out goodwill because such an event could occur in the future. Additionally, scoping out goodwill reinforces the recognition criteria in paragraph 4 that staff will discuss later.

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<sup>5</sup> SFFAS 6, par. 23

<sup>6</sup> SFFAS 6, footnote 27 states, "Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue..."

<sup>7</sup> TR 20, *Implementation Guidance for Leases*, par. 18

<sup>8</sup> GASB 51, par. 3.b. and IPSAS 31, par. 6(b) scope out intangible assets that apply to lease standards.

<sup>9</sup> SFFAS 10, par. 10-17 currently provides accounting guidance for internally developed software. The Board plans to consider updates to this guidance as part of the software technology project.

Furthermore, staff believes if the Board identifies a need to provide accounting guidance for goodwill, it would be prudent to address as a separate project due to the unique and complex accounting requirements for goodwill assets.

### Definition Analysis

The recommended definition language states, in summary, that for the purposes of the Statement, intangible assets:

- Lack physical substance (par. 3.a.)
- Represent nonfinancial assets (par. 3.b.)
- Have an estimated useful life of two years or more (par. 3.c.)

Staff used aspects of the Board's working definition and referenced guidance from GASB 51, paragraph 2 when developing the proposed language.

Per the February 2022 Board deliberations, "a lack of physical substance" is a foundational characteristic of intangible assets that distinguishes them from tangible assets. Whereas one can physically touch tangible property, such as land or equipment, one cannot physically touch intangible property, such as, data, or software.

Some intangible assets could present in a tangible manner. For example, software is typically stored and operated through hardware. Likewise, a tangible document can represent and convey information about a patent. However, it is important to distinguish the underlying resource from the vessel that represents or contains the resource. For example, the underlying resource associated with software is computer code.

Furthermore, per SFFAC 5, paragraph 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." Therefore, staff believes the proposed definition should also encompass intangible rights closely associated with tangible property, that offers economic benefits and services separate from the tangible property, such as a right to use natural resources.<sup>10</sup>

Per the February 2022 Board deliberations, another key aspect of an intangible asset is that they are a nonfinancial or nonmonetary asset. This characteristic helps separate intangible assets from other resources that lack physical substance that FASB guidance already addresses as financial and/or monetary-related assets, such as cash, fund balance with Treasury, account receivable, loan receivables, interest receivables, advances and prepayments, and investments in Treasury securities.<sup>11</sup>

<sup>10</sup> SFFAS 38, *Accounting for Federal Oil and Gas Resources*, requires RSI disclosure for estimated royalties associated with federal oil and gas reserves. However, SFFAS 38 does not require asset recognition for natural resource rights.

<sup>11</sup> See SFFAS 1, *Accounting for Selected Assets and Liabilities*, par. 27-73 and SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*.

Staff originally proposed that the intangible asset working definition state that intangible assets represent nonmonetary assets. However, upon further thought staff believes using the term “nonfinancial” is more appropriate because it would more clearly encompass other types of assets that FASAB concepts and standards identify separate from cash and other monetary assets, such as Treasury security investments, receivables, and prepayments.

Finally, staff recommends that the intangible asset definition apply to intangible assets that have an estimated useful life of two years or more.<sup>12</sup> This would be consistent with how FASAB has applied accounting guidance previously to capital assets, such as SFFAS 6 for PP&E and SFFAS 10 for internal use software.

### Recognition Analysis

The recommended language for recognition guidance states, in summary, that for the purposes of the Statement, reporting entities should:

- Capitalize the cost to acquire an intangible asset (par. 4),
- when the intangible asset is available for use for its intended purpose (par. 5),
- only if the intangible asset is identifiable (par. 4.a.-b.).

Per the December 2024 Board deliberations, the Board agreed on an accounting framework that would require reporting entities to capitalize the cost incurred to acquire an intangible asset from another entity through an exchange transaction, typically by paying cash from appropriated or collected funds. Staff based the recommended recognition language primarily on this framework.

As previously discussed, staff believes the proposed recognition guidance in paragraph 4 would ease potential measurement challenges by only requiring reporting entities to recognize intangible assets in which the value is measurable based on the cost to acquire a specifically identifiable intangible asset. This is typical recognition guidance for other capital assets, such as PP&E. Staff referred to existing FASAB PP&E guidance as well as intangible asset guidance from other standard setters for developing the recommended language in paragraph 4.<sup>13</sup>

Additionally, paragraph 4 also addresses recognition criteria that would require reporting entities to only capitalize acquired intangible assets that the reporting entity can identify as an asset distinct from the entity as a whole. In accordance with the framework, an intangible asset could be identifiable either through a contract or a legal arrangement

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<sup>12</sup> Staff notes that paragraph 17 of SFFAS 6 addresses useful life criteria for PP&E in the definitions section of the guidance. Furthermore, paragraph 2 of GASB 51 addresses useful life criteria for intangible assets when defining intangible assets in the scope section of the guidance.

<sup>13</sup> SFFAS 6, par. 26; FASB ASC 805-50-30, par. 1-2; GASB No. 34, par. 18; and IPSAS 31, par. 31-34.

(paragraph 4.b.), or by the entity's ability to separate and exchange, sell, transfer or license the individual intangible asset (paragraph 4.a.).

The recognition guidance in paragraphs 4.a.-b. would exclude from asset capitalization requirements, intangible resources inherent within 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 entity. Both GASB and IPSASB provide similar recognition requirements in their intangible asset accounting guidance.<sup>14</sup>

Finally, paragraph 5 would provide guidance that addresses when reporting entities should recognize the acquired intangible asset in its financial statements. Staff referred to existing accounting guidance in SFFAS 6 and IPSAS 31 when developing the recommended guidance.<sup>15</sup>

SFFAS 6, par. 34 states in part, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity." Staff believes the recommended guidance for intangible assets in par. 5, "Reporting entities should recognize the acquired intangible asset when it is available for use for its intended purposes", would convey the same intention as SFFAS 6 but would be more tailored to the nonphysical nature of intangible asset acquisitions.

For example, it may not be clear when "delivery" of an intangible asset occurs due to its nonphysical nature. Additionally, staff does not believe that "title passing" is appropriate in the context of an intangible asset because in many cases, such as software and intellectual property, the acquiring entity does not necessarily receive title of ownership of the intangible asset.

Staff believes that recognizing the intangible asset when management determines it is ready for use provides a clear point in time for financial statement recognition and allows the possibility to also recognize any costs incurred to make the intangible asset ready for use, pending future Board deliberations.

### **Task Force Feedback**

The task force generally supported the recommended scope, definition, and recognition guidance for intangible assets and did not note many concerns. One task force member suggested that the guidance also scope out intangible assets that a reporting entity acquires for sale in the ordinary course of operations.

Staff does not currently see a need for the guidance to scope out this type of intangible asset and is not currently aware of an example of such intangible assets in the federal environment. Furthermore, the guidance for inventory held for sale in SFFAS 3 specifically applies only to tangible personal property.

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<sup>14</sup> GASB No. 51, par. 6; IPSAS 31, par. 17-20.

<sup>15</sup> SFFAS 6, par. 34 and IPSAS 31, par. 37

If this guidance broadly scopes out intangible assets held for sale in the ordinary course of operations without specific guidance to reference, it could unintentionally scope out intangible assets meant to apply to the scope in paragraph 2. Staff believes that if research later indicates a need for guidance addressing intangible property held for sale, the Board should consider the issue as part of this project.

Another task force member recommended adding examples of intangible assets that would apply to scope of the guidance. The proposed definition does mention software and intellectual property in paragraph 3.a. when describing how intangible assets lack physical substance. However, staff does not believe the scope nor definition of the guidance should provide a list of intangible assets that could apply to the guidance because doing so could unintentionally scope out intangible assets not in the list.

Staff believes the range of potential intangible assets in the federal government is wide and it would not be practical for the Board to identify all of them in the guidance. The recommended scope and definition would require federal entities to use judgment in determining whether a particular resource would apply to the guidance.

Another task force member recommended that the intangible asset definition in paragraph 3 reference other aspects of the working definition, including that an intangible asset embodies future economic benefits and services, the entity controls the asset, and the intangible asset has a measurable value. Staff does not recommend that the Board incorporate these asset concept characteristics into the authoritative guidance.

SFFAC 5, par. 18 states, “An asset is a resource that embodies economic benefits or services that the federal government controls.” Furthermore, SFFAC 5, par. 57 states in part, “Items that are judged to meet the definition of an element are candidates for recognition provided they are measurable—that is a monetary amount can be determined with reasonable certainty or is reasonably estimable.” Staff notes however that this is part of the Board’s conceptual framework for developing authoritative standards and the Board has not historically included these concepts in its asset standards.

Furthermore, the scope and recognition guidance that staff recommends in paragraphs 1 and 4, respectively consider these concepts for intangible assets. For example, if a reporting entity pays money to acquire an intangible asset that the entity plans to use to provide goods or services or for business-type activities, then the intangible asset likely represents future economic benefits or services to the entity and the value would be measurable based on the cost incurred.

Likewise, the requirement that an acquired intangible asset be identifiable (i.e., capable of being sold/licensed or arises from legal or contractual arrangements) would indicate that the reporting entity likely has control of the intangible asset.

## Staff Recommendation

Staff believes the recommended scope, definition, and recognition language for an intangible assets Statement is consistent with the working definition and accounting guidance framework that the Board previously supported and would provide a good foundation for an intangible asset Statement for the Board to further consider accounting guidance needs. For example, staff plans to present accounting guidance recommendations at future Board meetings for the following:

- Accounting for the cost to prepare intangible assets for use
- Specific accounting considerations for intragovernmental acquisitions
- Useful life estimation
- Amortization
- Impairment
- Disclosures

### Question for the Board:

2. Does the Board support the recommended scope, definition, and recognition language for intangible asset guidance? 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 concept amendments and will coordinate with stakeholders to further develop guidance recommendations for 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.

*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.*

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.