

## Memorandum

### Software Technology

July 25, 2025

To: Members of the Board  
From: Josh R. Williams, Assistant Director  
Thru: Monica R. Valentine, Executive Director  
Subject: **Software Technology - (Project Timeline Analysis) - (Topic E)**

### INTRODUCTION

At the June 2025 meeting, the Board agreed to modernize the software development guidance in SFFAS 10, *Accounting for Internal Use Software* to align with agile development methods.

The objective of this meeting is for the Board to consider a project timeline analysis for updating SFFAS 10. The analysis provides the following options:

1. Wait to issue an exposure draft (ED) once the Board deliberates the entire software technology and intangible assets project
2. First issue a separate ED that only amends the software development guidance in SFFAS 10 as the Board continues to deliberate the software technology and intangible assets project

Staff requests the Board's feedback and preference on the project timeline options.

### REQUEST FOR FEEDBACK

**Prior to the Board's August meeting**, please review the attached staff analysis and respond to the question by August 11, 2025.

### NEXT STEPS

**Pending Board feedback**, staff will either draft an ED that amends software development guidance in SFFAS 10 or continue to research and propose updates, as needed, to existing accounting guidance in SFFAS 10.

## **ATTACHMENTS**

1. Staff Analysis
2. Prior Board Meeting Discussion Timeline

# Analysis

## Software Technology

July 25, 2025

### INTRODUCTION

#### Purpose

This staff analysis pertains to the Board's project to update accounting guidance for software technology.

#### Background

After establishing a project scope, guidance deliberations began with the Board considering adopting a right-to-use asset framework for cloud-service arrangements. The Board initially considered adopting guidance that the Governmental Accounting Standards Board (GASB) issued in Statement No. 96, *Subscription-Based Information Technology Arrangements*.

During the October 2022 meeting, some members viewed cloud-service arrangements as service contracts while some members thought it reasonable to conceptualize cloud-service arrangements as right-to-use assets. However, most members were concerned that the preparer burden and lack of reporting benefits may not justify the need for asset recognition. The members suggested that disclosures could adequately provide information about how federal entities use cloud-services for operational needs versus purchasing or developing the information technology (IT) resource internally.

During the April 2023 meeting, the Board considered potential preparer burdens and user benefits of four reporting options that staff proposed in a cost-benefit analysis. The Board overwhelmingly supported developing guidance to require reporting entities to disclose cloud-service expenses.

During the October 2023 meeting, the majority of members supported proposed guidance that would establish that reporting entities should apply existing liability and prepaid asset guidance to cloud-service arrangements and expense payments for cloud services as incurred. However, the Board had mixed opinions about whether guidance should require reporting entities to disclose any information on cloud-service arrangements. Staff noted they would defer disclosure guidance proposals and focus on recognition guidance for the software-technology project topics.

At the April 2024 meeting, the majority of members agreed that reporting entities should not capitalize implementation costs for cloud-service arrangements unless the implementation activities result in a distinct internal use software asset, in accordance with SFFAS 10, independent of the associated cloud-service arrangement.

At the December 2024 meeting, the Board agreed on a scope to distinguish software license assets from cloud services for financial statement recognition purposes and agreed on an asset recognition framework for perpetual and term-based software licenses. Additionally, the Board decided to move forward with developing intangible asset standards and to rescind SFFAS 10 and reissue internal use software guidance, including updates from the Board software technology project, as a component of a new intangible asset Statement.

At the February 2025 meeting, the majority of members agreed to apply the software license accounting framework to shared services. However, some members wanted to further research the costs and benefits of recognizing shared service assets. The Board agreed to move forward in the project but further research the costs and benefits in recognizing shared service assets, particularly for challenges with eliminating intragovernmental transactions for government-wide reporting. Additionally, the Board agreed on a recognition framework for shared software code.

At the June 2025 meeting, the Board overwhelmingly agreed to modernize the software development guidance in SFFAS 10 to better align with agile development methods.<sup>1</sup>

#### June 2025 Board deliberations

During the June 2025 meeting, two members suggested that the Board consider issuing an exposure draft (ED) that amends SFFAS 10 to modernize the software development guidance with agile development practices before the Board completes guidance development for the entire software technology and intangible asset standards projects. The members believed that issuing the amendments sooner rather than later could benefit preparers and auditors by providing needed guidance on a significant software accounting issue while the Board continues to work towards the long-term goal of fully updating SFFAS 10.

Another member responded by stating that the software technology project is a long-term and comprehensive effort and that the Board had planned to issue updated software guidance as a new Statement that completely replaces SFFAS 10 to avoid issuing multiple small amendments at different times. The member reminded the Board that preparers and auditors had previously voiced frustration with the difficulty of applying guidance updated through numerous amendments. The member also reminded the Board that during a recent meeting, the Board decided to issue the updated software guidance as part of a new intangible asset Statement.

During the meeting, staff stated that it may be possible to change course and issue an ED amending SFFAS 10 with only the updated software development guidance. However, staff believes there are drawbacks to that approach. For example, developing and issuing an exposure draft for one piece of the overall software technology project would likely slow the timeline for the overall project and final Statement issuance.

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<sup>1</sup> See Attachment 2 for a more detailed summary of previous Board meeting deliberations on the software technology project.

Furthermore, all aspects of software accounting guidance relate to one another. For example, the Board plans to further consider updates to enhancement guidance in SFFAS 10 at a later meeting, which would relate to and potentially affect the agile development framework deliberated during the June 2025 meeting. Staff stated that issuing updated guidance in increments could lead to issues with practitioners applying the overall standards and could require Board rework through more amendments in the long run.

For the technical agenda deliberations during the August 2025 meeting, the Board requested that staff present a project timeline analysis for issuing a separate ED that only amends the software development guidance in SFFAS 10 versus waiting to issue an ED once the Board deliberates the entire software technology and intangible assets projects.

### **RECOMMENDATION NO. 1**

Per the Board's request, this paper provides a project timeline analysis for updating SFFAS 10. The analysis provides the following options:

1. Wait to issue an ED once the Board deliberates the entire software technology and intangible assets projects
2. First issue a separate ED that only amends the software development guidance in SFFAS 10 as the Board continues to deliberate the software technology and intangible assets projects

Staff requests the Board's feedback and preference on the project timeline options.

### **ANALYSIS**

The following analysis will discuss:

- Research
- Project status
- Project timeline analysis
- Stakeholder considerations
- Staff recommendation

### **Research**

For this session, staff researched prior working group correspondence, prior Board meeting material, and other standard-setter guidance. Staff specifically researched the following documents for this analysis:

- FASAB Board Material, *Topic E – Software Technology Guidance Updates*, [February 7, 2022](#)
- FASAB Board material, *Topic A – ITC Responses and Analysis*, [November 30, 2023](#)
- FASAB Board material, *Topic A-2 – Intangible Assets*, [November 20, 2024](#)
- FASAB Board material, *Topic A – Software Technology*, [February 6, 2025](#)
- FASAB Board material, *Topic B – Intangible Assets*, [February 5, 2025](#)
- FASB Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*, [October 29, 2024](#)
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, [June 2007](#)
- SFFAS 10, *Accounting for Internal Use Software*, [October 9, 1998](#)
- Technical Release 16, *Implementation Guidance for Internal Use Software*, [January 19, 2016](#)

Additionally, staff spoke with a few working group members to better understand timeline preferences and concerns for the software technology project.

## Project Status

Per the December 2024 meeting, the Board is currently updating its software accounting guidance and developing new accounting guidance for intangible assets. The Board plans to rescind SFFAS 10 and reissue the internal use software guidance, including updates from the software technology project, as a component of a new intangible asset Statement. Since software is generally considered an intangible asset, the Board determined it would be practical to combine the topics into one Statement, like FASB and GASB guidance, due to potential overlap between the standards.

This section will provide a status summary addressing:

- Progress the Board has made on the software technology and intangible assets projects
- Remaining guidance topics that staff plans to present to the Board for both the software technology and intangible asset projects

### Status of software technology project

The Board initially approved the software technology project with the following scope:

1. Cloud-service arrangements
2. Shared services
3. Internal use software updates
4. Other software technology

The Board intended to address each category in sequential order with the understanding that accounting guidance for each topic would overlap and relate to one another.

To date, the Board has deliberated and agreed on updated recognition and measurement guidance for the following:

- Cloud-service arrangements (payments and implementation costs)
- Perpetual and term-based software licenses
- Shared services
- Shared software code
- Modernized software development cost guidance that aligns with agile development methods

Staff plans to research and consider proposing SFFAS 10 updates for the following:

- Enhancements
- Amortization/useful life estimation
- Impairment
- Multiuse software
- Integrated software
- Bundled products and services
- Capitalization thresholds

- Disclosures<sup>2</sup>

Per the “Other software technology” scope category, staff also plans to research and, if needed, propose new accounting and reporting guidance for the following:

- Artificial intelligence
- Cybersecurity

The previous list reflects staff’s plans based on prior research and working group feedback. While staff plans to research the need for guidance updates for these topics, it is possible that the Board may determine that guidance updates are not needed for all the listed topics. For example, general recognition and measurement guidance for IUS may effectively apply to artificial intelligence and cybersecurity costs without the need for more specific guidance. Additionally, during future deliberations the Board may determine a need for other software accounting guidance updates not yet identified.

#### Status of intangible asset standards project

During the December 2024 meeting, the Board agreed to move forward with developing intangible asset concepts and accounting standards for identifiable intangible assets that reporting entities acquire from another entity for use in providing goods or services.

To date, the Board has deliberated and agreed upon the following:

- Concept amendments for both SFFAC 2, *Entity and Display*, and SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, to address intangible assets at a minimal and high level
- Scope, definition, and recognition language for intangible asset standards.

Staff plans to research and recommend accounting and reporting guidance addressing the following topics for intangible assets:

- Initial measurement
- Amortization/useful life estimation
- Impairment
- Disclosures

These guidance topics will likely overlap with the software technology project and staff plans to address them in the same proposals for Board deliberations. Additionally, staff will research the need for additional accounting guidance for digital assets. However,

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<sup>2</sup> Since the October 2023 meeting, the Board has focused deliberations on recognition and measurement guidance updates with plans to subsequently revisit disclosure requirements.



staff believes it is possible that the general intangible asset accounting guidance would effectively apply to digital assets without the need for more specific guidance.

### **Project timeline analysis**

Based on the previous project status analysis, this section provides a timeline analysis for the following options for issuing software guidance updates:

1. Wait to issue an ED once the Board deliberates the entire software technology and intangible assets projects
2. First issue a separate ED that only amends the software development guidance in SFFAS 10 as the Board continues to deliberate the software technology and intangible assets projects

The following analysis will discuss staff's estimated timeline for issuing an exposure draft for each option.

#### Option 1

The Board has already deliberated recognition and measurement guidance updates for cloud services, software licenses, shared services, and agile software development, which are the primary topics in the software technology scope and will serve as the foundation for the updated accounting guidance.

Staff plans to research several remaining topics for potential guidance update recommendations, such as enhancements, amortization, impairment, integrated software, bundled services, disclosures, etc. However, the guidance for these topics are mostly complementary to the primary software accounting guidance issues the Board has already deliberated and staff believes these topics will not take as much time for research and deliberations.

Likewise, staff believes the Board has already deliberated the foundational guidance for intangible asset standards (e.g., scope, definition, and recognition guidance). Like the software project, staff believes most of the remaining topics for the Board to deliberate (e.g., amortization, useful life, impairment, disclosures, etc.) are complementary to the accounting guidance that the Board has already deliberated.

Staff plans to research and make recommendations for multiple guidance topics in single Board meetings for both the software and intangible asset projects. For example, for the October 2025 meeting, staff could present guidance recommendations for enhancements, amortization, and impairment for both software and intangible asset guidance. Staff believes the Board could also deliberate disclosure requirements for both projects during the same meeting. For purposes of formatting the new Statement,

staff plans to continue to recommend broad guidance for the intangible asset standards and consider if additional more detailed guidance is needed specifically for software.<sup>3</sup>

Therefore, based on the remaining topics for Board deliberation and time it would take to draft and review an ED, staff believes the Board could issue an ED for an intangible assets Statement that includes the updated software guidance by **September 2026**. This would allow for four more Board meetings to deliberate guidance frameworks for the remaining projects and two meetings to draft an ED.

## Option 2

For the Board to issue a separate ED that only amends the software development guidance in SFFAS 10, staff would need to redirect resources to drafting an ED that amends paragraphs 10-20 in SFFAS 10 with the new agile development language. The Board would also need to deliberate a basis for conclusions and amendments for any other SFFAS 10 paragraphs that reference the linear development phases or that would need to address the new updates.<sup>4</sup> Staff believes this effort would require at least two Board meetings and therefore believes the Board could issue an ED by **January 2026**.

Option 2 would likely push out the timeline for the comprehensive software and intangible asset projects because staff and the Board would need to focus resources on drafting and deliberating the agile development ED from September through December 2025. Furthermore, option 2 could cause additional delays to the comprehensive Statement ED due to staff and Board time needed to assess and deliberate ED comments and final edits for the agile development amendments.

Therefore, under option 2 staff believes the Board could issue an ED for a comprehensive intangible assets Statement that includes the updated software guidance by **May 2027**.<sup>5</sup>

The following table depicts the estimated timelines for both options:

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<sup>3</sup> This is how both FASB and GASB have developed their intangible asset standards.

<sup>4</sup> In addition to SFFAS 10, par. 10-20, staff believes the Board would need to consider updating SFFAS 10, par. 4-5, 7, and 28-31 as part of the agile development updates.

<sup>5</sup> Staff believes these estimated completion dates of issuing ED's are reasonably optimistic based on current information. However, there are many variables that could impact these timelines as the Board continues to deliberate. For example, unforeseen amendment affects and/or new accounting issues could arise and push out the timeline for both options.

### **Project Timeline Analysis**

<b>Option 1</b>								
Exposure Draft	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27
Intangible asset/software Statement	DE	DE	DE	DE	ED			
<b>Option 2</b>								
Exposure Draft	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27
Agile software development amendment	DE	DE	ED					
Intangible asset/software Statement	DE	DE	DE	DE	DE	DE	DE	ED

### **Stakeholder considerations**

With option 1, the Board would rescind SFFAS 10 and issue one new Statement that provides comprehensive up-to-date guidance for intangible assets and software technology. With option 2, the Board would provide incremental amendments to SFFAS 10 while the Board continues developing the final comprehensive guidance.

Prior research indicates that preparers overwhelmingly prefer that the Board rescind and reissue new Statements for major guidance updates instead of issuing incremental amendments through multiple Statements with tracked edits.<sup>6</sup>

Additionally, for this meeting staff spoke with a few working group members to get their feedback on the two options. Both working group members voiced general support for the amendments to modernize SFFAS 10 with agile development methods but did not believe that it was urgent for the Board to issue the updates before the rest of the software technology project updates.

One working group member stated that they did not think it would cause any issues if the Board decided to issue the amendment for agile development earlier. However, they also stated that they generally prefer that the Board update and issue new guidance comprehensively in one document rather than piecemealing incremental amendments because it is easier to refer to one Statement with the most up-to-date guidance so that all paragraphs work together.

Another working group member indicated that they thought waiting to issue a complete and comprehensive ED in the second half of 2026 would be fine. Their primary concern was that the software technology project could be never-ending due to fast evolving issues that keep arising, such as with recent Executive Order addressing a strategic Bitcoin reserve and digital asset stockpile.

Staff agrees that is a challenge with the software technology project and that at some point the Board will need to determine when to issue an ED as issues keep evolving. Staff still believes September 2026 is a reasonable timeframe for the Board to issue an

<sup>6</sup> See FASAB Board Material, Topic E – *Software Technology Guidance Updates*, February 7, 2022

ED for an intangible asset Statement that addresses the major software accounting issues identified in the project scope.

### **Staff recommendation**

Staff recommends option 1 - Wait to issue an ED once the Board deliberates the entire software technology and intangible assets projects. Staff recommends option 1 for the following reasons:

- Research and working group feedback indicates that preparers generally prefer that the Board update and issue new guidance comprehensively in one Statement rather than piecemealing incremental amendments. Furthermore, federal entity preparers have not reached out to staff requesting that the Board issue incremental updates for agile software development before the Board deliberates the entire software technology and intangible asset projects.
- Staff believes the Board has already deliberated the foundational guidance frameworks for both projects. Therefore, the projected date for issuing an ED for the agile software amendment in January 2026 is not significantly earlier than the projected date for issuing an ED for a new comprehensive intangible asset Statement (September 2026) that includes all software guidance updates. Furthermore, issuing an ED for agile software development updates first would likely delay issuing an ED for the comprehensive Statement by several months.
- Since all aspects of the software accounting guidance relate to and can affect one another, staff believes that issuing updated guidance in increments could lead to issues with preparers and auditors applying the standards as a whole. Additionally, issuing incremental guidance for agile development could create difficulty for preparers in the long run if agencies devote time and resources to implement the new agile develop guidance and the Board subsequently decides to further amend the agile development guidance as members continue to deliberate the final Statement.

### **Question for the Board:**

1. Does the Board agree with staff's recommendation to wait to issue an ED once the Board deliberates the entire software technology and intangible assets projects? Please provide your feedback on staff's analysis and recommendation.

### **Next Steps**

Pending Board feedback, staff will either draft an ED that amends software development guidance in SFFAS 10 for agile development methods or continue to research and propose updates, as needed, for SFFAS 10.

## **Prior Board Meeting Discussion Timeline**

### **February 2022**

At the February 2022 meeting, staff presented an issues paper that provided a framework for developing reporting guidance updates for software technology assets. Specifically, the issues paper recommended a scope and project plan for developing updates for software guidance based on specific needs identified during research. The scope consists of four major categories of software resources that staff plans to address individually in the following order:

1. Cloud-service arrangements
2. Shared services
3. Internal use software updates
4. Other software technology

The Board overwhelmingly supported staff's recommended scope and planned approach. Additionally, members supported staff's approach of addressing each scope category separately but noted that the categories would ultimately overlap and relate to one another.

The Board decided to first focus on reporting-guidance needs for cloud-service arrangements. Research indicated that federal entities are using cloud services at an increasing rate for operational purposes similar to internally developed software, generally due to the need for less investment risk and more flexibility to alter the amount and type of services received based on current needs. Therefore, it is critical to address reporting guidance for this commonly used software-technology resource to ensure reporting consistency throughout the federal government.

### **April 2022**

At the April 2022 meeting, staff presented characteristics of cloud-service arrangements along with an asset-guidance framework for which to apply the characteristics. The framework analyzes previous asset-guidance decisions that will assist the Board when deliberating whether cloud-service arrangements can represent assets in the federal government. There were three primary takeaways from the discussion:

- The National Institute of Standards and Technology's (NIST) cloud-computing characteristics are widely accepted and used in the federal government.
- Based on the asset-guidance framework, it is appropriate to approach cloud-service arrangements as lease-type transactions that provide a federal entity

access to a provider's software technology resources for the federal entity to use as internal use software for a specified period.

- More research and outreach is needed to develop an informed decision on whether cloud-service arrangements can meet all of the essential characteristics of an asset established in SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.

The Board generally supported using the NIST's cloud-computing characteristics for developing financial reporting guidance for cloud-service arrangements. Several members agreed with staff's observation that federal entities widely use the NIST cloud-computing characteristics and that it is practical to defer to the information technology (IT) professionals when describing cloud-service arrangements.

The Board generally agreed with staff's proposed asset-guidance framework and observation that it is particularly important to continue to research and deliberate whether cloud-service arrangements can meet the essential characteristics of an asset from SFFAC 5. Some members noted that for an asset to exist, the cloud-service arrangement must represent economic benefits and services that the federal government can use in the future. Other members stated that it is critical to determine whether a consumer of a cloud service could control access to the economic benefits and service of the underlying resource and, particularly, if the user could deny or regulate access to others in accordance with the arrangement.

## **June 2022**

At the June 2022 meeting, two panelists from the General Services Administration (GSA) provided the Board an educational session on cloud-service arrangements. The panelists provided members an overview of the characteristics, service models, and deployment models of cloud computing and discussed ways that federal entities procure and pay for cloud services. Additionally, Board members, staff, and panelists discussed potential financial reporting needs and challenges associated with cloud-service arrangements.

## **August 2022**

During the August 2022 meeting, the Board continued deliberations on reporting guidance for cloud-service arrangements. Staff presented an issues paper that proposed:

- A framework of cloud-service arrangements that could meet the essential characteristics of an asset for financial reporting purposes
- Potential benefits and challenges of reporting cloud service arrangements as assets in federal financial reports

The Board generally supported staff's analysis on whether certain cloud-service arrangement categories could meet the SFFAC 5 essential characteristics of an asset. Some members recommended more research to better understand how federal entities typically incur costs for long-term cloud-service arrangements. One member recommended more research and deliberation on whether cloud-service arrangements are typical service contracts or if they are more akin to leases or right-to-use assets. Another member recommended consideration of how other standard-setters made their determinations on asset reporting for cloud-service arrangements.

The Board also generally agreed with staff's analysis on the user benefits and preparer challenges with reporting cloud-service arrangements as assets in federal financial reports. One member stated that the identified reporting challenges were valid but thought that they could be overcome with proper guidance. A few members suggested further research and deliberation on the financial reporting benefits with note disclosure options versus asset recognition in financial statements. One member added that it was important to continue to seek out a wide range of federal financial report users that have an interest in cloud-service arrangement reporting.

## **October 2022**

During the October 2022 meeting, the Board continued deliberations on reporting guidance for cloud-service arrangements. Staff presented an issues paper that:

- Analyzes how other standard-setting bodies have deliberated the differences between a service contract and a right-to-use asset, along with how those positions have influenced their cloud-service reporting guidance; and
- Examines FASAB's previous discussions of tangible right-to-use assets and service contracts and analyzes whether cloud-service arrangements in the federal environment resemble right-to-use assets or service contracts.

The Board had different opinions on whether multi-year cloud-service arrangements were right-to-use assets or service contracts. One member favored referring to cloud-service arrangements as service contracts because it was difficult to conceive how an entity could exclude others from using an intangible right-to-use asset. Another member stated that cloud services and other types of service contracts possessed a spectrum of right-to-use asset and service components and was concerned that deciding cloud-service arrangements are right-to-use assets could open the door to considering whether other types of service contracts include right-to-use assets.

Several members agreed it was reasonable to conceptualize cloud-service arrangements as right-to-use assets but were concerned that the associated preparer burden and lack of reporting benefits may not justify the need for asset recognition on the balance sheet. The members suggested that disclosures could adequately provide



information about the extent that federal entities use cloud-services for mission and operational needs versus purchasing or developing the IT resource internally.

## **April 2023**

At the April 2023 meeting, staff presented a cost-benefit analysis that considered potential preparer burdens and user benefits for the following financial reporting options for cloud-service arrangements:

1. Balance sheet recognition
2. Commitment disclosure
3. Expense disclosure
4. Expense recognition only

The Board overwhelmingly agreed with the cost-benefit analysis and supported staff's recommendation that reporting guidance should require federal entities to disclose cloud-service expenses. Most members agreed that expense disclosure was optimal after considering the potential preparer burdens and user benefits of each reporting option. Additionally, the majority of members initially favored disclosing cloud-service expenses in required supplementary information rather than financial statement notes.

## **June 2023**

At the June 2023 meeting, staff recommended definition and scope language for the Board's consideration in developing cloud-service arrangement standards. The purpose of the definition is only to inform readers about cloud-computing resources in the federal environment that the standards will address. However, the purpose of the scope is to provide authoritative guidance by explaining the economic transactions associated with cloud-service arrangements that would and would not apply to the standards.

The Board generally agreed to include the cloud-computing definition developed by the National Institute of Standards and Technology (NIST) Special Publication 800-145, The NIST Definition of Cloud Computing, in the draft reporting guidance proposal. The Board generally agreed that the NIST definition along with a reference to the special publication thoroughly explains cloud-computing resources and including the definition in the standards would help readers understand the reporting guidance. Two members voiced concern that the NIST definition was detailed and technical and, therefore, may not be the most effective definition for financial reporting guidance. One member generally preferred to use a more generic and broad definition to provide flexibility in the reporting guidance.



The Board also generally agreed to include staff's recommended scope language in the draft reporting guidance proposal. The scope includes the following guidance:

- A cloud-service arrangement is defined as a contract or agreement that provides a federal entity access to IT resources over a network, provided by a vendor in exchange for consideration, without the federal entity taking possession of the IT resource.
- The Statement applies to cloud services that federal entities acquire from nongovernmental vendors for internal use purposes in accordance with paragraph 2 of SFFAS 10, Accounting for Internal Use Software, as amended.
- The Statement does not apply to
  - cloud-based IT services acquired from other federal entities (such as, but not limited to shared services);
  - internally developed or purchased commercial off-the-shelf software that is reported in accordance with SFFAS 10 and TR 16, Implementation Guidance For Internal Use Software;
  - licensed software that allows the federal entity to possess and control the underlying software resource on its own hardware or systems that is reported in accordance with SFFAS 10 and TR 16; or
  - arrangements that provide the federal entity the right to control the use of property, plant, and equipment that is reported in accordance with SFFAS 54, Leases, as amended.

The Board generally agreed that the Board should revisit the definition and scope if a need arises while deliberating reporting requirements. Staff recommended that the Board eventually consider if the scope should also include shared services.

## **October 2023**

At the October 2023 meeting, the Board deliberated financial statement recognition and note disclosure requirements for cloud-service arrangements.

The proposed recognition guidance would establish that reporting entities should apply existing liability and prepaid asset guidance to cloud-service arrangements and expense payments for cloud services as incurred. Additionally, the proposed guidance would require reporting entities to disclose total annual cloud-service expenses along with a general description, terms and conditions, and risks and benefits of significant cloud-service arrangements in financial statement notes.

The Board generally supported the proposed recognition guidance but preferred the guidance to directly reference existing liability and prepaid asset recognition

requirements in SFFAS 1, *Accounting for Selected Assets and Liabilities*. The Board had mixed opinions about whether the guidance should require reporting entities to disclose information on cloud-service arrangements.

Some members supported the requirements to disclose annual cloud-service expenses along with some of the proposed qualitative information on significant cloud-service arrangements. The members viewed cloud services as significant to federal IT spending and supported a forward-looking approach with issuing reporting guidance to address a fundamental change with how federal agencies use software technology resources.

However, some members did not support any of the proposed note disclosure requirements because they viewed the requirements as too burdensome relative to the benefits. The members questioned why the Board would require the note disclosures for cloud-service arrangements when the Board does not require reporting that level of information for other service contracts.

Some members did not believe that annual cloud-service costs would ever be material relative to what the federal government spends each year. Other members acknowledged that may be true for government-wide and some component entity financial reports. However, the members believed that the information would be useful to some stakeholders and thought it beneficial for reporting entities to have the reporting guidance to apply if cloud-service arrangements are determined by a reporting entity to be qualitatively or quantitatively material now or in the future.

For now, staff will defer disclosure guidance proposals and focus on recognition guidance needs for the software-technology project topics.

## **April 2024**

At the April 2024 meeting, the Board deliberated accounting options for implementation costs associated with cloud-service arrangements. The majority of members agreed that reporting entities should not capitalize implementation costs for cloud-service arrangements unless the implementation activities result in a distinct internal use software asset, in accordance with SFFAS 10, *Accounting for Internal Use Software*, independent of the associated cloud-service arrangement.

## **August 2024**

At the August 2024 meeting, the Board discussed an accounting guidance framework for software licenses. The framework includes the following working definitions:

- A software license is a legal instrument that provides a federal entity the right to use a software resource under specific terms and conditions. Software licenses allow the federal entity to install and control the underlying software on its own IT

hardware. This term does not apply to software that federal entities access over a network on a hosted platform as part of a cloud-based SaaS arrangement.

- A perpetual software license is a non-expiring license that provides a federal entity the right to use a software resource indefinitely.
- A term-based software license is a temporary license that provides a federal entity the right to use a software resource for a specified period.

The Board also discussed key distinctions between a software license and cloud-service arrangement.

## **December 2024**

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

Software license Guidance Scope - This guidance applies to internal use software that a reporting entity has the right and ability to either run the software on its own hardware or contract with another party, unrelated to the vendor, to host the software.

Perpetual Software License Recognition and Measurement - Reporting entities should account for perpetual software licenses as a purchase of software and capitalize and amortize the cost over its estimated useful life. Reporting entities should recognize a liability for any software licensing fees not paid upon acquisition of the license.

Term-based Software License Recognition and Measurement - If a term-based software license has a useful life of two years or more, the reporting entity should recognize an asset for the cost of the license and a liability for any software licensing fees not paid upon acquisition of the license. The useful life of the asset should not exceed the binding arrangements of the contractual or legal terms of the software license. If the binding arrangements are for a limited term that can be renewed, the useful life of the asset should include the renewal period(s) only if the cost to renew is nominal.

Some members suggested that the Board also consider disclosure guidance to address reporting needs for software licenses with option periods, such as disclosing probable future costs associated with renewal periods. Additionally, some members emphasized that the Board should also consider accounting guidance for software license transactions that do not meet the useful life threshold for asset recognition to ensure accounting consistency across federal entities.

## **February 2025**

### Software Technology – Shared Software

The majority of members agreed with staff's recommendation to apply the software license accounting framework, which the Board had approved during the December 2024 meeting, to shared services. Several members believed that it was appropriate and consistent to apply the same asset recognition framework to software assets that federal entities may acquire through intragovernmental arrangements. However, several members wanted to further consider the materiality of asset recognition for shared services and the potential challenges of performing intragovernmental transaction eliminations for the government-wide report.

Based on deliberations, the Board agreed to move forward in the project but further research the costs and benefits of recognizing shared service assets, particularly for challenges with eliminating intragovernmental transactions for government-wide reporting.

Additionally, the Board agreed with the following recognition framework for shared software code: "Reporting entities should not recognize software acquired from other federal entities at no cost. However, reporting entities should recognize costs incurred to further develop or enhance the software if such costs result in a distinct internal use software component with significant additional capabilities." Members generally believed the recommended framework was consistent with the cost recognition framework in SFFAS 10, Accounting for Internal Use Software, and would be easy to apply to existing guidance.

## **June 2025**

At the June 2025 meeting, the Board overwhelmingly agreed with staff's recommendation to modernize the recognition and measurement guidance in SFFAS 10 to better align with agile software development methods.

For the upcoming technical agenda deliberations for the August 2025 meeting, the Board requested that staff present a project timeline analysis for issuing a separate exposure draft that only amends the software development guidance in SFFAS 10 versus waiting to issue an exposure draft once the Board deliberates the entire software technology and intangible assets project.