

Memorandum

Software Technology

September 30, 2025

To: Members of the Board
From: Josh R. Williams, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: **Intangible Asset/Software Technology - (Development Paper) - (Topic B)**

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. At the August 2025 meeting, the Board agreed to wait and issue an exposure draft for a comprehensive principle-based intangible asset Statement, that includes software guidance updates, once the Board deliberates the entire software technology and intangible asset projects.

The objective of this meeting is for the Board to review and consider the following staff recommendations:

1. Accounting guidance for useful life estimation and amortization for intangible assets and internal use software
2. Accounting guidance for enhancement and maintenance costs for intangible assets and internal use software

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 8, 2025.

NEXT STEPS

Pending Board feedback, staff will further research and recommend accounting guidance, as needed, for intangible assets and internal use software.

ATTACHMENTS

1. Staff Analysis
2. Prior Board Meeting Discussion Timeline

Analysis

Intangible Asset/IUS

September 30, 2025

INTRODUCTION

Purpose

This staff analysis pertains to the Board's project to develop new accounting guidance for intangible assets, which includes updating existing accounting guidance for software technology. The Board plans to rescind Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*, and reissue the internal use software guidance, including updates from the software technology project, as a component of a new intangible asset Statement.

Background

For this project, the Board decided to first develop updates for software accounting guidance and develop a working definition for intangible assets. The Board agreed it was necessary to further consider the costs versus benefits of reporting guidance before deciding whether to develop intangible assets standards.

After establishing a software 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.

During the April 2024 meeting, the Board 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 concepts and standards and agreed to combine the software accounting guidance as part of an intangible asset Statement due to the intangible nature of software and potential overlap between guidance.

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. The Board also agreed on a recognition framework for shared software code.

During the February 2025 meeting, the Board also agreed to amend concepts in 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. The Board also agreed on a scope, definition, and recognition language for intangible asset standards.

At the June 2025 meeting, the Board agreed to modernize the software development guidance in SFFAS 10 to better align with agile development methods. During technical agenda deliberations at the August 2025 meeting, the Board reaffirmed its plan to issue an exposure draft (ED) for a comprehensive principle-based intangible asset Statement that includes software guidance updates once the Board deliberates the entire software technology and intangible assets projects.¹

Recommendations and Analyses

Per the August 2025 material, the Board previously deliberated 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. Likewise, the Board has already

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

deliberated foundational guidance for intangible asset standards, including scope, definition, and recognition guidance.

Therefore, most of the remaining topics for the Board to deliberate are either complementary to the accounting guidance that the Board has already deliberated (e.g., enhancement, amortization, useful life, impairment, disclosures, etc.) or are unique software-related accounting issues (e.g., integrated software, multiuse software, bundled services, etc.).

This paper recommends the following for the Board's consideration:

1. Accounting guidance for useful life estimation and amortization for intangible assets and internal use software
2. Accounting guidance for enhancement and maintenance costs for intangible assets and internal use software

These guidance recommendations would apply to intangible assets and internal use software in an interconnected hierarchical manner to align with the Board's plan to develop comprehensive principle-based intangible asset standards that includes software guidance in one Statement. Staff requests the Board's feedback on the recommendations.

Research

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

- FASAB Board material, *Topic A-1 – Software Technology*, [November 19, 2024](#)
- FASAB Board material, *Topic A-2 – Intangible Assets*, [November 20, 2024](#)
- FASAB Board material, *Topic B – Intangible Assets*, [February 5, 2025](#)
- FASAB Board material, *Topic B – Software Technology*, [June 3, 2025](#)
- FASAB Board material, *Topic E – Software Technology*, [July 25, 2025](#)
- FASB ASC 350-30, *General Intangibles Other than Goodwill*
- FASB ASC 350-40, *Internal-Use Software*
- FASB Accounting Standards Update (2025-06), *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*, [September, 2025](#)

- GAO-24-105506, *Agile Assessment Guide – Best Practices for Adoption and Implementation*, [November 2023](#)
- 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](#)
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, [June 2007](#)
- IPSAS 31, *Intangible Assets*, [January 2010](#)
- SFFAS 6, *Accounting for Property, Plant, and Equipment*, [November 30, 1995](#)
- SFFAS 10, *Accounting for Internal Use Software*, [October 9, 1998](#)
- Technical Release 16, *Implementation Guidance for Internal Use Software*, [January 19, 2016](#)

Staff received feedback on the guidance proposals from both the intangible asset and software working groups. For this paper, staff combined the two working groups into one working group because of the overlap and hierarchical relationship between the intangible asset and software guidance recommendations.

RECOMMENDATION NO. 1

Staff recommends that the Board develop accounting guidance to clarify how to estimate a useful life for and amortize general intangible assets and specifically internal use software.

ANALYSIS

Existing guidance in SFFAS 10 and TR 16, *Implementation Guidance for Internal Use Software* addresses amortization accounting but offers minimal and outdated guidance for estimating the useful life of an internal use software (IUS) asset. Some preparers and auditors have asked that the Board issue guidance that provides criteria to consider when estimating the useful life of an IUS asset. Furthermore, staff believes the Board should modernize the amortization guidance in SFFAS 10 for agile development practices.

The following analysis will discuss:

- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

Other standard-setter guidance

FASB, GASB, and IPSASB have issued guidance addressing how to estimate useful life for and amortize intangible assets and/or IUS.

GASB

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* makes it clear that “capital assets” include intangible assets.

- Paragraph 19 states, *“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.”*

Furthermore, GASB 34 provides principle-based guidance for estimating the useful life of capital assets:

- Paragraph 161 states, *“Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. In determining estimated useful life, a government also should consider an asset’s present condition and how long it is expected to meet service demands.”*

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* provides supplemental useful life and amortization guidance for intangible assets:

- Paragraph 16 states, *“The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity*

expected to be obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable.”

- Paragraph 17 states, *“An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.”*⁵
 - Footnote 5 states, *“This change should be accounted for as a change in accounting estimate.”*

The basis for conclusions in GASB 51 explains the need for additional guidance for determining the useful life intangible assets:

- Paragraph 76 states, *“In its consideration of whether any amortization provisions specific to intangible assets should be provided in this Statement, the Board concluded that there would be some need for additional guidance in determining the useful life of an intangible asset. This need arises from the fact that the length of the useful life of an intangible asset is not limited by physical condition, and the deterioration thereof, as with tangible capital assets. The useful life of an intangible asset is often limited by contract, law, or regulation, as may be the case, for example, for patents and certain land use rights.”*

GASB 51 does not provide specific useful life or amortization guidance for IUS. However, the basis for conclusions explains that software typically would have a finite useful life, like tangible property:

- Paragraph 78 states in part, *“Most tangible capital assets have an indeterminate useful life because they eventually will become physically deteriorated, thereby limiting their useful life, but the exact point at which they will cease providing service because of this deterioration is essentially unknown. Computer software that eventually will become obsolete and be replaced at some unknown point in the future is an example of an intangible asset with an indeterminate useful life. A capital asset with an indeterminate useful life generally is depreciated (or amortized) over what is estimated to be its useful life.”*

FASB

FASB has issued guidance for estimating the useful life of intangible assets in ASC 350-30, *General Intangibles Other than Goodwill*:

- 350-30-35-1 states, *“The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life shall be amortized; an intangible asset with an indefinite useful life shall not be amortized.”*
- 350-30-35-3 states, *“The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular, all of the following factors with no one factor being more presumptive than the other:*
 - a. *The expected use of the asset by the entity.*
 - b. *The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.*
 - c. *Any legal, regulatory, or contractual provisions that may limit the useful life. The cash flows and useful lives of intangible assets that are based on legal rights are constrained by the duration of those legal rights. Thus, the useful lives of such intangible assets cannot extend beyond the length of their legal rights and may be shorter.*
 - d. *The entity's own historical experience in renewing or extending similar arrangements, consistent with the intended use of the asset by the entity, regardless of whether those arrangements have explicit renewal or extension provisions. In the absence of that experience, the entity shall consider the assumptions that market participants would use about renewal or extension consistent with the highest and best use of the asset by market participants, adjusted for entity-specific factors in this paragraph.*
 - e. *The effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels).*
 - f. *The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required maintenance in relation to the carrying amount of the asset may suggest a very limited useful life). As in determining the useful life of depreciable tangible assets, regular maintenance may be assumed but enhancements may not.”*

- 350-30-35-4 states, *“If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term indefinite does not mean the same as infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon—that is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity. Such intangible assets might be airport route authorities, certain trademarks, and taxicab medallions.”*

FASB has also issued amortization guidance for intangible assets in ASC 350-30:

- 350-30-35-6 states, *“A recognized intangible asset shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, that intangible asset shall be amortized over the best estimate of its useful life. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method shall be used.”*
- 350-30-35-8 states, *“The amount of an intangible asset to be amortized shall be the amount initially assigned to that asset less any residual value. The residual value of an intangible asset shall be assumed to be zero unless at the end of its useful life to the entity the asset is expected to continue to have a useful life to another entity and either of the following conditions is met:*
 - a. *The reporting entity has a commitment from a third party to purchase the asset at the end of its useful life.*
 - b. *The residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life.”*
- 350-30-35-9 states, *“An entity shall evaluate the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortized prospectively over that revised remaining useful life.”*

FASB has also provided supplemental useful life and amortization guidance specifically for IUS in ASC 350-40, *Internal-Use Software*:

- 350-40-35-4 states, *“The costs of computer software developed or obtained for internal use shall be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use.”*
- 350-40-35-5 states, *“In determining and periodically reassessing the estimated useful life over which the costs incurred for internal-use computer software will be amortized, entities shall consider the effects of all of the following:*
 - a. *Obsolescence*
 - b. *Technology*
 - c. *Competition*
 - d. *Other economic factors*
 - e. *Rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware.*

Given the history of rapid changes in technology, software often has had a relatively short useful life.”

- 350-40-35-6 states, *“For each module or component of a software project, amortization shall begin when the computer software is ready for its intended use, regardless of whether the software will be placed in service in planned stages that may extend beyond a reporting period. For purposes of this Subtopic, computer software is ready for its intended use after all substantial testing is completed. If the functionality of a module is entirely dependent on the completion of other modules, amortization of that module shall begin when both that module and the other modules upon which it is functionally dependent are ready for their intended use.”*

IPSASB

IPSASB has issued useful life and amortization guidance for intangible assets in IPSAS 31, *Intangible Assets*:

- Paragraph 88 states, *“The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs 96–105), and an intangible asset with an indefinite useful life is not.”*
- Paragraph 89 states, *“Many factors are considered in determining the useful life of an intangible asset, including:*

- a. *The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;*
 - b. *Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;*
 - c. *Technical, technological, commercial, or other types of obsolescence;*
 - d. *The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;*
 - e. *Expected actions by competitors or potential competitors;*
 - f. *The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;*
 - g. *The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and*
 - h. *Whether the useful life of the asset is dependent on the useful life of other assets of the entity."*
- Paragraph 91 states, *"Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short."*
 - Paragraph 93 states, *"The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the binding arrangement (including rights from contracts or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost."*
 - Paragraph 95 states, *"Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:*
 - a. *There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;*

- b. *There is evidence that any conditions necessary to obtain renewal will be satisfied; and*
 - c. *The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal. If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the “renewal” cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.”*
- Paragraph 96 states, *“The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with noncurrent assets held for sale and discontinued operations and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.”*
- Paragraph 103 states, *“The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.”*
- Paragraph 106 states, *“An intangible asset with an indefinite useful life shall not be amortized.”*
- Paragraph 108 states, *“The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.”*

IPSAS 31 applies to IUS like any other intangible asset. However, IPSASB has not issued specific accounting guidance for IUS.

Existing FASAB guidance

The Board has previously issued accounting guidance for amortizing IUS in SFFAS 10, paragraphs 32-34:

- Paragraph 32 states, *“Software that is capitalized pursuant to this standard should be amortized in a systematic and rational manner over the estimated useful life of the software. The estimated useful life used for amortization should be consistent with that used for planning the software’s acquisition.”*⁹
 - Footnote 9 states, *“For example, federal agencies use the following planning guidance: OMB Circulars A-11, Budget Planning, Budgeting, and Acquisition of Fixed Assets; A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs; and A-109, Acquisition of Major Systems; OMB’s Capital Programming Guide (July 1997); GAO’s Assessing Risks and Returns: A Guide for Evaluating Federal Agencies’ IT Investment Decision-making (Feb. 1997); and other federal guidance.”*
- Paragraph 33 states, *“For each module or component of a software project, amortization should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization of that module should begin when both that module and the other module(s) have successfully completed testing.”*
- Paragraph 34 states, *“Any additions to the book value or changes in useful life should be treated prospectively. The change should be accounted for during the period of the change and future periods. No adjustments should be made to previously recorded amortization. When an entity replaces existing internal use software with new software, the unamortized cost of the old software should be expensed when the new software has successfully completed testing.”*

More recently, the Board issued implementation guidance in TR 16, paragraph 17 that addressed amortization for component-based IUS asset enhancements:

- Paragraph 17 states, **“Component Based IUS Asset:** *SFFAS 10, paragraph 33, states, “For each module or component of a software project, amortization should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization of that module should begin when both that module and the other module(s) have successfully completed testing.” For example, an entity may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate asset. Specifically, if the module provides economic benefit*

through distinct, substantive functionality; and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset for the purposes of recognition, measurement including amortization, and disclosure in accordance with SFFAS 10.”

Staff believes that SFFAS 6, *Accounting for Property, Plant, and Equipment* offers insightful guidance for depreciating tangible property based on an estimated useful life:

- Footnote 8 states, *“Depreciation” is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.”*
- Footnote 17 states, *“Useful life is the normal operating life in terms of utility to the owner.”*
- Paragraph 35 states, *“Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E. Depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration.*
 - *Estimates of useful life of general PP&E must consider factors such as physical wear and tear and technological change (e.g., obsolescence).*
 - *Various methods can be used to compute periodic depreciation expense so long as the method is systematic, rational, and best reflects the use of the PP&E.*
 - *Any changes in estimated useful life or salvage/residual value shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization.*
 - *A composite or group depreciation methodology, whereby the costs of PP&E are allocated using the same allocation rate, is permissible.”*
- Paragraph 36 states, *“Depreciation expense shall be accumulated in a contra asset account—accumulated depreciation. Amortization expense shall be accumulated in a contra asset account— accumulated amortization.”*

Staff analysis

There are significant differences and similarities among standard setters on amortizing intangible assets and IUS based on an estimated useful life. FASB, GASB, and IPSASB have primarily issued guidance on these topics for general intangible assets that applies to IUS. Only FASB has issued supplemental amortization and useful life estimation guidance specifically for IUS.

Additionally, FASB, GASB, and IPSASB guidance distinguishes intangible assets with finite and indefinite useful lives. All three standard-setters require amortization for intangible assets with finite useful lives and state that reporting entities should not amortize intangible assets with indefinite useful lives. However, their guidance makes it clear that IUS would typically have a relatively short useful life.

It appears to staff that FASAB's amortization guidance for IUS in SFFAS 10, paragraphs 32-34 and TR 16, paragraph 17 is comparable to the guidance of the other three standard setters. However, staff believes the Board should update the SFFAS 10 guidance to align with the agile development framework that Board deliberated during the June 2025 meeting.

Compared to other standard-setter guidance, staff believes FASAB's guidance for estimating the useful life of an IUS asset is insufficient and outdated. For example, paragraph 32 of SFFAS 10 states, "*The estimated useful life used for amortization should be consistent with that used for planning the software's acquisition.*⁹" Footnote 9 goes on to list various documents that reporting entities used as planning guidance in 1997, such as OMB A-11, OMB A-94, OMB A-109, and a GAO Guide for evaluating federal IT investments.

Per SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, staff does not believe level A guidance should reference such a detailed list of non-GAAP documents for applying accounting guidance because those lists could quickly become outdated.

Furthermore, staff does not believe that reporting entities should estimate an IUS asset's useful life based on what management initially planned. Due to the fast-changing software environment, a final IUS asset's useful life could be significantly different from what was initially planned, especially with agile development processes that have a short planning stage and many iterative releases.

Staff recommendation

Staff recommends the following guidance to address how to amortize general intangible assets and internal use software based on an estimated useful life:

Intangible Assets

Determining the Useful Life of an Intangible Asset

X1. The accounting for a recognized intangible asset is based on its useful life. Reporting entities should estimate the useful life of a recognized intangible asset based on relevant factors including but not limited to the following:

- a. The expected use of the asset by the entity.
- b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.
- c. Any legal, regulatory, or contractual provisions that limit the useful life.
- d. Technical, technological, commercial, or other types of obsolescence.
- e. The level of expenditure needed to maintain the future economic benefits or service potential from the asset. A significant level of required maintenance in relation to the carrying amount of the asset may suggest a short useful life.

X2. The useful life of an intangible asset should not exceed the binding arrangements of any contractual terms or legal requirements of the asset, but could be shorter depending on other criteria in paragraph X1. If the binding arrangements are for a limited term that can be renewed, reporting entities should consider the renewal period(s) when estimating the useful life only if the reporting entity is likely to renew the term and cost to renew is nominal.

Amortization

X3. Reporting entities should amortize the recognized cost of an intangible asset, less any estimated residual value, in a systematic and rational manner over the estimated useful life of the asset. Amortization should begin when the asset is ready for its intended use.

X4. If the estimate of an intangible asset's remaining useful life or residual value changes, reporting entities should amortize the remaining carrying amount of the intangible asset prospectively over the remaining useful life. No adjustments should be made to previously recognized amortization.

Internal Use Software

X5. Reporting entities should apply paragraphs X1-X4 of this Statement when accounting for IUS assets. When estimating the useful life of an IUS asset, reporting entities should especially consider whether the software will become obsolete due to rapid changes in the technology sector.

X6. For each IUS module or component with a standalone function that benefits end users, amortization should begin when that module or component is ready for its intended use. If a module is dependent on completion of other module(s) for a standalone function, the amortization of that module should begin when all interdependent modules are ready for their intended use.

X7. For enhancements or upgrades that increase the book value of an existing IUS asset, reporting entities should amortize the new amount over the remaining useful life of the asset.

Collectively, this proposed guidance would replace paragraphs 32-34 and footnote 9 of SFFAS 10.

Intangible asset – useful life estimation guidance

Paragraph X1 provides relevant factors for reporting entities to consider when estimating the useful life of recognized intangible assets, including IUS. Staff considered relevant guidance examples from FASB ASC 350-30, GASB 51, IPSAS 31, and SFFAS 6 when drafting the useful life estimation criteria in paragraph X1.a-e. Staff believes the proposed criteria are relevant to the federal environment and aligns with other standard setter frameworks.

Paragraph X1.a. states that reporting entities should consider how the agency will use the intangible asset when estimating its useful life. For example, if management can reasonably estimate how long they intend to use a recognized dataset asset, that should factor into the useful life asset.

Paragraph X1.b. states that reporting entities should also consider the useful life of another asset or group of assets for which the intangible asset relates. For example, a recognized technical report asset could relate to the useful life of tangible PP&E, such as vehicles or weapon systems.² This paragraph would also apply to IUS assets developed using agile development processes since multiple IUS assets and subsequent enhancements can relate to and integrate with one another.

Paragraphs X1.c. and X2 collectively explain that the useful life of an intangible asset is limited by any binding arrangements from legal requirements or contractual agreements, such as a patent that has a legally required 20-year term or a license with a 5-year contractual agreement. However, the estimated useful life could be shorter than the binding arrangement depending on other factors from paragraph X1, such as managements intended use of the asset and risk of technological obsolescence.

Paragraph X2 further explains that management should only consider renewal periods for the useful life of an intangible asset if the cost to renew is nominal and management expects to exercise the renewal. This aligns with the software license asset framework

² GAO Report to Congressional Committees, GAO-22-104752 – *Defense Acquisitions: DoD Should Take Additional Actions to Improve How it Approaches Intellectual Property*, November 2021

that the Board deliberated during the December 2024 meeting.³ Software licenses would apply to paragraphs X1 and X2 as would any other intangible asset.

Paragraph X1.d. states that reporting entities should also consider the potential obsolescence risk of an intangible asset when estimating its useful life. For example, technological obsolescence should factor into reporting entities useful life estimation for IUS assets. Additionally, technical and economic obsolescence could apply to other types of intangible assets, such as datasets, technical reports, and patents.

Paragraph X1.e. states that reporting entities should also consider maintenance expenses needed to keep the intangible asset in operational use. Staff believes this paragraph would mostly apply to IUS assets. For example, research indicates it is common for federal entities to spend significant amounts of money on legacy IUS to maintain the software code to keep it secure and operational.⁴ Staff believes if a reporting entity incurs significant maintenance costs for an IUS asset relative to its asset value, that indicates a diminished useful life for accounting purposes.

Intangible asset – amortization guidance

Paragraphs X3-X4 provide amortization accounting guidance for intangible assets, including IUS. Paragraph X3 states that reporting entities should amortize the recognized value of an intangible asset, minus its residual value, in a systematic and rational manner over the useful life. SFFAS 10, paragraph 32 uses similar language for IUS and is consistent with other standard setter intangible asset guidance and SFFAS 6 depreciation guidance.

Working group feedback shows that reporting entities would rarely record a residual value for an intangible asset. However, some federal entities said that it is possible that some federally owned intangible assets could have a residual value if they were able to sell the asset to another entity, such as some patents and internally developed software.

The working group did not note any concerns with this requirement and said that they expected they would record \$0 for most intangible asset residual values and still be able to apply the guidance. Therefore, staff believes that reporting entities should recognize a residual value when amortizing an intangible asset when applicable, similar to SFFAS 6 requirements for depreciating PP&E.

FASB and IPSASB guidance explicitly state that reporting entities can use straight-line amortization for intangible assets, including IUS. However, staff did not recommend that

³ During the December 2024 meeting, the Board agreed that 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.

⁴ GAO-25-107795, *Information Technology: Agencies Need to Plan for Modernizing Critical Decades-Old Legacy Systems*, Jul 17, 2025

specific language because it is not consistent with how the Board has previously issued depreciation and amortization guidance. Nevertheless, research shows that reporting entities typically choose straight-line amortization for IUS and staff would expect reporting entities do the same with other intangible assets.

Paragraph X3 also states that amortization should begin when the intangible asset is ready for use for its intended purpose. This language aligns with the recognition guidance for acquired intangible assets that the Board agreed to during the February 2025 meeting.⁵

If management determines that the useful life or residual value of a previously recognized intangible asset changes, paragraph X4 requires reporting entities to prospectively amortize the remaining asset value over the new estimated useful life. In other words, reporting entities should not adjust previously recorded amortization. This guidance is the same as the IUS amortization guidance in SFFAS 6 and SFFAS 10, paragraph 34 and is consistent with other standard setter guidance.

There are aspects of amortization guidance in SFFAS 10, paragraph 34 that relate to impairment guidance. However, staff decided not to propose impairment guidance updates for this meeting because Board deliberations on the proposed amortization guidance for this meeting could impact staff recommendations for impairment guidance. Pending Board decisions, staff plans to recommend impairment standards for intangible assets, including updates to impairment guidance in SFFAS 10, paragraphs 28-31 at the December 2025 meeting.

Internal use software supplemental guidance

Paragraphs X5-X7 provide supplemental useful life and amortization guidance specifically for IUS, similar to the FASB framework. Reporting entities would apply all of paragraphs X1-X7 for IUS.

Paragraph X5 states that reporting entities should apply the intangible asset guidance when estimating useful life and amortizing IUS. The paragraph further clarifies paragraph X1.d. by emphasizing that reporting entities should especially consider technological obsolescence factors when estimating the useful life of IUS assets. This is similar to FASB and IPSASB guidance.⁶

Paragraph X6 clarifies that reporting entities should begin amortizing IUS assets once a specific software module or component is ready for its intended use. This language is different and broader than the current guidance in SFFAS 10, paragraph 33 and FASB's guidance that requires amortization to begin once the IUS component has been successfully tested.

⁵ FASAB Board material, *Topic B – Intangible Assets*, February 5, 2025

⁶ See FASB ASC 350-40-35-5 and IPSAS 31, paragraph 91.

The basis for conclusions in SFFAS 10, paragraph 41 states that the Board believed that “successful testing” offered a clear point for determining when the IUS development phase ended, and the software was placed in service. Some working group members preferred keeping this specific language and believed that beginning amortization when the IUS was ready for its intended use was too subjective and would be difficult to apply consistently.

However, other working group members preferred that the guidance allow more room for management judgment to begin amortization once the IUS component or module is more broadly ready for its intended use. Working group members said that with agile development, IUS testing occurs frequently throughout the whole process, and it is difficult and burdensome for management to use that specific factor alone for determining and documenting the decision to begin amortization.

Staff believes that level A standards should provide principle-based guidance for management to consider relevant factors to determine when the IUS component is ready for its intended use, which could include consideration of whether the software has completed various testing. However, management should have the flexibility to also consider other relevant factors for deciding when the IUS is ready for use. Staff believes this approach would better align with agile development methods and result in more flexible accounting guidance that would continue to apply in a fast-changing technology environment.⁷

Furthermore, staff believes implementation guidance in TR 16 could be updated to address how to apply the level A requirement. For example, TR 16 could be updated to provide examples of various factors that reporting entities use to consider when an IUS component is ready for its intended use, such as completing acceptance testing among other things.

Paragraph X7 addresses amortization accounting requirements specifically for IUS enhancements and upgrades. The guidance states that reporting entities should simply add any new capitalized enhancement costs to the existing IUS asset value and continue to amortize the new value over the remaining useful life of the IUS asset. This language is consistent with existing guidance in SFFAS 10, paragraph 34. Per recommendation 2 in this paper, paragraph X7 only addresses enhancements for IUS.

Working group feedback

The working group generally supported the proposed guidance and did not note any significant concerns. The working group generally agreed with the proposed factors in paragraph X1-X2 that reporting entities should consider when estimating the useful life of an intangible asset, including IUS.

⁷ Staff notes that the Board would need to revisit and align previously deliberated agile development guidance that members deliberated during the June 2025 meeting.

Regarding paragraph X5, staff had originally proposed additional language similar to FASB and IPSASB that said, “*Given the history of rapid changes in technology, software likely has a relatively short useful life.*” However multiple working group members suggested not including that language in authoritative guidance because it was too vague and subjective. Staff does not believe that sentence is necessary in authoritative guidance.

Staff had initially considered proposing accounting guidance for intangible assets with indefinite useful lives. All three standard setters have issued guidance that reporting entities should not amortize intangible assets with indefinite useful lives.

However, a working group member pointed out that requiring capitalization of an indefinite intangible asset appeared inconsistent with the Board’s recent issuance of SFFAS 59, *Account for Land* that reclassified general PP&E land and permanent land rights as non-capitalized assets. The basis for conclusions for SFFAS 59 states that the Board believed that the passage of time and inflation made historical cost recognition for land less relevant to users.

Like land, staff believes that recognizing historical cost of intangible assets indefinitely would result in asset values that become irrelevant over time in financial reports. Furthermore, staff believes that most intangible assets would have finite useful lives due to legal/contractual terms and future obsolescence.

Furthermore, paragraph 17 of GASB 51 lists a permanent right-of-way easement as an example of an indefinite intangible asset. However, SFFAS 59 already addresses permanent land rights and does not allow for balance sheet capitalization. Finally, per SFFAC 1, *Objectives of Federal Financial Reporting* paragraphs 123-124, staff believes that amortizing an intangible asset more effectively matches the cost to acquire the asset with the economic benefits and services the asset provides the federal entity over multiple reporting periods.

For all these reasons, staff decided not to recommend accounting guidance that would allow reporting entities to recognize intangible assets with indefinite useful lives. Staff’s recommended guidance would effectively require reporting entities to always estimate a useful life for a recognized intangible asset.

The working group generally supported this position and believed reporting entities should typically be able to estimate a useful life for an intangible asset. Additionally, some working group members believed requiring recognition for indefinite intangible assets would add unneeded accounting complexity, especially around impairment. However, a few working group members suggested the Board still address recognition and disclosure guidance in case a reporting entity is not able to estimate a useful life indefinite intangible asset.

Question for the Board:

1. Does the Board agree with staff's recommended accounting guidance for useful life estimation and amortization for intangible assets and IUS? Please provide your feedback on staff's analysis and recommendation.

RECOMMENDATION NO. 2

Staff recommends that the Board develop accounting guidance to clarify how to account for enhancement and maintenance costs for intangible assets and specifically IUS.

ANALYSIS

Existing guidance in SFFAS 10 and TR 16 addresses accounting for enhancements of IUS. However, some preparers have said it is especially challenging to distinguish maintenance and enhancements costs in the software technology environment and have asked that the Board update the guidance to further clarify when to capitalize costs that enhance previously recognized IUS assets.

The following analysis will discuss:

- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

Other standard-setter guidance

FASB, GASB, and IPSASB have issued guidance that addresses accounting for enhancement costs for intangible assets and/or IUS.

GASB

GASB 51 discusses enhancements for IUS in the basis for conclusions.

- Paragraph 69 states, *“Existing authoritative guidance for capital assets other than infrastructure accounted for using the modified approach provides that outlays related to activities that increase the capacity or efficiency of the asset, or that extend the useful life of the asset beyond its previously established useful life, should be capitalized. The Board concluded that the nature of computer software and its modifications are not sufficiently different from that of tangible*

capital assets to result in a difference in accounting for modifications of computer software.”

GASB 51 offers specific accounting guidance for distinguishing enhancement and maintenance costs for IUS:

- *Paragraph 15 states, “Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized in accordance with paragraphs 11 and 12 if the modification results in any of the following:*
 - a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing*
 - b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks*
 - c. An extension of the estimated useful life of the software.*

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.”

FASB

It does not appear that FASB has issued accounting guidance for enhancements of intangible assets. However, FASB has issued enhancement and maintenance accounting guidance for internal use software in ASC 350-40:

- 350-40-25-17A states, *“Upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be evaluated for capitalization in accordance with paragraphs 350-40-25-17B through 25-17E, it must be probable that those expenditures will result in additional functionality.”*
- 350-40-25-17B states, *“Internal and external costs incurred for upgrades and enhancements shall be expensed or capitalized in accordance with paragraphs 350-40-25-1, 350-40-25-4 through 25-5, 350-40-25-12 through 25-14, and 350-40-25-17.”*
- 350-40-25-17C states, *“Internal and external costs incurred for maintenance shall be expensed as incurred.”*

For this analysis, staff updated the above guidance references per FASB's recent issuance titled, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*.⁸

IPSASB

IPSASB addresses intangible asset enhancements in IPSAS 31:

- Paragraph 26 states, *“The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:*
 - a. The definition of an intangible asset (see paragraphs 17–25); and*
 - b. The recognition criteria (see paragraphs 28–30).*

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.”

- Paragraph 27 states, *“The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph 61, subsequent expenditure on brands, mastheads, publishing titles, lists users of a service, and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.”*

As stated previously, IPSAS 31 applies to IUS. However, IPSASB has not issued accounting guidance specific to IUS.

⁸ Paragraph BC64 states, “The amendments in this Update do not change the accounting in Subtopic 350-40 for software upgrades and enhancements; however, several comment letter respondents provided feedback on that accounting. Specifically, some respondents recommended that enhancements be expensed as incurred, while others questioned how an entity would evaluate the capitalization threshold for enhancements of existing software (as compared with a new software project).”

Existing FASAB guidance

The Board has previously issued accounting guidance for IUS enhancements in SFFAS 10, paragraphs 25-27:

- Paragraph 25 states, *“The acquisition cost of enhancements to existing internal use software (and modules thereof) should be capitalized when it is more likely than not that they will result in significant additional capabilities. For example, in an instance where the federal entity adds a capability or function to existing software for making ad hoc queries, the cost would be capitalized.”*
- Paragraph 26 states, *“Enhancements normally require new software specifications and may require a change of all or part of the existing software specifications as well. The cost of minor enhancements resulting from ongoing systems maintenance should be expensed in the period incurred. Also, the purchase of enhanced versions of software for a nominal charge are properly expensed in the period incurred.”*
- Paragraph 27 states, *“Cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding capabilities should be expensed.”*⁷
 - Footnote 7 states, *“However, in instances where the useful life of the software is extended, the amortization period would be adjusted. The Board has considered the cost associated with modifying internal use software for the year 2000 (Y2K) and has determined that such cost should be charged to expenses as incurred, since it is a repair of a design flaw that allows existing software to continue being used. However, an enhancement could presumably provide enhanced capabilities and at the same time, as an integral part of the new code and other software enhancements, cure the Y2K problem. The total cost of such an enhancement should be capitalized rather than allocated between the Y2K cost and all other cost.”*

More recently, the Board issued implementation guidance in TR 16, paragraphs 21-22 that addressed internal use software enhancements:

- Paragraph 21 states, **“Enhancement:** SFFAS 10, paragraph 25, states, *“The acquisition cost of enhancements to existing internal use software (and modules thereof) should be capitalized when it is more likely than not that they will result in significant additional capabilities.”* Significant additional capabilities are modifications to existing IUS that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. As stated in SFFAS 10 paragraph 26, capitalizable enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. Examples of enhancements could include augmenting existing business functions with new

features and functions, developing additional new business functions, and/or adding new functionality and capability.”

- Paragraph 22 states, *“If one module is dependent upon another to function, then those modules should be evaluated together as one enhancement. All costs of an enhancement, including any costs carried over or allocated from the original software, should be amortized over the enhancement's estimated useful life.”*

Furthermore, Illustration #3 in TR 16, Appendix B provides examples of how some reporting agencies were determining how to apply the enhancement guidance:

- Agency A stated, *“Defines enhancement to be the replacement, upgrade, modification, or addition of new features or capabilities to an existing system, product, tool, service, or infrastructure to improve its functionality. It involves a change in the capabilities, requirements, design, and/or architecture.”*
- Agency B stated, *“Add additional capabilities and the enhancement costs are above agency's capitalization threshold. Repair a design flaw or perform minor upgrades that extend the useful life without adding capabilities, the costs are expensed and the useful life of the original asset is adjusted, as necessary.”*
- Agency C stated, *“Enhancement cost exceed capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. The cost of routine or minor changes or modernizations that do not significantly add functionality should be expensed in the period incurred. Examples of minor enhancement include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Enhancements that may extend the useful life of the software without adding significant capabilities are to be considered minor and expensed.”*
- Agency D stated, *“In Agile development model, enhancement follows the same capitalization criteria threshold for each release separately and tracks each version individually.”*

Staff analysis

There are significant differences and similarities among standard setters' accounting guidance for enhancement and maintenance costs. FASB, GASB, and FASAB have issued enhancement accounting guidance specific to IUS. Whereas IPSASB has issued minimal high-level guidance that applies recognition requirements to enhancement costs for all intangible assets.

It is notable to staff that most standard setters have issued enhancement guidance for IUS rather than broader intangible assets. IPSASB offers some insight for this in IPSAS 31, paragraph 27 that explains, “The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it.”

Furthermore, there are notable differences among standard-setter guidance on capitalization criteria for IUS enhancement costs. GASB applies enhancement cost capitalization criteria for IUS similar to criteria traditionally used for tangible PP&E. Under paragraph 15 of GASB 51, reporting entities should capitalize costs that increase the functionality, efficiency, and/or extend the useful life of an IUS asset.

However, FASB and FASAB guidance limits IUS enhancement capitalization to only costs that increase the functionality/capabilities of the IUS asset. This means that the modifications must result in the IUS asset being able to perform tasks it was previously incapable of performing.

It appears that FASAB's current guidance addresses IUS enhancements substantively similar to FASB. Nevertheless, some stakeholders have requested the Board provide further clarification with distinguishing IUS enhancements from ongoing maintenance/operational costs.

Additionally, staff believes some parts of the SFFAS 10 guidance are outdated and are not consistent with level A GAAP per SFFAS 34. For example, the Y2K scenario and ad hoc query examples discussed in footnote 7 and paragraph 25 respectively are outdated. Furthermore, staff believes this type of guidance addressing specific examples and scenarios would be more appropriately addressed in level C implementation guidance.

Similarly, TR 16 (level C GAAP) currently offers principle-based guidance on the definition of IUS enhancement and accounting for IUS enhancements in an agile development process. Staff believes this guidance should be integrated with level A standards to align with the agile development accounting framework the Board deliberated during the June 2025 meeting.⁹

Staff recommendation

Staff recommends the following guidance to address how to account for enhancement and maintenance costs for intangible assets and specifically IUS:

Intangible Assets

Y1. Except for internal use software, reporting entities should expense all costs in the period incurred that modify an existing intangible asset.

Y2. If the cost to renew or acquire an upgraded version of an existing intangible asset are significant, reporting entities should account for it as a new asset.

⁹ See FASAB Board material, *Topic B – Software Technology*, June 3, 2025

Internal Use Software

Enhancements, Upgrades, and Maintenance

Y3. Enhancements and upgrades are modifications to existing internal use software that result in increased functionality, which means the software can perform substantive tasks it was previously incapable of performing. Enhancements and upgrades normally require new software specifications and may require a change of all or part of the existing software specifications.

Y4. Reporting entities should capitalize costs incurred to enhance or upgrade existing internal use software in accordance with paragraphs XX-XX (reference agile development guidance framework) of this Statement if it is more likely than not that those costs will increase the functionality of the software.

Y5. Costs not meeting the criteria in paragraph Y4 should be considered maintenance and expensed in the period incurred. For example, reporting entities should expense costs incurred solely to repair a design flaw or perform minor enhancements or upgrades that increase the efficiency and security of the software or extend the useful life of the software without increasing its functionality. However, in instances where the useful life of the software is extended, the amortization period should be adjusted consistent with paragraph X5 of this Statement.

Y6. If the cost to acquire an upgraded version of an existing software license is nominal, reporting entities should expense the cost in the period incurred.

Intangible Asset Guidance

Paragraph Y1 would effectively establish that reporting entities should expense all costs that modify a previously acquired intangible asset, including enhancements and maintenance. Paragraph Y1 scopes out IUS but would apply to all other intangible assets.

Per the December 2024 meeting, the Board has decided to develop accounting standards requiring reporting entities to recognize only identifiable intangible assets that a reporting entity acquires from another entity for use in providing goods or services.¹⁰ This means that, except for IUS, reporting entities would not be required to capitalize the cost to internally develop intangible assets. Therefore, staff believes it would be inconsistent for reporting entities to capitalize internal costs incurred to enhance a previously acquired intangible asset.

Additionally, paragraph Y2 clarifies that reporting entities should account for subsequent renewals or upgrades of previously acquired intangible assets (including IUS) as a new asset. This aligns with the Board's previous decision for IUS licenses and the proposed

¹⁰ See FASAB Board material, *Topic A-2 – Intangible Assets*, November 20, 2024

useful life guidance for intangible assets in paragraph X2 in recommendation 1 of this paper.¹¹

Internal Use Software Guidance

Proposed paragraphs Y3-Y6 would replace paragraphs 25-27 and footnote 7 of SFFAS 10. Staff does not believe this updated guidance would significantly change the current accounting requirements for IUS enhancements. Paragraph Y3 combines existing language in SFFAS 10 and TR 16 to define IUS enhancements and upgrades as modifications that increase the functionality of the IUS, which means the modifications result in the software being capable of performing tasks it was previously incapable of performing.

The basis for conclusions in SFFAS 10, paragraph 73 states, *“The Board believes that an “enhancement” should be limited to instances where significant new capabilities are being added to the software. Merely making the software more efficient and/or extending its service life should not constitute a capitalizable cost. Software is more fluid and malleable than other PP&E and the Board concludes that a higher threshold for additional capitalization is reasonable.”* Staff believes that this observation is still true today, if not more so in the current software technology environment.

Paragraph Y4 clarifies how to account for enhancement and upgrade costs, as defined in paragraph Y3, if an increase in functionality is more likely than not. The guidance would make it clear that reporting entities should apply the agile development framework that the Board deliberated at the June 2025 meeting when accounting for subsequent IUS enhancements and upgrades.

Paragraph Y5 makes it clear to expense other costs as maintenance if it does not meet the enhancement requirements in paragraphs Y3-Y4. Paragraph Y5 further offers clarifying guidance to help reporting entities identify capitalizable enhancement costs from more routine software modifications.

Staff developed this guidance in paragraph Y5 mostly using existing guidance in paragraphs 26-27 and footnote 7 of SFFAS 10 and does not introduce any new significant accounting requirements. Staff added “security upgrades” as an example that would not typically represent an IUS enhancement since working group feedback indicates that security modifications are a common routine maintenance activity to keep the IUS operational.

Paragraph Y6 modernizes existing language in SFFAS 10, paragraph 26 to make it clear that reporting entities should expense nominal costs incurred to upgrade existing software licenses. This addresses a very common scenario where reporting entities incur annual costs for previously recognized permanent software license assets.

¹¹ See FASAB Board material, Topic A-2 – Intangible Assets, November 20, 2024

Staff believes that nominal costs to upgrade or renew an existing software license represent activities that maintain the existing software asset. If a reporting entity incurs significant cost for an upgraded version of a previously recognized software license, reporting entities should account for it as a new asset acquisition per paragraph Y2. Staff believes the proposed language aligns with the Board's earlier decision for software licenses and the proposed useful life guidance for intangible assets in recommendation 1 of this paper.¹²

Working group feedback

The working group generally supported the proposed guidance and did not note any significant concerns with the intangible asset or IUS language. Several working group members believed that the proposed guidance for IUS streamlines current SFFAS 10 and TR 16 language for agile development but would not significantly change the enhancement accounting requirements for IUS.

Staff initially considered recommending that paragraph Y3 further clarify what constitutes a capitalizable enhancement or upgrade by saying, *"Enhancements or upgrades are modifications to existing internal use software that significantly increase the functionality of the software so that the software performs new unique tasks for end-users."* The working group had mixed opinions about this recommend guidance.

Some working group members preferred that enhancement capitalizations be limited to instances when the software performs new tasks specifically for end-users. The working group members believed that this language would help management better identify enhancement costs to only instances when the functionality of the IUS increases in a way that is observable by the end-user as opposed to instances in which the software can perform new tasks or capabilities that occur behind the scenes and may not be directly apparent to end users.

However, some working group members believed this language is too detailed and prescriptive and may increase preparer burden with capitalization requirements for too many inconsequential IUS modifications. They preferred staff's recommended language in paragraph Y3 that says, *"Enhancements and upgrades are modifications to existing internal use software that result in increased functionality, which means the software can perform substantive tasks it was previously incapable of performing."* These working group members believe that this guidance is less prescriptive yet still offers a clear principle-based rule for when reporting entities should capitalize IUS costs.

Staff ultimately recommended this language because it is more appropriate for level A guidance and provides a flexible and principle-based framework for management to apply judgment to determine the proper accounting in a complex and fast changing software environment. Staff believes level C implementation guidance is more

¹² See FASAB Board material, *Topic A-2 – Intangible Assets*, November 20, 2024

appropriate for prescriptive guidance to help management apply judgment for more specific issues based on the more principle-based level A guidance.

One working group member suggested that paragraph Y5 provide “data migration” costs as an example of typical maintenance costs. However, per the June 2025 Board material, the Board already deliberated guidance in the agile development framework that makes it clear that reporting entities should always expense data transfer costs as incurred. This overarching framework would apply to initial and subsequent capitalization and staff does not believe the guidance needs to restate this in the enhancement section.

Another working group member asked that the guidance define “significant” and “nominal” in paragraphs Y2 and Y6, respectively when discussing costs incurred to renew an existing intangible asset, including software licenses. The working group members believed these words introduce a level of subjectivity that requires more management judgment and will lead to inconsistent practice across reporting entities.

Staff understands the concern but believes that defining these terms in level A standards could result in overly prescriptive guidance that does not allow management enough room to make judgments on what costs are significant and nominal in the context of their intangible asset and IUS program costs. Staff believes that management can use the general meaning of the words to make determinations when applying the guidance for their specific situations.

Question for the Board:

2. Does the Board agree with staff’s recommended accounting guidance for enhancement and maintenance costs for intangible assets and IUS? Please provide your feedback on staff’s analysis and recommendation.

Next Steps

Pending Board feedback, staff will further research and recommend accounting guidance, as needed, for intangible assets and IUS. Remaining topics for deliberation include impairment and disclosures for intangible assets and IUS, as well as unique SFFAS 10 topics, such as multiuse software, integrated software, bundled products and services, and capitalization threshold.

Prior Board Meeting Discussion Timeline

August 2021

At the August 2021 meeting, the Board agreed to add 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

Staff will proceed with the first two objectives while the third objective is on standby for the foreseeable future. The Board generally agreed it is necessary to consider further the costs versus benefits of reporting guidance before deciding whether to develop intangible assets standards.

February 2022

Software Technology

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.

Intangible Assets

Also at the February 2022 meeting, At the February meeting, the Board agreed with following non-authoritative 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*

April 2022

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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

Software Technology

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.

Intangible Assets

At the December 2024 meeting, the Board also 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 Statement of Federal Financial Accounting Standards (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 SFFAS.

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

February 2025

Software Technology

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.

Intangible Asset Concepts

The Board agreed with staff’s recommended concepts 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. Based on deliberations, staff will further consider minor edits to the concepts and will develop a draft exposure draft for the agreed upon intangible asset concepts amendments in an omnibus concepts amendment Statement.

Intangible Asset Standards

The Board agreed with staff’s recommended scope, definition, and recognition language for intangible asset standards. Members generally agreed that the proposed guidance would provide a solid foundation for an intangible asset Statement. Staff will continue to research and recommend accounting guidance for intangible assets for topics such as useful life estimation, amortization, and impairment.

June 2025

Software Technology

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.

August 2025

Software Technology

At the August 2025 meeting, staff provided a project timeline analysis for updating SFFAS 10 with 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

The Board overwhelmingly agreed with staff's recommendation of option 1 to wait and issue an ED for a comprehensive principle-based intangible asset Statement that includes software guidance updates once the Board deliberates the entire software technology and intangible assets projects.

Most members believed option 1 to be the best course of action because preparers and auditors typically prefer that the Board issue new guidance comprehensively in one Statement rather than piecemealing incremental amendments. Furthermore, several members believed that issuing incremental guidance could create long-term challenges if the iterative updates later conflict with future updates and/or the final Statement.

Members also agreed that it is important for the Board to be flexible with how it responds to the fast-changing federal financial management environment. The Board will continue to research and monitor emerging issues with potential accounting and financial reporting implications, such as digital assets.