

Memorandum

Intangible Asset/IUS

April 6, 2026

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 December 2025 meeting, the Board deliberated accounting guidance for amortization and enhancement for intangible assets and internal use software (IUS).

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

1. Accounting guidance for impairment of intangible assets and IUS
2. Accounting guidance for multiple-element arrangements

Staff requests the Board's feedback on the recommendations.

REQUEST FOR FEEDBACK

Prior to the Board's April meeting, please review the attached staff analysis and respond to the questions by April 23, 2026.

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

April 6, 2026

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 (IUS) 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 IUS 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.

During the December 2025 meeting, the Board deliberated accounting guidance for amortization and enhancement for intangible assets and IUS.¹

Recommendations and Analyses

The Board has previously deliberated guidance updates for cloud services, software licenses, shared services, and agile software development, which are the primary topics

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

in the software technology scope and will serve as the foundation for the updated accounting guidance. Likewise, the Board has already deliberated foundational guidance for intangible asset standards, including scope, definition, recognition, and initial measurement 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 or are unique software-related accounting issues.

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

1. Accounting guidance for impairment of intangible assets and IUS
2. Accounting guidance for multiple-element arrangements

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](#)
- FASAB Board material, *Topic B - Intangible Asset/Software Technology*, [September 30, 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-25-107468, *Weapon System Sustainment: DoD Can Improve Planning and Management of Data Rights*, [Sep 29, 2025](#)
- 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. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, [November 2003](#)
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, [June 2007](#)
- IPSAS 21, *Impairment of Non-Cash Generating Assets*, December [2004](#)
- 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](#)
- SFFAS 44, *Accounting For Impairment Of General Property, Plant, And Equipment Remaining In Use*, [January 3, 2013](#)
- 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 for impairment of general intangible assets along with supplemental IUS guidance. The recommended guidance would apply to intangible assets and IUS 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.

ANALYSIS

Existing guidance in SFFAS 10 and TR 16 addresses impairment for IUS. In the same way it is important for reporting entities to account for acquired intangible assets, it is also important that reporting entities account for when the future economic benefits or services of those assets are reduced and/or the reporting entity removes the asset from service.²

Staff received a few questions from stakeholders and a Board member concerning the Board's existing impairment guidance. Additionally, staff believes the Board should modernize the guidance for the current software environment. Finally, staff believes the Board should develop broader impairment guidance for all intangible assets, with supplemental IUS guidance, like what the Board has previously deliberated for other topics.

The following analysis will discuss:

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

Impairment characteristics

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortization.³ An intangible asset would be impaired if its future economic benefits or service potential unexpectedly declines in a way that is greater than what amortization has captured.

Unlike tangible property, plant, and equipment (PP&E), intangible assets are not likely to be impaired through physical damage. However, intangible assets could become impaired for other reasons. For example, a software application or intellectual property for aircraft could become permanently obsolete and cease to provide benefits or services to the reporting entity.

² GAO Report to Congressional Committees, GAO-24-105717, *Federal Software Licenses: Agencies Need to Take Action to Achieve Additional Savings*, Jan. 29, 2024, pg. 31 says, "Until selected agencies consistently track software licenses that are currently in use and compare their inventories of software licenses in use to known purchases for each of their five most widely used software licenses, the agencies are likely to miss opportunities to reduce costs on duplicative or unnecessary software licenses."

³ IPSAS 21, *Impairment of Non-cash Generating Assets*, par. 23.

Other standard-setter guidance

FASB, GASB, and IPSASB have issued impairment guidance for intangible assets.

FASB

FASB has issued impairment guidance for intangible assets in ASC 350-30-35:

- 350-30-35-14 states, *“An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 by applying the recognition and measurement provisions in paragraphs 360-10-35-17 through 35-35. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10, an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.”*

The above paragraph directs preparers to apply FASB’s PP&E impairment guidance for intangible assets. Staff has referenced paragraphs below that are relevant for Board deliberations.

- Paragraph 360-10-35-18 states, *“An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.”*
- Paragraph 360-10-35-18 states, *“In applying the provisions of this Subtopic, the carrying amount of the asset being tested for impairment shall include amounts of capitalized asset retirement costs. Estimated future cash flows related to the liability for an asset retirement obligation that has been recognized in the financial statements shall be excluded from both of the following:*
 - a. The undiscounted cash flows used to test the asset for recoverability*
 - b. The discounted cash flows used to measure the asset's fair value.”*
- Paragraph 360-10-35-19 states, *“If the fair value of the asset is based on a quoted market price and that price considers the costs that will be incurred in retiring that asset, the quoted market price shall be increased by the fair value of the asset retirement obligation for purposes of measuring impairment.”*

- Paragraph 360-10-25-20 states, *“If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited.”*
- Paragraph 360-10-35-21 states, *“A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:*
 - a. *A significant decrease in the market price of a long-lived asset (asset group)*
 - b. *A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition*
 - c. *A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator*
 - d. *An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)*
 - e. *A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)*
 - f. *A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.”*
- Paragraph 360-10-35-22 states, *A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.*
- Paragraph 360-10-35-47 states, *“For purposes of this Subtopic, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 to reflect the use of the asset over its shortened useful life (see paragraph 360-10-35-22).”*

- Paragraph 360-10-35-48 states, *“Because the continued use of a long-lived asset demonstrates the presence of service potential, only in unusual situations would the fair value of a long-lived asset to be abandoned be zero while it is being used. When a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, if any. The salvage value of the asset shall not be reduced to an amount less than zero.”*

FASB also provides supplemental impairment guidance for IUS.

- Paragraph 350-40-35-1 states, *“Impairment shall be recognized and measured in accordance with the provisions of Section 360-10-35, which requires that assets be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The guidance is applicable, for example, when one of the following events or changes in circumstances occurs related to computer software being developed or currently in use indicating that the carrying amount may not be recoverable:*
 - a. Internal-use computer software is not expected to provide substantive service potential.*
 - b. A significant change occurs in the extent or manner in which the software is used or is expected to be used.*
 - c. A significant change is made or will be made to the software program.*
 - d. Costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.”*
- Paragraph 350-40-35-2 states, *“Paragraphs 360-10-35-47 through 35-49 requires that the asset be accounted for as abandoned when it ceases to be used.”*
- Paragraph 350-40-35-3 states, *“When it is no longer probable that computer software being developed will be completed and placed in service, the asset shall be reported at the lower of the carrying amount or fair value, if any, less costs to sell. The rebuttable presumption is that such uncompleted software has a fair value of zero. Indications that the software may no longer be expected to be completed and placed in service include the following:*
 - a. A lack of expenditures budgeted or incurred for the project.*
 - b. Programming difficulties that cannot be resolved on a timely basis.*
 - c. Significant cost overruns.*
 - d. Information has been obtained indicating that the costs of internally developed software will significantly exceed the cost of comparable third-*

party software or software products, so that management intends to obtain the third-party software or software products instead of completing the internally developed software.

- e. *Technologies are introduced in the marketplace, so that management intends to obtain the third-party software or software products instead of completing the internally developed software.*
- f. *Business segment or unit to which the software relates is unprofitable or has been or will be discontinued.*

GASB

GASB Statement No. 51 provides supplemental impairment guidance for intangible assets:

- Paragraph 18 states, *“In addition to the indicators included in paragraph 9 of Statement 42, a common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.”*

Paragraph 18 references GASB 42 that provides general impairment guidance for all capital assets, including intangible assets. In the interest of keeping the analysis concise, staff did not reference specific paragraphs from GASB 42 because its framework is very similar to the framework in SFFAS 44 for PP&E impairment that staff references below.

IPSASB

Similar to FASB and GASB, IPSAS 21, *Impairment of Non-cash Generating Assets* and IPSAS 26, *Impairment of Cash Generating Assets* applies comprehensive impairment guidance to all capital assets, including intangible assets. In the interest of keeping the analysis concise, staff did not reference specific IPSAS paragraphs because its framework is similar to the frameworks of the other standard setter frameworks.

Existing FASAB guidance

The Board has issued accounting guidance for IUS impairment in SFFAS 10, paragraphs 28-31:

- Paragraph 28 states, *“Impairment should be recognized and measured when one of the following occurs and is related to post-implementation/operational software and/or modules thereof:*
 - *the software is no longer expected to provide substantive service potential and will be removed from service or*

- *a significant reduction occurs in the capabilities, functions, or uses of the software (or a module thereof)."*
- Paragraph 29 states, *"If the impaired software is to remain in use, the loss due to impairment should be measured as the difference between the book value and either (1) the cost to acquire software that would perform similar remaining functions (i.e., the unimpaired functions) or, if that is not feasible, (2) the portion of book value attributable to the remaining functional elements of the software. The loss should be recognized upon impairment, and the book value of the asset reduced accordingly. If neither (1) nor (2) above can be determined, the book value should continue to be amortized over the remaining useful life of the software."*
- Paragraph 30 states, *"If the impaired software is to be removed from use, the loss due to impairment should be measured as the difference between the book value and the net realizable value (NRV), if any. The loss should be recognized upon impairment, and the book value of the asset reduced accordingly. The NRV, if any, should be transferred to an appropriate asset account until such time as the software is disposed of and the amount is realized."*

FN 8 states, *"Presumably, NRV will be zero for software. However, in the rare case that it is not zero, NRV should be recognized."*

- Paragraph 31 states, *"In instances where the managers of a federal entity conclude that it is no longer more likely than not that developmental software (or a module thereof) will be completed and placed in service, the related book value accumulated for the software (or the balance in a work in process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized. The following are indications of this:*
 - *Expenditures are neither budgeted nor incurred for the project.*
 - *Programming difficulties cannot be resolved on a timely basis.*
 - *Major cost overruns occur.*
 - *Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project.*
 - *Technologies that supersede the developing software product are introduced.*
 - *The responsibility unit for which the product was being created is being discontinued.*

More recently, the Board issued implementation guidance in TR 16 that further clarified IUS impairment requirements. To keep the guidance references more concise, staff only included footnote references from TR 16 that staff believe are relevant to Board deliberations:

- Paragraph 23 states, *“Impairment: SFFAS 10, paragraphs 28-30, addresses how to determine if software is impaired during the post-implementation operational phases and the measurement of the impairment for the impaired software remaining in use or to be removed. Significant events or changes in operating circumstances warrant a review to determine whether the carrying value of an existing software asset is not recoverable and should be impaired. An assessment should be performed to determine the remaining useful life of the impaired software for amortization purposes.”*
- Paragraph 24 states, *“When it is more likely than not that a developmental software project will not be completed, no further costs should be capitalized and any costs that have been capitalized should be written off in accordance with SFFAS 10, paragraph 31. Indications that the software may no longer be completed include:*
 - *a. The expenditures are neither budgeted nor incurred to fund further development;*
 - *b. The discontinuance of the business segment the software was designed for;*
 - *c. The inability to resolve programming difficulties timely; or*
 - *d. A decision to obtain COTS instead and abandon the current software development*
- Paragraph 25 states, *“When a developmental software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized as long as it is more likely than not that the developmental software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold. The status of the project should be reevaluated periodically and the capitalized cost should be written off if management concludes that it is more likely than not that the software will not be placed into service in the future.”*
- Illustration 4 from Appendix B provides agency practices for determining impairment of IUS by stating, *“Scenario-based impairment checklist reviewed on a quarterly basis to monitor impairment. The checklist examines the following scenarios: cessation of demand for the IUS asset, changes with an adverse effect on the IUS asset have occurred within the policy, legal or technological environment, plans to discontinue or restructure the IUS asset, the IUS asset is*

not performing as intended, and elements of the IUS asset functionality are not used as intended.”

Staff believes that FASAB’s disposal and impairment guidance for tangible PP&E provides useful insight for deliberating impairment guidance for intangibles. The Board has addressed PP&E disposals in SFFAS 6:

- Paragraph 38 states, *“In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized⁴⁴ shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.”*

FN 44 states, *“For example, amounts realized may include cash received for scrap materials or fair value of items received in exchange for PP&E removed from service.”*

- Paragraph 39 states, *“General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.”⁴*

In 2013, FASAB issued SFFAS 44 that provides in-depth accounting guidance on impairment of PP&E that remains in use. Staff has referenced paragraphs below that are relevant for Board deliberations.

- Paragraph 8 states, *“Impairment is a significant⁶ and permanent decline in the service utility of G-PP&E, or expected service utility for construction work in process. Entities generally hold G-PP&E because of the services they provide or will provide in the future; consequently, impairments affect the service utility of the G-PP&E. The events or changes in circumstances that lead to impairments are not considered normal and ordinary.⁷ That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected*

⁴ In 2011, the Board issued TR 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*.

to occur during the useful life of the G-PP&E or, (b) if expected, sufficiently predictable to be considered in estimating its useful life.”

FN 6 states, “The determination of whether or not an item is significant is a matter of professional judgment. Such judgments may be based on: (1) the relative costs of providing the service before and after the decline, (2) the percentage decline in service utility, or (3) other considerations. Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.”

FN 7 states, “Normal and ordinary are defined as events or circumstances that fall within the expected useful life of the PP&E such as standard maintenance and repair requirements.”

- *Paragraph 9 states, “The service utility of G-PP&E is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. The current usable capacity of G-PP&E may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws, or regulations or other changes in environmental or economic factors, or change in the manner or duration of use. Usable capacity may be different from maximum capacity⁸ in circumstances in which surplus capacity (the excess capacity over the usable capacity) is needed for safety, economic, operational readiness or other reasons. G-PP&E that experience decreases in utilization, and the simultaneous existence of or increases in surplus capacity not associated with a decline in service utility are not considered impaired.”*

FN 8 states, “Maximum capacity is the usable capacity plus any surplus capacity.”

- *Paragraph 10 states, Generally, G-PP&E remaining in use is impaired if the decline in the service utility of the G-PP&E is significant and deemed permanent.*
- *Paragraph 11 states, “The determination of whether G-PP&E remaining in use is impaired, as defined in paragraph 8 above, includes (a) identifying potential impairment indicators and (b) testing for impairment. G-PP&E would be identified as potentially impaired as a result of the occurrence of significant events or changes in circumstances, or routine asset management processes.”*
- *Paragraph 12 states, “Some common indicators of potential impairment include those listed below. The indicators identified are not conclusive evidence that a measurable or reportable impairment exists. Entities should carefully consider the surrounding circumstances to determine whether a test of potential impairment is necessary given the circumstances.”*

- a. *evidence of physical damage*
- b. *enactment or approval of laws or regulations which limit or restrict G-PP&E usage*
- c. *changes in environmental or economic factors*
- d. *technological changes or evidence of obsolescence⁹*
- e. *changes in the manner or duration of use of G-PP&E*
- f. *construction stoppage or contract termination*
- g. *G-PP&E idled or unserviceable for excessively long periods”*

FN 9 states, “*Technological changes or evidence of obsolescence should be considered along with other factors when assessing impairment. For example, if obsolete G-PP&E continues to be used, the service utility expected at acquisition may not be diminished. Further, when obsolescence is expected, the declining service utility of G-PP&E subject to obsolescence can be addressed through depreciation, particularly by using accelerated methods that yield a lower capital cost per year as its utility diminishes when compared to that of later versions of the same asset.*”

- Paragraph 13 states, “*Events or changes in circumstances affecting G-PP&E that may indicate impairment are sometimes significant. Significant events or changes in circumstances are conspicuous or known to the entity’s management or oversight entities. This Statement does not require entities to conduct an annual or periodic survey solely to identify potential impairments of GPP&E. Rather, significant events or changes in circumstances affecting G-PP&E that may indicate impairment are conspicuous or known to the entity’s management or oversight entities and are generally expected to have prompted consideration¹¹ by management, oversight entities, or others (e. g., the media).*”

FN 11 states, “*Consideration might include but is not limited to management discussions, internal managerial analyses or reviews, conferences or consultations with experts, media or public relations interviews, or external industry scrutiny.*”

- Paragraph 16 states, “*G-PP&E identified through the processes described in paragraphs 10 through 15 should be tested for impairment by determining whether the following two factors are present:*
 - a. *The magnitude of the decline in service utility (as defined in par. 9) is significant. The costs are now disproportionate to the new expected service utility. Such costs should include operational and maintenance costs. Judgment is required to determine whether the decline is significant. Such judgments may be based on: (1) the relative costs of*

- b. *Restoration approach. Impairment of improvements made to stewardship land and multi-use heritage assets with physical damage may generally be measured by using a restoration approach. This approach uses the estimated cost to restore the diminished service utility of the G-PP&E to identify the portion of the historical cost of the G-PP&E that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the G-PP&E.*
- c. *Service units approach. Impairment of G-PP&E that are affected by enactment or approval of laws or regulations or other changes in environmental/economic factors or are subject to technological changes or obsolescence generally may be measured using a service units approach. This approach compares the service units provided by the G-PP&E before and after the impairment event or change in circumstance to isolate the historical cost of the service utility of the G-PP&E that cannot be used due to the impairment event or change in circumstance. The amount of impairment is determined by evaluating the service provided by the G-PP&E - either maximum estimated service units or total estimated service units throughout the life of the G-PP&E - before and after the event or change in circumstance.*
- d. *Deflated depreciated current cost approach. Impairment of G-PP&E that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost approach. This approach quantifies the cost of the service currently being provided by the G-PP&E and converts that cost to historical cost. A current cost for a G-PP&E to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the G-PP&E is not new, and then is subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the G-PP&E exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).*
- e. *Cash flow approach. Impairment of cash or revenue generating G-PP&E, such as those used for business or proprietary-type activities, may be assessed using a cash flow approach. Under this approach, an impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value or value-in-use estimate. The net book value of the G-PP&E is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the G-PP&E. That assessment should be based on the net book value of the G-*

PP&E at the date it is tested for recoverability, whether in use or under development. If the net book value is not recoverable, the impairment loss is the amount by which the net book value of the G-PP&E exceeds the higher of its net realizable value or value-in-use estimate. No impairment loss exists if the net book value is less than the higher of the G-PP&E's net realizable value or value-in-use estimate.

- f. *Lower of (1) Net Book Value or (2) Higher of Net Realizable Value or Value-in-Use Approach. G-PP&E impaired from either construction stoppages or contract terminations, which are expected to provide service, should be reported at their recoverable amount; the lower of (1) the G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate. Impaired G-PP&E, which are not expected to provide service, should be accounted for and reported in accordance with SFFAS 6."*
- Paragraph 19 states, *"The loss from impairment should be recognized and reported in the statement of net cost when management concludes that the impairment is (1) a significant decline in service utility and (2) expected to be permanent. Such loss may be included in program cost(s) or cost(s) not assigned to programs consistent with SFFAS 4, Managerial Cost Accounting Standards and Concepts. However, in cases where an entity decides that an impairment loss should not be recognized, it could consider the need for adjustments to the G-PP&E's depreciation methods, useful life or salvage value estimates, as appropriate."*
 - Paragraph 24 states, *"Subject to the entity's capitalization policies, if an entity later remediates the previously impaired G-PP&E remaining in use, the costs incurred to replace or restore the lost service utility should be accounted for in accordance with applicable standards. For example, costs to prepare the site and install replacement facilities would be recognized in accordance with SFFAS 6, Accounting for Property, Plant, and Equipment."*

Staff analysis

There are some noteworthy similarities and differences among standard setters' impairment guidance frameworks:

- FASB, GASB, and IPSASB have issued broad and comprehensive impairment standards that apply to all capital assets, including intangible assets. FASAB has issued impairment guidance for G-PP&E that is similar to GASB's model.
- FASB and GASB have issued supplemental guidance for IUS. FASAB has also issued impairment guidance for IUS that is similar to FASB's guidance.
- All standard setters provide criteria for management to determine whether an asset may be impaired (e.g., technological obsolescence) and then require

preparers to test for the impairment based on whether management determines there is a significant decline in the future economic benefits or service potential of the asset relative to its book value.

- FASB's capital asset impairment guidance requires preparers to recognize and measure an impairment loss based on the difference between the assets book value and fair value. GASB and FASAB's impairment guidance provide multiple options for measuring impairment loss. For example, preparers can use multiple methods to isolate and write off the portion of the historical cost that is impaired or measure the loss as the difference between the book value and net realizable value of the asset.
- FASAB's impairment guidance for IUS provides much more concise and limited options for measuring IUS impairment compared to its impairment guidance for G-PP&E.

Staff believes it is notable that all the other standard setters have applied their separately issued capital asset impairment standards to intangible assets. Their standards do not specifically address intangible assets, other than IUS, separate from any other capital assets. Therefore, staff believes it is theoretically possible the Board could apply SFFAS 44 to intangible assets.

Paragraphs 47-48 in the basis for conclusions in SFFAS 10 states that the Board believed IUS was similar to PP&E and should be accounted for in a similar manner, including impairment. Specifically, the Board noted that IUS and PP&E were subject to similar risks of impairment and write-off.

Furthermore, the accounting requirements in SFFAS 10 and SFFAS 6 are the same regarding situations where the software or G-PP&E is impaired and will be removed from service in its entirety. Both standards require reporting entities to measure the loss as the difference between the book value and the net realizable value, if any. However, SFFAS 10 also provides for instances when (1) operational software is only partially impaired and will remain in use, and (2) developmental software becomes impaired.

However, when the Board later issued comprehensive impairment guidance in SFFAS 44 to address impaired G-PP&E remaining in use, the Board specifically excluded IUS from its scope.⁵ Therefore, the Board developed the guidance in SFFAS 44 without regard to IUS or any intangible asset.

Therefore, staff believes there are risks to simply applying SFFAS 44 to intangible assets and IUS without considerable Board deliberations that would likely lead to amendments to SFFAS 44 and would take considerable time and resources. Staff believes the most efficient and effective course of action is to specifically consider

⁵ SFFAS 44, paragraph 2 states, "SFFAS 10, *Accounting for Internal Use Software*, provides guidance for the impairment of internal use software." This Statement does not alter existing requirements regarding internal use software. Paragraph 7 states, "*This Statement applies to G-PP&E except internal use software.*"

intangible asset and IUS impairment guidance needs based on working group feedback for the intangible asset Statement.

Most working group members preferred that the Board provide impairment guidance specific to intangible assets and IUS because they believe that intangible assets have unique impairment criteria separate from tangible PP&E. A few working group members preferred that the Board apply SFFAS 44 broadly to intangible assets because they thought that its guidance could reasonably apply to all capital assets and preferred that impairment guidance for all capital assets be located in one Statement or that the intangible asset impairment guidance cross reference to SFFAS 44 when applicable.

For practical reasons one working group member preferred that the Board first issue specific impairment guidance for intangible assets and IUS in the new intangible asset Statement. They suggested the Board could then consider updating SFFAS 44 as a separate project so that impairment guidance for all capital assets would eventually be located in one Statement.

Staff recommendation

Staff recommends the following guidance to address how to account for impairment of intangible assets and IUS:

Impairment of Intangible Assets

X1. Impairment is a significant and permanent decline in the service utility of an intangible asset. The events or changes in circumstances that lead to impairments are not considered normal and ordinary.⁶ That is, at the time the intangible asset was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the intangible asset or, (b) if expected, sufficiently predictable to be considered in estimating its useful life.

Identification of Potential Impairment

X2. When determining whether an intangible asset is impaired, reporting entities should:

- a. Identify potential impairment indicators
- b. Test for impairment

⁶ Normal and ordinary denote events or circumstances that fall within the expected useful life of the intangible asset such as standard maintenance activities.

Step 1 – Identify Potential Impairment Indicators

X3. This Statement does not require entities to conduct an annual or periodic survey solely to identify potential impairments of intangible assets. Rather, events or changes in circumstances affecting intangible assets that may indicate impairment are conspicuous or known to the entity's management or oversight entities and are generally expected to have prompted consideration by management, oversight entities, or others.

X4. Some common indicators of potential impairment include:

- a. Changes in the manner or duration of use of an intangible asset
- b. Impairment of a G-PP&E asset associated with an intangible asset
- c. Technological changes or evidence of obsolescence
- d. New laws or regulations that limit or restrict intangible asset usage

X5. The indicators in paragraph X4 are not conclusive evidence that a measurable impairment exists. Entities should consider the surrounding circumstances to determine whether a test of potential impairment is necessary.

Step 2 – Impairment Test

X6. Intangible assets identified through the process described in paragraphs X3-X5 should be tested for impairment. To confirm impairment has occurred, both of the following factors must exist:

- a. The magnitude of the decline in service utility is significant. This means that the intangible asset is no longer capable of providing the same level of service benefits that the reporting entity developed or acquired the asset to provide.
- b. The decline in service utility is expected to be permanent. The decline is considered permanent when management has no reasonable expectation that the lost service utility will be restored.

Recognizing Impairment Losses for Intangible Assets that Remain in Use

X7. If the impaired intangible asset will remain in use, reporting entities should measure the loss due to impairment as the difference between the book value of the impaired asset and either

- a. the inflation-adjusted cost to acquire an intangible asset that would perform similar remaining services; or

- b. the portion of book value attributable to the remaining functional elements of the intangible asset.

X8. If the intangible asset will remain in use, reporting entities should recognize the loss upon impairment and reduce the book value of the asset accordingly. If neither the requirements in X7.a. nor X7.b. can be determined, reporting entities should consider decreasing the useful life of the intangible asset and continue to amortize the book value over a shorter term than initially established.

Intangible Assets Removed from Service

X9. Reporting entities may remove an intangible asset from use when it is impaired, or if management determines the reporting entity no longer has use for the asset. When an intangible asset is removed from use, reporting entities should remove the book value and associated accumulated amortization of the asset and measure a loss based on any remaining net book value of the intangible asset.

Impairment of Software Asset Already Placed in Service

X10. When significant changes in operating circumstances for a software module or component occurs, reporting entities should review and determine whether the existing software asset should be impaired in accordance with paragraphs X3-X6 of this Statement. When identifying impairment indicators for IUS, reporting entities should especially consider whether:

- a. The software is not working as intended due to ongoing operational issues
- b. A reduction in the functionality of the software occurs so that it can no longer perform tasks it was previously capable of performing
- c. All or some of the software functions will be replaced by new internally developed software releases or third-party software products or services

X11. Reporting entities should measure and recognize IUS impairments in accordance with paragraphs X7-X9 of this Statement.

Software in Development

X12. When it is no longer more likely than not that a software asset in development will be completed and placed in service, reporting entities should remove the accumulated work in process balance and recognize a loss. Indications that it may no longer be more likely than not that the software will be completed and placed in service include the following:

- a. A lack of expenditures incurred or future resources budgeted for the project
- b. Development difficulties that cannot be resolved timely

- c. Management decides to pursue other avenues for its internal use software needs, such as acquiring software products or services from a third party
 - d. Management priorities change and determine that the internal use software in development is no longer needed
-

Collectively, this proposed guidance would replace paragraphs 28-31 and footnote 8 of SFFAS 10. The staff recommendation borrows heavily from SFFAS 44 and would result in new impairment guidance specific to intangible assets and update the existing IUS impairment guidance by combining aspects of SFFAS 10 and TR 16, modernizing the guidance with the current software environment, and integrating the guidance into the broader intangible asset standards.

Intangible asset impairment - overview

Paragraph X1 borrows from SFFAS 44, paragraph 8 to define impairment at a high level in the context of intangible assets. Paragraph X2 borrows from SFFAS 44, paragraph 11 to summarize the typical two-step process for preparers to follow when deciding whether to measure and recognize an impairment loss.

Intangible asset impairment – identifying impairment indicators

Paragraph X3 borrows from SFFAS 44, paragraph 13 to make it clear that the standards would not require reporting entities to perform periodic reviews to test for impairment of intangible assets. Management should only test for impairment when circumstances arise that necessitate impairment consideration.

Paragraph X4 and its subparagraphs address the first step in the impairment process. The recommended guidance borrows from SFFAS 44, paragraph 12 and FASB ASC 360-10-35-21 to provide criteria that could indicate to management that a potential recognizable impairment may have occurred to an intangible asset.

Staff made sure to select impairment indicator criteria in subparagraphs X4.a.-d. that would specifically apply to intangible assets. Staff also focused on criteria that could specifically indicate that an event has occurred that has altered the way a reporting entity uses the intangible asset. This list is similar to the criteria the Board previously deliberated for estimating the initial useful life of the asset. Reporting entities would essentially use similar criteria to determine if the asset may require revaluation based on impairment.

Paragraph X5 borrows from SFFAS 44, paragraph 12 to clarify that the presence of one indicator or even several is evidence that an impairment may have occurred but is not necessarily definitive proof that an impairment occurred. Management should not deliberate the criteria in a vacuum but will have to use judgment to consider all the

relevant facts and circumstances to decide whether to move to the next step to test for impairment.

For example, technological changes may relate to an IUS asset, or a new law may relate to and potentially restrict an intellectual property asset. However, upon further research management may determine that the asset's service potential as it relates to the reporting entity is not affected.

Intangible asset impairment – impairment test

Paragraph X6 and its subparagraphs address the second step in the impairment process. The recommended guidance borrows from SFFAS 44, paragraph 16 to provide two requirements that must be present for a reporting entity to recognize an impairment loss for an intangible asset.

Subparagraph X6.a. states that the decline in the intangible asset's service potential must be significant and clarifies that "significant decline in service potential" means the intangible asset is no longer capable of providing the same level of service benefits that the reporting entity developed or acquired the asset to provide. In other words, the intangible asset is no longer as useful to the reporting entity as when it was initially capitalized. For an actual impairment to have occurred, it is critical that the occurrence of any of the impairment indicators in paragraph X4 result in the intangible asset losing significant capabilities or service potential.

For example, a legacy software module may have become obsolete in terms of it being outdated and not having the same efficiency or capabilities as modern software. However, if the legacy software still provides the same substantive services that the reporting entity incurred costs to acquire, there are no capitalized costs to impair. Likewise, if a new law restricts the use of an intellectual property asset, that asset is not impaired unless the law restricts the intellectual property from providing the substantive services it was providing to the reporting entity.

Staff did not include language from SFFAS 44, paragraph 16.a., which states that a significant decline in service utility means that operation and maintenance costs are now disproportionate to the new service utility. Some working group members said that operation and maintenance costs are not as relevant for judging impairment for most intangible assets as it is for tangible PP&E that experience wear and tear.

Additionally, staff believes that increased maintenance costs relative to the asset value do not necessarily mean that the asset's service utility has declined. For example, an IUS asset may require significant and increased maintenance costs yet still provide the same services to the reporting entity it has always provided.⁷ Therefore, staff does not believe reporting entities should consider maintenance costs when testing for impairment of intangible assets.

⁷ Per FASAB Board material, Topic B - *Intangible Asset/Software Technology*, [September 30, 2025](#), staff believes high maintenance costs could indicate a shorter useful life for the asset.

Subparagraph X6.b. states that the decline in the intangible asset's service potential must be permanent, which means that management does not believe the reporting entity will be able to recover the decline in service potential. For example, a new legal or regulation issuance may permanently make a patent useless. Additionally, management may determine that the reporting entity will no longer have use for a dataset. On the other hand, it is possible that the service utility decline of an IUS asset could be recovered through maintenance and code patching.⁸

Loss recognition – impairment and removal from use

Paragraphs X7-X9 provide guidance on how to measure and recognize a loss if management determines that an impairment has occurred based on the prior guidance in paragraphs X3-X6.

Paragraph X7 and its subparagraphs borrow from SFFAS 44, paragraphs 18.a. (replacement approach) and 18.c. (service-units approach), as well as SFFAS 10, paragraph 29 to provide guidance for how to measure impairment loss for an intangible asset that will remain in service. The IUS impairment measurement options in paragraph 29 of SFFAS 10 are similar to the replacement and service-units approach in SFFAS 44.

Staff believes these are the most applicable measurement methods for intangible asset impairments. Working group feedback indicated that reporting entities typically remove IUS from service when impaired but that it is possible that internally developed IUS could be partially impaired. In terms of service capacity, the working group believed other intangible assets, such as datasets, patents, and other intellectual property would more likely be fully impaired and removed from service.

Subparagraph X7.a. provides the replacement approach and states that a reporting entity can measure the impairment loss by subtracting the inflation-adjusted cost to acquire an intangible asset that would perform the asset's similar remaining services from the book value of the asset. Like SFFAS 44, paragraph 18.a., this guidance would require the reporting entity to deflate the cost estimate to acquire an intangible asset with similar remaining services so that the cost is comparable to the impaired assets historical cost. A working group member believed this is necessary otherwise the replacement cost would almost always be higher than the historical book value due to inflation.

Subparagraph X7.b. provides the service unit approach and states that a reporting entity can measure the impairment loss by subtracting the portion of book value attributable to the remaining functional elements of the intangible asset from the book value of the asset.

⁸ [Configuration and patch management planning | Internal Revenue Service](#)

These two measurement approaches would require management judgment. For the replacement approach, management could use prices of available software licenses or cloud services that provide similar services as the impaired IUS asset. Staff believes the service-unit approach could apply to an internally developed IUS asset. Management could use its cost accounting information to estimate the cost attributable to the IUS assets remaining functions.

Paragraph X8 borrows from SFFAS 10, paragraph 29 to state that the reporting entity should recognize the measured impairment loss when the impairment occurs and reduce the asset's book value accordingly. The guidance also allows the preparers to adjust the useful life of the asset if management is not able to measure the impairment loss in accordance with the replacement and service-unit approaches in paragraph X7.

Paragraph X9 borrows from SFFAS 10, paragraph 30 and SFFAS 6, paragraphs 38-39 to provide guidance for recognizing a loss when the reporting entity removes the intangible asset from service. The guidance states that reporting entities should remove the asset and amortization value from the balance sheet and measure the loss based on the remaining book value minus accumulated amortization of the asset. This scenario would likely apply to most intangible assets, including software licenses.

Multiple working group members indicated that the existing SFFAS10 guidance was not as extensive as the SFFAS 6 guidance for accounting IUS assets fully removed from use. For example, reporting entities may remove intangible and IUS assets from service, that may or may not be fully amortized, regardless of an impairment having occurred. Therefore, staff recommends updates in paragraph X9 that would more clearly explain the accounting procedures for intangible assets removed from service, whether impaired or not.

To be consistent with prior Board deliberations staff's recommendation does not include the language in SFFAS 10 and SFFAS 6 that requires reporting entities to subtract net realizable value (NRV) from the asset book value when measuring impairment loss. During the December 2025 meeting, the Board decided not to include residual value considerations when measuring the initial asset value because the costs likely outweigh the benefits of requiring preparers to account for residual values of intangible assets.

Intangible asset impairment - Internal use software supplemental guidance

Internal use software applies to the overall intangible asset impairment guidance in paragraphs X1-X9. Paragraphs X10-X12 provide supplemental guidance for IUS that is similar to the guidance currently in SFFAS 10 paragraphs 28 and 31 and FASB ASC 350-40-35.

The working group did not identify any significant challenges with applying the current IUS guidance in SFFAS 10 and TR 16. Staff believes the recommendations would modernize the guidance and integrate it as a supplement to the broader intangible asset

guidance. However, staff does not believe the recommended guidance would significantly change the current accounting requirements for IUS impairment.

Paragraph X10 updates aspects of the current guidance in SFFAS 10, paragraph 28 to make clear that the two-step impairment guidance for intangible assets in paragraphs X3-X7 apply to IUS. However, paragraph X10 provides additional criteria that could indicate IUS impairment. Staff updated the language for subparagraph X10.b. to align with the agile framework and enhancement language the Board has previously deliberated.⁹

For paragraph X10.a., staff replaced the current criteria in SFFAS 10, paragraph 28, “the software is no longer expected to provide substantive service potential...” with “The software is not working as intended due to ongoing operational issues”. In other words, if a software asset is experiencing continuous operational issues that affect its ability to function on the network and provide service to the reporting entity, that could be a sign that management should test the asset for impairment.

Staff believes this update is more appropriate as a potential indicator that a reporting entity needs to test for impairment. Reporting entities would then have to test for impairment by determining whether the software has had a significant permanent decline in service potential in accordance with paragraphs X6.a.-b.

Staff has received suggestions from the working group and a Board member that the new software guidance should consider agile development methods and address how to account for software that is replaced by a subsequent IUS asset, cloud services, or software license. Therefore, staff added an additional IUS impairment indicator in subparagraph X10.c. that says if a new IUS asset replaces the functions that a current IUS asset provides, that would be an indicator that previous IUS asset may be impaired.

Paragraph X11 simply states that reporting entities should refer to the overall measurement and recognition guidance for intangible asset impairments in paragraphs X6-X9. As stated previously, the language is similar to existing guidance in SFFAS 10, paragraphs 29-30.

Paragraph X12 borrows from SFFAS 10, paragraph 31, TR 16, paragraphs 23-24, and FASB ASC 350-40-35-3 to address impairment for IUS under development. This guidance is only necessary for IUS because the Board has decided not to require capitalization of other internally developed intangible assets. Like paragraph X9, staff removed the requirement to consider NRV when measuring the impairment loss because of prior Board deliberations.

Staff also updated the SFFAS 10 and TR 16 list of impairment indicators for IUS in development in subparagraphs X12.a.-d. Staff believes the proposed criteria offer clear

⁹ See FASAB Board material, Topic B – *Software Technology*, [June 3, 2025](#) and FASAB Board material Topic B - *Intangible Asset/Software Technology*, [September 30, 2025](#)

high-level indicators that it is more likely than not that management will cease developing the IUS.

Paragraph X12.c. would apply when a reporting entity decides to abandon the IUS in development because they determine it makes more sense to achieve their operational needs by purchasing software licenses or software-as-a-service from a vendor. Staff notes however that paragraph X12.c. would not apply when reporting entities acquire software licenses and cloud-services as part of developing or operating an IUS asset. For example, a reporting entity may acquire infrastructure-as-a-service over the cloud to run an IUS asset that is placed in service.

Staff believes that paragraphs X10-X12 provide a good impairment framework for agile software development methods. For example, if a reporting entity has placed an iterative release or group of iterative releases in service as a standalone IUS module or enhancement asset, then paragraphs X10-X11 apply for impairment. If a reporting entity is in the process of capitalizing an iterative release or group of iterative releases but has not yet placed an asset in service, then paragraph X12 applies.

Working group feedback

The working group generally concurred with the recommended guidance. Several working group members appreciated that the recommended guidance is clear and concise, and believed it would encourage consistent impairment recognition. Working group members also appreciated that the guidance aligns with current industry practices and the Board's existing impairment guidance in SFFAS 6, SFFAS 10, and SFFAS 44, where applicable. Some working group members particularly appreciated the supplement impairment guidance for software in use and under development.

Regarding paragraph X3, one working group member recommended the guidance encourage periodic impairment reviews of intangible assets. Another working group member suggested removing paragraph X3 because they believed some could misinterpret the language to mean no assessments or reviews are ever required. Additionally, they noted that the absence of the language would not mean that reporting entities are required to perform periodic reviews.

However, other working group members said they appreciated the guidance making it clear that reporting entities should identify impairment indicators based on management awareness of significant events or circumstances, not on required periodic reviews. SFFAS 44 includes this same guidance that makes it clear reporting entities are not required to periodically review impairment of PP&E assets. Staff does not believe there is any reason why the same guidance should not apply to intangible asset impairments.

The working group agreed with the intangible asset impairment indicators in paragraph X4. Some working group members said that the proposed criteria are comprehensive, relevant, and practical for intangible assets. One working group member requested that the guidance include examples of each impairment factor. Staff believes that it would be

more effective to provide practical examples in level C implementation guidance, not principle-based level A guidance.

Some working group members suggested adding other impairment indicators including, changes in economic environment, financial deterioration of the entity using the intangible asset, organizational/mission changes, maintenance agreement changes, cancellation of related programs or funding, and specific digital asset considerations.

Staff agrees that some of the suggested impairment indicators could be relevant to intangible assets, such as financial deterioration, organization/mission changes, and cancellation of funds. However, staff believes the first impairment factor in X4.a. (change in manner or duration of use) would broadly capture these more specific criteria. For example, an organization change or cancellation of funds could indicate a change with how the reporting entity uses a patent.

Likewise, staff believes that paragraph X4.d. (Technological changes or evidence of obsolescence) would broadly cover the effects of maintenance agreement changes. For example, a reduction in software maintenance could increase the risk that the software will become obsolete. Staff does not believe “economic environment” is a particularly relevant impairment factor for intangible asset impairment because federal entities do not typically sell their intangible assets, other than seized digital assets, and the Board’s recognition framework focuses on cost capitalization, not fair value.¹⁰

Finally, staff does not believe impairment accounting would accurately report the volatile financial value of most digital assets because their future economic benefits are not based on service potential but on what an entity expects to receive from selling them. In fact, FASB recently issued guidance allowing entities to measure and remeasure the fair value of their crypto holdings because its intangible asset impairment requirements of only allowing entities to recognize declines in value resulted in misleading reporting.¹¹

One working group member appreciated that paragraph X6.a.-b. emphasizes the significant and permanent decline in the service utility of an asset as an impairment test. They noted that the use of 'significant and permanent' is crucial in distinguishing temporary losses in value from permanent impairments.

However, one working group member suggested removing paragraph X6.a. because they thought it is more difficult to assess the loss of service utility for an intangible asset

¹⁰ SFFAS 3, *Accounting for Inventory and Related Property* applies to seized and forfeited digital assets. However, SFFAS 3 does not require impairment or fair value remeasurement for these types of digital assets.

¹¹ FASB Accounting Standards Update 2023-08-*Intangibles-Goodwill and Other Crypto Assets* (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets, December 2023, pg. 1 says, “Stakeholders stated that the current accounting —for holdings of crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment accounting model, does not provide investors, lenders, creditors, and other allocators of capital (collectively, “investors”) with decision-useful information. Specifically, accounting for only the decreases, but not the increases, in the value of crypto assets in the financial statements until they are sold does not provide relevant information that reflects (1) the underlying economics of those assets and (2) an entity’s financial position. Investors also requested additional disclosures about the types of crypto assets held by entities and the changes in those holdings.”

compared to a tangible asset. Additionally, they believed that the impairment indicators in paragraph X4 overlap with the impairment test requirement in X6.a.

Staff understands that the two paragraphs may overlap some. However, staff agrees with the other working group member that it is a critical step to actually test for impairment to determine whether a particular event or circumstance that may affect an intangible asset actually does significantly and permanently impair the intangible asset.

Regarding paragraph X7, one working member said that measuring impairment based on the difference between the book value and either the cost of a replacement asset or the remaining functional elements are sound and provides a clear approach for financial reporting. Other working group members appreciated removing the requirement to consider NRV as part of impairment measurement.

However, a few working group members believed that reporting entities would rarely recognize partial impairments for IUS and other intangible assets that remain in use. For example, they believed that typically, management would either repair an impaired IUS asset or remove it from service. Staff agrees it is probably rare that reporting entities would recognize partial impairments of intangible assets that remain in service.

Additionally, a few working group members said it could be challenging to measure partial impairment losses in accordance with paragraphs X7.a-b. One working group member suggested that the guidance further explain how to measure the cost to acquire an intangible asset that would perform similar remaining services.

Staff notes that SFFAS 44 and SFFAS 10 provide guidance for partial impairments of PP&E and IUS, respectively and staff believes the intangible asset standards should also provide guidance even for the rare occasion that a partial impairment occurs. The guidance does not require prepares to partially impair intangible assets. It only provides direction with how to account for partial impairments if they occur.

Furthermore, staff believes level C implementation guidance would be more appropriate to address common practices for measuring impairment loss. Finally, staff notes that paragraph X8 would allow reporting entities to adjust the useful life of the intangible asset if they are not able to measure the impairment loss.

Regarding paragraph X10, multiple working group members commented that the supplemental impairment indicator guidance for IUS was well articulated, practical, and provides consistency. One working group member suggested that the guidance also list a computer virus as a potential indicator of IUS impairment.

Staff agrees a computer virus would be a relevant impairment indicator for IUS. However, staff believes the impairment factors already listed in paragraph X10 would broadly cover the effects of a computer virus. For example, if a computer virus resulted in the IUS having operational issues or losing functionality, then it may be impaired.

Regarding paragraph X12, a few working group members suggested additional impairment indicators for IUS in development, including failure to meet milestones, excessive costs overruns, and objective changes. Staff agrees these factors could be relevant impairment indicators for IUS in development.

However, staff believes the impairment factors already listed in paragraph X12 would broadly cover the effects of these factors. For example, failure to meet milestones and experiencing cost overruns could indicate the software is experiencing development difficulties (paragraph X12.b.). Likewise, staff believes that changes in management objectives is equivalent to a change in management priorities, which is covered in paragraph X12.d.

Question for the Board:

1. Does the Board agree with staff's recommended accounting guidance for intangible asset and IUS impairment? Please provide your feedback on staff's analysis and recommendation.

RECOMMENDATION NO. 2

Staff recommends that the Board update its accounting guidance clarifying how to account for multiple-element arrangements that may include software and other intangible assets.

ANALYSIS

Existing guidance in SFFAS 10 addresses accounting for bundled software products and services, also known by other standard setters as multiple-element IUS arrangements. One invitation to comment (ITC) respondent for the reexamination project specifically identified the prevalence of bundled services associated with cloud computing and software licenses as an accounting issue the Board should consider. Staff research on cloud-service arrangements also identified capitalization vs. expense accounting complexities around these multiple-element arrangements.

Furthermore, staff believes accounting for these separate elements is consistent with the Board's prior deliberations for intangible asset and IUS recognition. Prior stakeholder feedback on accounting for software licenses indicate that software licenses can provide federal entities more control over the underlying software compared to cloud services and the Board determined that federal entities should therefore account for software licenses as assets while expensing cloud service costs as a typical service contract.¹²

¹² FASAB Board material, Topic A-2 – *Intangible Assets*, [November 20, 2024](#)

Staff believes the Board should consider updating this guidance as part of the Board's overall objective to issue a new intangible assets Statement that modernizes IUS accounting guidance. The following analysis will discuss:

- Characteristics of multiple-element arrangements
- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

Characteristics of multiple-element arrangements

Research and working group feedback indicates that modern day software arrangements with vendors often include multiple elements including software license(s), cloud-based software-as-a-service and hosting services, implementation services, code maintenance, user support, version updates, data management, and cybersecurity.¹³ One federal entity stated that multiple-element software arrangements can now include other intangible assets, such as data rights and other intellectual property related to artificial intelligence.

Research and working group feedback indicates that vendors bundling multiple software products into one agreement causes challenges with accounting for the costs of specific software licenses.¹⁴

Overall feedback indicates that most multiple-element arrangements in the federal government involve software products and/or services. However, one federal entity said that they have also entered into multiple-element arrangements that only include non-IUS intangible assets. They reported acquiring patents bundled with legal and

¹³ GSA's Software License SIN 511210 includes both the software license and associated maintenance, which includes bug fixes, patches, upgrades, technical support, and diagnostic tools. Additionally, GSA's Software Maintenance SIN 54151 includes specialized technical support and customized changes to the software not included in the standalone software license price ([Software Licenses | GSA](#)).

Footnote 23 of GAO-25-108475, *Veterans Affairs: Actions Needed to Address Software License Challenges*, [May 2025](#) identifies a federal agency's enterprise software license agreements as including software licenses, subscriptions, and associated service and support capabilities.

Page 5 of GAO-24-105717, *Federal Software Licenses: Agencies Need to Take Action to Achieve Additional Savings*, [January 2024](#) states, "Licenses may be purchased in bundle packages, which are multiple software products offered under a single license agreement."

[SaaS Agreements: Key Contractual Provisions](#)

¹⁴ See pages 11, 20, and 22 of GAO-24-105717, *Federal Software Licenses: Agencies Need to Take Action to Achieve Additional Savings*, [January 2024](#)

consulting services and believe it also beneficial to allocate costs between capitalizable patents and associated service costs.

Other standard-setter guidance

FASB and GASB have issued guidance that addresses multiple-element software arrangements.

FASB

FASB has addressed multiple element IUS arrangements in ASC 350-40-30:

- 350-40-30-4 states, *“Entities may purchase internal-use computer software from a third party or may enter into a hosting arrangement. In some cases, the price includes multiple elements, such as the license or hosting, training for the software, maintenance fees for routine maintenance work to be performed by the third party, data conversion costs, reengineering costs, and rights to future upgrades and enhancements. Entities shall allocate the cost among all individual elements. The allocation shall be based on the relative standalone price of the elements in the contract, not necessarily separate prices stated within the contract for each element. Those elements included in the scope of this Subtopic shall be accounted for in accordance with the provisions of this Subtopic.”*

GASB

GASB has addressed SBITAs with multiple components in GASB No. 96:

- Paragraph 44 states, *“A government may enter into contracts that contain multiple components, such as (a) a contract that contains both a subscription component (that is, the right to use the underlying IT assets) and a nonsubscription component or (b) a contract that contains multiple underlying IT asset components. Examples of nonsubscription components include a separate perpetual licensing arrangement (which is excluded from this Statement as described in paragraph 4d) and maintenance services for the IT assets.”*
- Paragraph 45 states, *“If a government enters into a contract that contains both a subscription component and a nonsubscription component, the government should account for the subscription and nonsubscription components as separate contracts unless the contract meets the exception in paragraph 48.”*
- Paragraph 46 states, *“If a SBITA involves multiple underlying IT asset components and the IT asset components have different subscription terms, the government should account for each underlying IT asset component as a separate subscription component. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 48.”*

- Paragraph 47 states, *“To allocate the contract price to the different components, a government first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices). Stand-alone prices are those that would be paid if the right to use the same or similar IT asset components were contracted individually or if the right to use the same or similar nonsubscription components were contracted individually. Some contracts provide discounts for bundling multiple subscription components or bundling subscription and nonsubscription components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are discounted by the same percentage from normal market prices, the discount included in those component prices would not appear to be unreasonable.”*
- Paragraph 48 states, *“If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 47, a government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA. In addition, a government should account for a SBITA with multiple modules in which the subscription term commences at the same time for all modules (as described in paragraph 30) as a single SBITA.”*
- Paragraph 49 states, *“If multiple components are accounted for as a single SBITA as provided in paragraph 48, the accounting for that SBITA should be based on the primary subscription component within that SBITA. For example, the primary subscription component’s term should be used for the SBITA if those components have different terms.”*

IPSASB has not issued guidance for multiple-element software arrangements.

Existing FASAB guidance

The Board has previously issued accounting guidance for bundled products and services in SFFAS 10, paragraph 23.

- Paragraph 23 states, *Federal entities may purchase software as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses and rights to future upgrades and enhancements). Federal entities should allocate the capitalizable and noncapitalizable cost of the package among individual elements on the basis of a reasonable estimate of*

their relative fair values. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.”

FASAB did not address bundled products and services in TR 16.

Staff analysis

All three standard setters (FASB, GASB, and FASAB) have issued accounting guidance specifically for multiple-element software arrangements, but not other intangible assets. There are some noteworthy similarities and differences between FASB’s, GASB’s, and FASAB’s current accounting guidance on multiple-element IUS arrangements:

- GASB’s guidance applies to multiple-element subscription arrangements that are right-to-use assets, like leases. Whereas FASB and FASAB guidance does not apply a right-to-use asset framework for all subscription-based software arrangements.
- FASB and GASB guidance instruct preparers to allocate costs for multiple elements in an IUS arrangement based on relative standalone prices. Whereas FASAB guidance instructs preparers to allocate the cost among multiple elements based on reasonable estimates of their fair values.
- GASB’s guidance is more detailed and comprehensive than FASB and FASAB’s guidance. For example, GASB clarifies that preparers should consider discounts associated with multiple-element arrangements when estimating standalone prices. Additionally, GASB guidance states that preparers may account for the multiple elements in a SBITA as one asset if it is not practicable to determine a best estimate for price allocation for the separate contract components. Whereas FASB and FASAB guidance is brief and just requires a reasonable estimate of cost allocation and does not specifically allow preparers to account for all arrangement elements as one single asset.

Based on research, working group feedback, and other standard-setter guidance, staff does not believe there is a need for the Board to significantly alter the accounting guidance for multiple-element software arrangements. However, staff believes the Board should develop a few targeted updates to the existing guidance in SFFAS 10, paragraph 23 and expand the scope of the guidance to apply to all types of intangible assets.

Staff recommendation

Staff recommends the following guidance to address how to account for multiple-element arrangements:

Multiple-Element Arrangements

Y1. Reporting entities may acquire software and other intangible assets from a third party as part of a package of products and services. The price of these arrangements can comprise multiple elements, which may include but not be limited to the following: software license(s), data rights and other intellectual property, cloud-hosting services, cybersecurity, helpdesk support, training, consulting, data management, maintenance, and upgrades.

Y2. Reporting entities should allocate the individual elements of the arrangement among capitalizable and noncapitalizable costs. If separate prices are not explicitly stated within the arrangement, the allocation should be based on a reasonable estimate of the relative cost of the elements in the arrangement. If the multiple-element arrangement includes price discounts, reporting entities should consider the discounts when estimating the relative costs for the individual elements.

This proposed guidance would replace paragraph 23 of SFFAS 10 to address how to account for multiple-element arrangements that may include software and/or other intangible assets. Staff does not believe the proposed updates would significantly change the current accounting requirements for software but would modernize the guidance and align it with the FASAB cost framework. Additionally, staff believes the proposed updates align with the Board's plan to develop comprehensive principle-based intangible asset standards that also modernizes software guidance in one Statement.

This guidance would apply to situations in which a reporting entity decides they need to recognize a software license asset(s) or other intangible asset(s) they acquire as part of a multiple-element arrangement with a third-party vendor. Reporting entities would apply recognition guidance elsewhere in the Statement to determine which costs to capitalize and which costs to expense. For example, software licenses and other intangible assets could be capitalized if they meet the recognition criteria in the standards.¹⁵ Whereas reporting entities should expense most other elements, including cloud services, consulting, maintenance, and training.

Paragraph Y1 updates the first sentence in SFFAS 10, paragraph 23 by adding current examples of products and services that are often included in multiple-element software arrangements, such as cloud-based hosting services, cybersecurity, helpdesk support, and data management. Staff also included non-software intangible assets, including data rights and other intellectual property that one working group member said can exist

¹⁵ During the December 2024 meeting, the Board determined that reporting entities should recognize an intangible asset acquired from third parties if the asset is capable of being separated from the entity and sold or licensed; or if the asset arises from contractual or legal rights. The Board also determined that reporting entities should recognize a software license as an asset if the 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.

in multiple-element arrangements, particularly ones that include artificial intelligence capabilities.¹⁶

Paragraph Y2 borrows from FASB guidance to clarify the second sentence in SFFAS 10, paragraph 23 that reporting entities should generally allocate costs of the multiple-element arrangement based on the actual price breakouts in the arrangement when such information is available. One reporting entity confirmed that they typically require that the statement of work in the arrangement is specific enough to breakout the costs among elements. However, working group feedback indicates this practice is not consistent among reporting entities.

Paragraph Y2 also updates the second sentence in SFFAS 10, paragraph 23 by requiring preparers to allocate costs among the multiple elements based on a reasonable estimate of their relative cost, instead of their “fair values”, when the separate prices are not explicitly stated in the arrangement. While fair value can include observable market prices, fair value measurement can include many more factors and estimations.

FASAB has not issued overarching fair value guidance and staff is unclear on why the Board used “fair value” in SFFAS 10, paragraph 23. However, Paragraph 39 of SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording* says that fair value includes market value but can also include other estimations. Paragraph 41 of SFFAC 7 explains that calculating the present value of future cash flows is an example of a non-market valuation for fair value. Staff does not believe net present value of future cash flows is a relevant or practical valuation method for intangible assets in multiple-element arrangements.

FASB ASC 820 provides overarching guidance for measuring fair value using a three-level hierarchy. Level 1 requires measurement based on observable quoted prices from active markets for identical liabilities or assets. Level 2 generally requires measurement based on observable inputs other than quoted prices for identical assets from active markets, such as active markets of similar items or inactive markets. Level 3 generally requires measurement based on unobservable inputs, such as estimates using assumptions and internal data.

Staff also does not believe the FASB fair value hierarchy is relevant or practical for allocating costs between elements in a multiple-element arrangement. Staff believes that allocating value to multiple-element arrangements based on the cost to the reporting entity is most practical and aligns with the Board’s intangible asset framework for recognizing the cost to acquire an asset, not by fair value estimation.

Staff initially considered recommending that paragraph Y2 include the term “standalone price” that FASB guidance uses.¹⁷ However, a few working group members cautioned

¹⁶ [GSA's Proposed AI Clause: A Deep Dive into New Requirements for Government Contractors | Insights | Holland & Knight](#)

¹⁷ FASB defines “standalone price” as, “The price at which a customer would purchase a component of a contract separately.”

against using the term because they believed reporting entities should have more flexibility to determine the relative cost than just using an observable market-based price.

For example, one working group member said that reporting entities typically use internal data, such as previous similar arrangements to estimate cost allocation. Another working group member confirmed that reporting entities may look back through invoices and identify purchases where the cost was actually broken out to develop a new cost percentage for allocating the software asset cost from associated maintenance costs. The working group member caveated that software license arrangements have become more complex over time.

Research and working group feedback indicate that federal entities are increasingly acquiring enterprise level multiple-element software license arrangements for, among other reasons, price discount benefits.¹⁸ For paragraph Y2, staff referred to guidance in GASB No. 96, paragraph 47 to add language clarifying that reporting entities should consider discounts associated with multiple-element arrangements when using judgment to estimate cost allocations for the recognizable elements.

This scenario would apply when separate prices are not explicitly stated within the arrangement and the reporting entity has to estimate the relative cost of the elements in the arrangement. For example, the reporting entity could reduce the relative cost estimates of the individual elements by allocating the total price discount of the entire enterprise-wide arrangement among recognizable elements.

Finally, staff removed the last sentence in SFFAS 10, paragraph 23 that said, “Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.” Staff believes this guidance should still apply in the new Statement.

However, it would be duplicative language in the standards because the Board has already deliberated recognition guidance that says that reporting entities should expense 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.¹⁹

Working group feedback

The working group generally concurred with the recommended guidance updates. Some working group members appreciated the flexibility of the guidance and said it provided a well-structured and clear framework that clarified “bundled” software services that accurately reflect the diverse nature of these arrangements.

¹⁸ [GSA to Accelerate Cost Savings for Government in Partnership with Oracle | GSA](#)

¹⁹ See paragraph Y5 on page 27 in FASAB Board material, Topic B - *Intangible Asset/Software Technology*, [September 30, 2025](#).

One working group member suggested that the guidance include illustrative examples of multiple-element arrangements to help reporting entities apply the requirements. Staff believes illustrative examples could be helpful in level C implementation guidance but is not appropriate for principle-based level A guidance.

One working group member suggested defining various elements, such as cybersecurity or data management to ensure consistent interpretation. Staff believes a nonauthoritative glossary attached as an appendix to the Statement would benefit reporting entities. However, staff does not believe the authoritative level A guidance should define these terms as it could make the guidance rigid and risk becoming obsolete quickly.

One working group member suggested removing the language that allows reporting entities to estimate the cost allocation for multiple-element arrangements unless FASAB is aware that some federal software arrangements do not have that level of price detail. The working group member believed that accounting for that level of price detail is beneficial because it provides more transparency into software-related spending.

However, several working group members indicated that multiple-element arrangements often do not have that level of detail and suggested that the guidance provide more clarification for how reporting entities should estimate the cost allocation of each element, including applying discounts, when the prices of each element are not explicitly broken out in the arrangement. For example, they suggested the guidance could clarify whether reporting entities should use market-based or cost-plus markup approaches. Additionally, the guidance could clarify whether reporting entities should allocate discounts proportionately across all elements.

However, one working group member emphasized that it is important that the guidance remain flexible for reporting entities to allocate costs and price discounts in a manner best suited to the realities of their specific operations and arrangements. Staff agrees with this notion, especially for level A guidance. Staff believes the Board could consider the need for implementation guidance on estimating cost allocation after the Board issues the level A principle-based guidance.

A couple of working group members voiced concerns with the difficulty of identifying and accounting for multiple-element arrangements at the level of granularity in the guidance and believed that the burden of accounting for these elements outweigh any reporting benefits. A few working group members requested guidance for scenarios for when reporting entities are not able to reasonably estimate cost allocations for the multiple elements.

A few working group members suggested that the Board consider allowing reporting entities to account for multiple-element arrangements based on the primary purpose of the arrangement, like current lease guidance considerations. These working group members noted that parsing individual pieces of large contracts whether by dollar value or purpose can be difficult because the necessary information is not readily available in

the contract and, in some instances, the capitalizable versus non-capitalizable costs are inconsequential.

However, the majority of working group members did not voice these concerns nor indicate it is a challenge with applying these existing requirements in SFFAS 10, paragraph 23. To comply with the guidance, a few working group members confirmed that they currently require specific statement of work descriptions in contracts to break out the costs appropriately.

Staff does not believe the recommended guidance is significantly different from the current guidance in SFFAS 10, paragraph 23. The overall accounting requirements in the recommended language would remain the same as the requirements that reporting entities already follow for multiple-element software arrangements. Neither the current nor recommended guidance would require reporting entities to separately report the cost for every individual element. Reporting entities only have to account for capitalizable costs (e.g. software licenses assets and data rights) separately from all other elements that are expensed as incurred.

Furthermore, staff believes that allowing reporting entities to account for multiple-element arrangements as one element based on primary purpose would contradict the Board's prior decision to account for certain software licenses as assets separately from cloud services. Finally, staff believes that typical materiality and measurability concepts inherently apply to these requirements, like all other financial statement recognition requirements.²⁰ Theoretically, if the capitalizable versus non-capitalizable costs of a multiple-element arrangement are immaterial, the guidance would not apply.

Question for the Board:

2. Does the Board agree with staff's recommended accounting guidance updates for multiple-element arrangements? 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 disclosures for intangible assets and IUS, as well as unique SFFAS 10 unit of account-related topics for IUS assets, such as multiuse software, integrated software, and capitalization threshold.

²⁰ See SFFAC 1, *Objectives of Federal Financial Reporting*, chapter 7, paragraphs 164a-164g and SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, paragraphs 7-9.

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.

December 2025

At the December 2025 meeting, the Board deliberated:

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

The Board overwhelmingly agreed with staff's recommended guidance with a few minor edits. Member also discussed the need for more clarification around how to account for modifications and upgrades of intangible assets. Staff noted member concerns and suggestions and will recommend further edits as the Board compiles the draft Statement.