

Memorandum

Intangible Asset/IUS

June 3, 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 A)**

INTRODUCTION

At the April 2026 meeting, the Board deliberated impairment and multi-element arrangement guidance 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 for intangible assets and IUS:

- Accounting guidance for integrated assets
- Accounting guidance for multiuse software
- Accounting guidance for capitalization thresholds

Staff requests the Board's feedback on the recommendations.

REQUEST FOR FEEDBACK

Prior to the Board's June meeting, please review the attached staff analysis and respond to the questions by June 12, 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

June 3, 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. During the April 2026 meeting, the Board deliberated impairment and multi-element arrangement guidance for intangible assets and IUS.¹

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

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 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 integrated assets
2. Accounting guidance for multiuse software
3. Accounting guidance for capitalization thresholds

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 B - Intangible Asset/Software Technology*, [September 30, 2025](#)
- FASAB Board material, *Topic B – Intangible Asset/Software Technology*, [April 6, 2026](#)
- FASAB Board material, *Topic A – Reexamination ITC*, [November 30, 2023](#)
- 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. 51, *Accounting and Financial Reporting for Intangible Assets*, [June 2007](#)
- GASB Statement No. 96, *Subscription-based Information Technology Arrangements*, [May 2020](#)
- GASB Implementation Guidance 2015-1, *Basic Financial Statements and Management’s Discussion and Analysis*, [2015](#)
- 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 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, [May 8, 2023](#)
- SFFAS 29, *Heritage Assets and Stewardship Land*, [July 7, 2005](#)
- Technical Release 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*, [September 26, 2013](#)
- Technical Release 16, *Implementation Guidance for Internal Use Software*, [January 19, 2016](#)
- Technical Release 20, *Implementation Guidance for Leases*, [November 4, 2021](#)

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 integrated intangible assets along with supplemental guidance for integrated IUS assets. 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 include software guidance in one Statement.

ANALYSIS

Existing guidance in SFFAS 10 and TR 16 addresses integrated software, which provides “unit of account” considerations when accounting for interconnected assets.²

Staff received a few questions from stakeholders requesting clarification on the existing integrated software guidance, including in public feedback from the GAAP hierarchy invitation to comment.³ Additionally, staff believes the Board should modernize the guidance for the current software environment. Finally, staff believes the Board should develop broader integrated asset guidance for all intangible assets, with supplemental IUS guidance, like what the Board has previously deliberated for other topics.

The following analysis will discuss:

- Integrated asset characteristics
- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

² The FASB Master Glossary defines unit of account as, “The level at which an asset or a liability is aggregated or disaggregated in a Topic for recognition purposes.”

³ FASAB Board material, Topic A – *Reexamination ITC*, November 30, 2023, Attachment 3, pg. 91

Integrated asset characteristics

FASAB provided guidance for integrated software when it issued SFFAS 10 in 1998. The guidance addresses how to account for software integrated with and necessary to operate tangible G-PP&E rather than perform an application.

Staff believes this is a topical accounting issue because software integration with tangible PP&E has only become more prevalent since SFFAS 10 was issued. For example, reporting entities today may have to determine whether software integrated with aircraft that provides pilots visualization of moving objects should be accounted for as part of the tangible aircraft, or as a separate software asset.⁴

Furthermore, federal agency infrastructure now includes vast networks of interconnected software and tangible PP&E that work together as a system to deliver on agency missions. For example, the Federal Aviation Administration is modernizing its systems powering air traffic control and the National Airspace System. This includes replacing wires, converting radio sites, installing new surface awareness systems, transitioning air traffic control towers to electronic flight strips, and integrating artificial intelligence (AI) and other software to streamline schedules and traffic flow.⁵

Finally, SFFAS 10 only provides guidance for software integrated with G-PP&E. However, other intangible assets can be integrated with G-PP&E and software. For example, datasets can be integrated with software, particularly AI software.⁶ Furthermore, research shows that DoD sometimes needs the rights to intellectual property to operate and maintain weapon systems.⁷

Other standard-setter guidance

GASB and IPSASB have issued guidance addressing asset recognition requirements when reporting entities combine or incorporate an intangible asset with a tangible asset.

GASB

The scope of GASB Statement No. 96 addresses contracts that include both software and tangible capital assets:

- Paragraph 4 and subparagraph a says, *“This Statement does not apply to: Contracts that convey control of the right to use another party’s combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a*

⁴ [As aircraft losses mount, Pentagon wants a software fix to see through the fog of war - Nextgov/FCW](#)

⁵ [FAA tech teams to partner with AI vendors on customized ATC software | FedScoop](#)

⁶ FASAB Board material, Topic B – *Intangible Asset/Software Technology*, April 6, 2026

⁷ GAO-25-107468, *Weapon System Sustainment: DoD Can Improve Planning and Management of Data Rights*, Sep 29, 2025

computer with operating software or a smart copier that is connected to an IT system)."

IPSASB

The scope of IPSAS 31 more broadly addresses intangible assets integral to tangible property, plant, and equipment:

- Paragraph 7 says, *"Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 45, Property, Plant, and Equipment, or as an intangible asset under this Standard, an entity uses judgment to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset."*

Existing FASAB guidance

The Board has issued accounting standards for integrated software in SFFAS 10:

- Paragraph 22 says, *"Computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software should be used to determine whether to capitalize or expense the costs."*

More recently, the Board issued implementation guidance in TR 16 that further clarified guidance for integrated software:

- Paragraph 10 says, *"This TR applies to all internal use software that meet the definition of IUS as described in SFFAS 10 including the following:*
 - *a. Software to be used in research and development where the software will have an alternate future use*
 - *b. Software developed separately and installed on a number of different general property, plant, and equipment (PP&E) assets at different times⁴*

FN 4 says, "SFFAS 10, paragraph 22, provides that computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly. However, computer software could be developed separately and installed on several general

PP&E assets at different times. For example, anti-ballistic missile software installed on multiple radar systems at different times can be treated as a separate IUS asset if the software meets the capitalization threshold.”

- Paragraph 16 says, *“Integrated Software: SFFAS 10, paragraph 22, states, “Computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software should be used to determine whether to capitalize or expense the costs.” In situations where software and the hardware on which it runs have independent service lives, the determination of the useful life of the software should be viewed independently of the useful life of the hardware. This determination should be made on a case by case basis for each entity and is at the discretion of management of the entity. The rationale for this determination should be documented.”*

Staff analysis

There are noteworthy similarities and differences with how standard setters have issued guidance for addressing integrated intangible assets and software. GASB has provided guidance for software integrated with tangible property only in the context of lease-based subscription-based IT arrangements. The guidance directs reporting entities to account for a contract as a lease if the software component is insignificant compared to the associated tangible property. For example, reporting entities should generally account for a lease of copiers that use software to operate the copiers as a lease of tangible property.

IPSASB has provided broader guidance that requires reporting entities to use judgment to determine whether to account for an asset as tangible PP&E or as an intangible asset based on which element is more significant. The guidance provides multiple scenarios of assets with both tangible and intangible elements. For example, reporting entities would account for software contained on a compact disc and a patent documented on paper as an intangible asset. However, reporting entities would account for navigation software integrated into aircraft and software that operates a computer as tangible PP&E.

FASAB’s level A guidance in SFFAS 10 requires reporting entities to account for an asset with tangible PP&E and software components as one tangible PP&E asset if the software is integral and necessary to operate the tangible property, rather than perform a software application. Furthermore, FASAB’s level C guidance in TR 16 provides additional accounting requirements for integrated software not found in SFFAS 10 standards.

For example, TR 16 uses a footnote to provide an exception to the SFFAS 10 standards by allowing reporting entities to account for software integrated with G-PP&E as a standalone software asset if the software also integrates with and operates multiple G-

PP&E assets. A stakeholder previously told staff they found the SFFAS 10 and TR 16 guidance contradictory with one another. A reexamination ITC respondent asked that the Board further clarify whether the integrated software guidance in TR 16 disallows recognizing software installed on multiple assets as one G-PP&E asset.

However, other stakeholders have told staff they appreciate the flexibility that TR 16 provides for accounting for multiple scenarios with software and G-PP&E integration. Nevertheless, staff believes providing an exception to the level A standards through level C implementation guidance is inconsistent with the FASAB GAAP hierarchy and can create confusion with applying the Board's guidance.⁸

Furthermore, the implementation guidance for integrated software in TR 16 explains that reporting entities can account for useful lives of the software component and G-PP&E component of an integrated asset separately. Staff believes this guidance is inconsistent with level A guidance in SFFAS 10 because it results in reporting entities depreciating/amortizing one integrated asset as if it were two separate assets.

Staff believes that if management decides to capitalize software and G-PP&E as one asset, the reporting entity should estimate one useful life for the asset and depreciate the costs as one asset. If the software and G-PP&E assets truly have independent service lives from one another, that indicates they are two separate standalone assets.

Staff recommendation

Staff recommends the following guidance to address how to account for integrated assets:

Integrated Intangible Assets

X1. An intangible asset associated with and necessary to use another intangible or tangible asset should be capitalized as part of the primary-purpose asset unless the reporting entity is also able and intends to use the intangible asset for other purposes or with multiple recognized assets. Management should use judgment to determine whether the recognizable elements represent a single primary asset or separate distinct assets with standalone service potential for the reporting entity.

X2. When recognizing integrated assets as one asset, reporting entities should consider the aggregate costs of the combined assets when applying relevant capitalization thresholds and consider the characteristics of both elements when estimating one useful life for the asset in accordance with this Statement.

⁸ SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, July 28, 2009

Integrated IUS Supplemental

X3. Reporting entities should account for IUS integrated with tangible and intangible assets in accordance with paragraphs X1-X2 of this Statement. For software integrated into and necessary to operate G-PP&E, rather than perform a software-application function for end users, reporting entities should recognize the software as part of the G-PP&E asset. However, reporting entities may recognize a separate IUS asset if the software is used to operate multiple assets or support multiple operational functions and management determines that recognizing a separate IUS asset more accurately reports the software as a standalone asset to the reporting entity.

This proposed guidance would replace paragraph 21 of SFFAS 10. The staff recommendation would result in new guidance for intangible assets and update the existing IUS 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.

Paragraph X1 provides broad principle-based guidance for how to account for all potential scenarios for integrated intangible assets. This includes intangible assets (including software) integrated with G-PP&E and non-software intangible assets (e.g., datasets) integrated with software.

Like existing guidance in SFFAS 10, paragraph X1 would generally require reporting entities to account for integrated assets as one primary capitalized asset if one asset is necessary to use the other. Management will have to use judgment to determine the primary-purpose asset based on which element is most significant in providing economic benefits and services to the reporting entity. If the primary asset is G-PP&E, reporting entities would use SFFAS 6 guidance. If the primary asset is an intangible asset, reporting entities would use the intangible asset Statement.

Paragraph X1 also uses language from TR 16, FN4 to qualify the general requirement to capitalize integrated assets as one asset. The exception is that reporting entities should recognize integrated assets as separate standalone assets if the reporting entity will use the integrated intangible asset for multiple purposes or with multiple assets.

For example, if an intellectual property asset integrates with multiple aircraft, reporting entities could just recognize the intellectual property as a standalone asset. Staff believes this reduces preparer burden by allowing reporting entities to recognize one intangible asset rather than allocate its costs across multiple assets and reduces the risk of double recognition of the asset.

Staff believes combining the TR 16 and SFFAS 10 language together in level A standards more appropriately provides reporting entities with the accounting options available for the different scenarios they experience with integrated intangible assets. Additionally, staff believes including the TR 16 guidance in level A standards makes the

different accounting options seem less contradictory and provides a clearer picture of the intent of the guidance.

Paragraph X2 provides measurement guidance for integrated intangible assets. The first part of the sentence is the same as the current guidance in SFFAS 10, paragraph 22 that states reporting entities should consider the combined costs of the combined assets for determining whether the integrated asset meets the applicable capitalization threshold.

Staff used the phrase “relevant capitalization thresholds” because one working group member was concerned that preparers and auditors could misinterpret the guidance to require agencies to establish separate capitalization thresholds for integrated intangible assets and non-integrated intangible assets. Staff believes the proposed guidance in combination with the capitalization guidance in recommendation three of this paper will make it clear that reporting entities have the flexibility to establish and apply their own capitalization thresholds to intangible assets.

Staff is recommending guidance in the second part of paragraph X2 that differs from existing guidance in TR 16, paragraph 16. As previously explained, staff believes that if management decides to combine two integrated assets to capitalize one primary asset in accordance with paragraph X1, the reporting entity should consider the service life potential of both elements to estimate one useful life for the one recognized asset. It is impractical to capitalize one asset but depreciate/amortize different costs of the asset at different rates and contradicts management’s initial assessment to combine the integrated elements as one asset.

For example, if a reporting entity decides to capitalize software as part of one naval ship, the reporting entity has determined that the software is integral and necessary to operate the naval ship and that the software serves no other purpose or asset. Therefore, neither the software nor naval ship would provide service to the reporting entity without the other. Staff believes in this scenario, the software and naval ship would not have independent useful lives.

Paragraph X3 would provide supplemental guidance specifically for integrated assets that involve software. The first part of the recommended guidance mostly updates existing language in SFFAS 10 and TR 16 to apply to G-PP&E and intangible assets and more specifically explains how paragraph X1 applies to software integrated with G-PP&E.

The guidance in paragraph X3 explains that reporting entities should capitalize software as part of a PP&E asset if the reporting entity uses the software to operate the G-PP&E rather than as application software that performs specific tasks for end-users; unless the reporting entity uses that software for other purposes or integrates the software with multiple G-PP&E assets.

For example, if the software operates the use of a vehicle, the primary purpose is likely the vehicle and reporting entities should capitalize the software as part of the G-PP&E. However, if the integrated software operates multiple vehicles or other equipment, management may determine it is more appropriate to capitalize the software as a separate asset rather than allocate the costs among many G-PP&E assets.

Alternatively, if software integrated with a satellite does not operate the satellite but provides specialized geographical mapping capabilities for the agency through the satellite, the software application may represent a unique asset separate from the satellite. Like the existing guidance in SFFAS 10, the proposed guidance will continue to require significant management judgment.

Working group feedback

The working group generally agreed with the recommended guidance. A few working group members especially appreciated that the proposed guidance combines aspects of SFFAS 10 and TR 16 guidance cohesively and allows flexibility for management judgment.

Regarding the last sentence in paragraph X3, a couple of working group members suggested the guidance say, *“However, reporting entities may recognize a separate IUS asset if the software is used to operate multiple G-PP&E or other assets, **and or** management determines that recognizing a separate IUS asset more accurately reports the software as a standalone asset to the reporting entity.”* The working group members suggested this edit to provide more flexibility for management to determine whether to capitalize software as an integrated or standalone asset.

Staff understands and generally agrees with guidance providing flexibility for management to apply the standards. However, staff believes this suggested edit would negate the rest of the guidance in paragraph X3 by saying that management could choose when to capitalize software as an integrated or standalone asset under any circumstance. Staff’s recommendation to use “and” makes it a condition for management to recognize an integrated software asset as one standalone asset if the reporting entity will use the software for multiple assets or other purposes **and** management determines that most accurately accounts for and reports the use of the asset in financial reports.

One working group member explained practical challenges with making upfront decisions on whether to capitalize software as an integrated asset when facts or circumstances could change later. For example, a reporting entity may determine they will integrate a software asset with one PP&E asset but later realize there are other uses for the software.

Staff understands this practical challenge but believes the recommended guidance provides management with the principle-based framework to make these decisions with the relevant facts they have in the moment. If relevant facts and circumstances change,

management could decide to account for the integrated assets as differently to reflect the new reality.

Question for the Board:

1. Does the Board agree with staff's recommended accounting guidance for integrated assets? Please provide your feedback on staff's analysis and recommendation.

RECOMMENDATION NO. 2

Staff recommends that the Board remove the multiuse software guidance in SFFAS 10 because it has become obsolete in the current FASAB guidance framework.

ANALYSIS

The following analysis will discuss:

- Background of multiuse software guidance
- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

Background of multiuse software guidance

Multiuse software is a term unique to FASAB standards. Existing guidance in SFFAS 10 describes multiuse software as software that serves both internal uses and stewardship purposes.

FASAB standards separate G-PP&E from stewardship PP&E for accounting purposes. The Board's guidance requires reporting entities to capitalize G-PP&E and expense costs related to stewardship PP&E.

When SFFAS 10 was issued, stewardship PP&E included heritage assets, stewardship land, and federal mission PP&E. The federal mission PP&E category mostly applied to PP&E related to national defense purposes, such as weapons systems, global positioning systems for warfighting, and naval ships. Therefore, the authoritative guidance and basis for conclusions in SFFAS 10 only provided examples of national defense PP&E when discussing multiuse software.

Additionally, at the time the Board issued SFFAS 10, other standards required reporting entities to expense costs related to stewardship investing, such as research and development activities.⁹ Therefore, the guidance in SFFAS 10 effectively instructed reporting entities to expense software costs if that software was solely related to national defense or research and development activities.

However, FASAB standards no longer consider federal mission (i.e., national defense) PP&E or stewardship investment as distinct financial statement elements. In the following sections, staff will provide relevant FASAB guidance references and further explain the implications for multiuse software guidance.

Other standard-setter guidance

No standard setter other than FASAB has issued guidance for multiuse intangible assets or software. Both GASB and IPSASB standards generally require entities to capitalize heritage assets as any other PP&E.¹⁰

Existing FASAB guidance

Staff has referenced existing FASAB guidance below that explains the context around the SFFAS 10 guidance on multiuse software.

When the Board issued SFFAS 6 in 1997, they included a footnote in the basis for conclusions explaining the Statement's use of the term "stewardship PP&E."

- FN 72 says, *"The term "stewardship PP&E" is used to refer collectively to federal mission PP&E, heritage assets, and stewardship land."*

Guidance in SFFAS 10 explains that reporting entities should capitalize costs of software used for internal use purposes, similar to G-PP&E, not stewardship PP&E.

- Paragraph 15 says, *"Entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E). General PP&E is any property, plant, and equipment used in providing goods and services."*⁵

FN 5 says, *"General PP&E, as distinguished from stewardship PP&E, is defined in pars. 23-25, in SFFAS No. 6, Accounting for Property, Plant, and Equipment."*

In 1996, FASAB issued SFFAS 8, *Supplementary Stewardship Reporting* that required separate expense disclosure for various stewardship investment activities.

- Paragraph 1 says, *"The purpose of this Statement is to establish standards for reporting on the Federal Government's stewardship over certain resources*

⁹ SFFAS 8, *Supplementary Stewardship Reporting*

¹⁰ See IPSAS 31 and GASB 34. The guidance in GASB 34 generally requires capitalization of "collections" unless they meet specific exclusion criteria.

entrusted to it, and certain responsibilities assumed by it. The resources and responsibilities relate to those which do not meet the criteria for assets and liabilities that are required to be reported in the financial statements but that are important to an understanding of the operations and financial condition of the Federal Government at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the financial statements in the year the costs are incurred. However, these costs and resultant resources are intended to provide long-term benefits to the public and are included in stewardship reporting to highlight for the reader their long-term-benefit nature and to demonstrate accountability over them.”

- Paragraph 11 says, *“Stewardship PP&E consists of items whose physical properties resemble those of general PP&E traditionally capitalized in financial statements. However, the nature of these Federal physical assets that are classified as stewardship PP&E differ from general PP&E in that their values may be indeterminable or may have little meaning (for example, museum collections, monuments, assets acquired in the formation of the nation) or that allocating the cost of such assets (for example, military weapons systems and space exploration hardware) to accounting periods that benefit from the ownership of such assets is meaningless. However, the Federal Government should be able to demonstrate accountability for stewardship PP&E by reporting on its existence and on its condition by a reference to deferred maintenance reported in the financial statements. Stewardship PP&E would include stewardship land (that is, land not acquired for or in connection with general property, plant, and equipment); heritage assets (for example, Federal monuments and memorials and historically or culturally significant property); and Federal mission property, plant, and equipment (for example, space exploration and military weapons systems).”*
- Paragraph 12 says, *“Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation. When incurred, they are treated as expenses in determining the net costs of operations. However, these items merit special treatment so that readers of Government financial reports know the extent of these investments that are made for long-term benefit. Such investments will be measured in terms of expenses incurred for certain education and training programs; federally financed research and development; and federally financed but not federally owned property, such as bridges and roads.”*

Since issued in 1998, SFFAS 10 guidance has addressed how to account for multiuse software, which is software that serves both internal use and stewardship purposes.

- Paragraph 21 says, *“The cost of software that serves both internal uses and stewardship purposes (“multiuse software”) should be accounted for as internal use software (e.g., a global positioning system used in connection with national defense activities and general operating activities and services).”*

The basis for conclusions in SFFAS 10 explains the Board’s deliberations and intent with multiuse software requirements.

- Paragraph 39 says, *“This standard does not apply to software that is an integral part of stewardship property, plant, and equipment. For example, if software is a part of a weapons systems, it would not be capitalized but included in the cost of investing in that weapons system. On the other hand, software used to accumulate the cost of acquiring that weapons system or to manage and account for that item would meet the criteria for general PP&E and should be capitalized.”*
- Paragraph 40 say, *“Regarding any costs of internal use software acquired or developed for stewardship PP&E or stewardship investments, the Board chose to follow SFFAS No. 6, Accounting for Property, Plant, and Equipment, and SFFAS No. 8, Supplementary Stewardship Reporting, and expense them as incurred. For example, a research project may involve new software applications for computer simulation or modeling and meet the definition of a stewardship investment in research and development. In such cases, that software should be expensed as part of that research and development stewardship investment. However, software used to manage, account for, and report on research and development projects and activities would meet the criteria for general PP&E and should be capitalized.”*

At one point, the Board replaced the term “federal mission PP&E” with “national defense PP&E.” A footnote in SFFAS 23 that was issued in 2003 explains the following:

- FN 1 says, *“Originally, National Defense PP&E was defined in SFFAS No. 6 as Federal mission PP&E. Subsequent to the issuance of SFFAS No. 6, many agencies suggested that the Federal mission PP&E category would be appropriate for agency PP&E not considered by the Board in developing the category. To prevent confusion, inconsistency, and unintended application, the Board replaced the definition of Federal mission PP&E with the definition of ND PP&E currently contained in SFFAS No. 11 to clarify that only DoD and the Maritime Administration’s National Defense Reserve Fleet PP&E would be categorized as ND PP&E.”*

In that context, SFFAS 23 made the following amendments:

- Paragraph 6 says, *“The amendments in this Statement:*
 - *a. Rescind the term “ND PP&E” and its definition;*
 - *b. Classify all assets previously considered to be ND PP&E as general PP&E and, the provisions for general PP&E and associated cleanup costs for general PP&E contained in SFFAS No. 6, as amended...”*

In 2005, FASAB issued SFFAS 29, *Heritage Assets and Stewardship Land* that realigned stewardship property as basic information consisting of heritage assets and stewardship land.

- Paragraph 4 says, *“The main focus of this standard is the reclassification of heritage assets and stewardship land information. This standard reclassifies heritage assets and stewardship land information as basic information. Specifically, this standard requires that entities reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but no asset dollar amount should be shown. The note disclosure provides minimum reporting requirements consistent with the previous standards for heritage assets and stewardship land, which includes a description of major categories, physical unit information for the end of the reporting period, physical units added and withdrawn during the year, and a description of the methods of acquisition and withdrawal.”*
- Paragraph 12 says, *“SFFAS 8 Chapter 2 (Heritage Assets) is rescinded in its entirety.”*
- Paragraph 15 says, *“Heritage assets are property, plant and equipment (PP&E) that are unique for one or more of the following reasons:*
 - *historical or natural significance,*
 - *cultural, educational, or artistic (e.g., aesthetic) importance; or*
 - *significant architectural characteristics.*

Heritage assets consist of (1) collection type heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and (2) non-collection-type heritage assets, such as parks, memorials, monuments, and buildings.”

- Paragraph 18 says, *“Heritage assets may in some cases be used to serve two purposes—a heritage function and general government operations. In cases where a heritage asset serves two purposes, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building used as an office building). Heritage assets having an incidental use in government operations are not multi-use heritage assets; they are simply heritage assets.”*
- Paragraph 22 says, *“The cost of acquisition, improvement, reconstruction, or renovation of multi-use heritage assets should be capitalized as general PP&E and depreciated over its estimated useful life.”*
- Paragraph 31 says, *“SFFAS 8 Chapter 4 (Stewardship Land) is rescinded in its entirety.”*

- Paragraph 33 says, “*Stewardship Land includes both public domain^{14.1} and acquired land and land rights¹⁵ owned by the Federal Government intended to be held indefinitely. Examples of stewardship land include land reserved, managed, planned, used, or acquired for¹⁶*
 - a. forests and parks;*
 - b. recreation and conservation;*
 - c. wildlife habitat and grazing;*
 - d. historic landmarks and/or the preservation of pre-historic and historic structures (those listed on or eligible for listing on the National Register of Historic Places);*
 - e. multiple purpose ancillary revenue generating activity (for example, special use permits, mineral development activities, and timber production); and/or*
 - f. buffer zones for security, flood management, and noise and view sheds.”*

For analysis purposes, staff did not include the footnotes for paragraph 33.

In 2019, FASAB issued SFFAS 57, *Omnibus Amendments 2019* that eliminated the SFFAS 8 expense reporting requirements for all other types of stewardship investing activities:

- Paragraph 2 says, “*This paragraph rescinds SFFAS 8, Supplementary Stewardship Reporting, in its entirety, including the requirement for reporting information in the required supplementary stewardship information (RSSI) category.”*

Staff analysis

Staff believes the examples of stewardship PP&E that SFFAS 10 provides for multiuse software (e.g., global positioning systems, weapon systems, and research and development investment) are no longer applicable within FASAB standards. Due to issuance of SFFAS 23, reporting entities now account for PP&E used for national defense purposes as G-PP&E. Furthermore, due to SFFAS 57 reporting entities no longer report expenses for stewardship research and development activities.

Additionally, staff notes that SFFAS 29 guidance for heritage assets and stewardship land do not reference IUS. The guidance in SFFAS 29 describes multi-use heritage assets as PP&E that serves both heritage functions and general government operations and requires reporting entities to capitalize multi-use heritage assets as G-PP&E if the predominant purpose is for government operations. The use of the words “reconstruction” and “renovation” as capitalizable activities in SFFAS 29, paragraph 22

leads staff to believe that the Board considered tangible assets when developing the guidance.

Staff recommendation

Staff recommends removing the SFFAS 10 guidance on multiuse software:

~~Multiuse Software~~

~~21. The cost of software that serves both internal uses and stewardship purposes (“multiuse software”) should be accounted for as internal use software (e.g., a global positioning system used in connection with national defense activities and general operating activities and services).~~

This recommendation would rescind paragraph 21 in SFFAS 10 that provides guidance for multiuse software. As explained in the previous analysis, the types of stewardship purposes that apply to multiuse software in the current guidance are no longer applicable, making paragraph 21 in SFFAS 10 obsolete.

Per prior Board deliberations on the recognition scope for intangible assets and IUS, the draft intangible asset Statement would require reporting entities to capitalize intangible asset and IUS costs that the reporting entity uses to provide goods or services, or support the federal agency’s mission.¹¹ This would include federal mission purposes related to national defense activities, which aligns with the recognition criteria for tangible G-PP&E.^{12 13}

Based on prior Board deliberations, staff is not recommending guidance for intangible assets that may provide heritage-type benefits. During the February 2025 meeting, the Board agreed that the scope of the intangible asset Statement would not include intangible assets acquired for stewardship or heritage asset purposes. Additionally, the Board agreed to not include a discussion of heritage assets when updating concepts statements for intangible assets.¹⁴

For these reasons, staff does not believe there is a current need for the Board to provide accounting guidance for multiuse intangible or IUS assets. Staff believes the Board could consider updating SFFAS 29 to apply to intangible assets in the future if research or feedback indicates a need.

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

¹² SFFAS 6, par. 23

¹³ As discussed previously it is possible for intangible assets and IUS to be associated with national defense G-PP&E. Staff believes the integrated intangible asset guidance in the first recommendation would apply to these types of assets.

¹⁴ FASAB Board material, *Topic B – Intangible Assets*, February 5, 2025

Working group feedback

The working group generally agreed with staff's recommendation to remove the guidance in SFFAS 10, paragraph 21, based on the analysis. One working group member noted they agreed with the recommendation with the assumption that the Board would separately consider guidance for heritage intangible assets at a later time.

As discussed in the December 2024 Board meeting, one working group member previously identified historical immigrant and naturalization records as an example of an intangible heritage asset. More recently, another working group member suggested other heritage assets that are intangible, such as the Smithsonian's preservation of the Apollo Guidance Computer Code used in the 1969 Apollo 11 moon landing, and National Archive and Records Administration census records.

Staff agrees these examples could meet the heritage asset definition from SFFAS 29 and the intangible asset definition that the Board agreed on for the intangible asset Statement.¹⁵

One working group member disagreed with removing the multiuse software guidance. They agreed with removing the references to "global positioning system in connection with national defense activities" in SFFAS 10, paragraph 21 because they agreed that federal mission/national defense PP&E is no longer applicable to stewardship PP&E. However, they believed the remainder of the paragraph could potentially apply to intangible heritage assets.

Staff understands this position and believes the Board could decide to apply the guidance to intangible heritage assets. However, as explained previously, it is apparent that the Board originally developed the multiuse software guidance primarily for federal mission/national defense PP&E and existing guidance in SFFAS 29 applies to heritage assets that are PP&E. Furthermore, staff believes it is best for the Board to first deliberate the need for reporting intangible heritage assets.

Question for the Board:

2. Does the Board agree with staff's recommendation to remove guidance for multiuse software? Please provide your feedback on staff's analysis and recommendation.

¹⁵ During the February 2025 meeting, the Board determined that the new Statement would apply to intangible assets that lack physical substance, are nonfinancial, and have an estimated useful life of two years or greater.

RECOMMENDATION NO. 3

Staff recommends that the Board develop capitalization threshold guidance for 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 capitalization thresholds for IUS. This guidance provides unit of account considerations for management to set capitalization thresholds for assets based on materiality considerations.

Stakeholders have indicated that they generally like the existing capitalization threshold guidance. A few stakeholders have requested clarification on how to apply capitalization thresholds for software assets developed with agile/iterative processes. Staff believes the Board should modernize the guidance for the current software environment and develop broader capitalization threshold guidance for all intangible assets, with supplemental IUS guidance, like what the Board has previously deliberated for other topics.

The following analysis will discuss:

- Purpose of capitalization thresholds
- Other standard-setter guidance
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

Purpose of capitalization thresholds

As a practical application of materiality, a capitalization threshold is a monetary limit set by an organization to determine whether an asset should be recorded as a long-term capital asset or expensed immediately.¹⁶ The Board has previously said that capitalization thresholds reflect cost/benefit considerations balancing the cost of precision versus the costs to compile data.¹⁷

¹⁶ [Capitalization Thresholds for Capital Assets](#)

¹⁷ SFFAS 40, *Deferred Maintenance and Repairs: Definitional Changes*, par. A26.b.ii

Other standard-setter guidance

GASB

GASB Implementation Guidance 2015-1 addresses questions about capitalization threshold for general assets:

- Paragraph 7.9.5 says, “Q—Does Statement 34 prescribe a minimum level for the capitalization of assets?”

A -No. Different types of assets, subsystems, or networks may have different capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts. Additionally, qualitative characteristics may also affect capitalization policies. Different thresholds may be established and used for purposes other than financial reporting— for example, for management control purposes or for compliance with laws and regulations. Paragraph 115e of the Statement requires disclosure of capitalization policies, which include capitalization thresholds. (See also Question 7.12.13.)”

- Paragraph 7.9.8 says, “Q—Should a government’s capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?”

A - Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.”

- Paragraph 5.1 says, “A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers.”

- Paragraph 7.22.17 says, “Q—Is a change in capitalization threshold a change in accounting principle that requires restatement of beginning net position?”

A—No. Use of a capitalization threshold is an application of accounting policy, not a change in accounting principle. Changes in capitalization threshold involve many considerations such as ensuring that all significant capital assets, collectively, are capitalized while considering the cost of record keeping for capital assets.”

Existing FASAB guidance

The Board has issued capitalization threshold guidance for internal use software in SFFAS 10:

- Paragraph 24 says, “Each federal entity should establish its own threshold as well as guidance on applying the threshold to bulk purchases of software programs (e.g., spreadsheets, word-processing programs, etc.) and to modules or components of a total software system. That guidance should consider whether period cost would be distorted or asset values understated by expensing the purchase of numerous copies of a software application or numerous components of a software system and, if so, provide that the collective cost should be capitalized.”

The basis for conclusions in SFFAS 10 explains the Board’s deliberations on the capitalization threshold guidance:

- Paragraph 68 says, “In SFFAS No. 6, the Board carefully considered whether to take a prescriptive approach regarding capitalization thresholds or to permit each entity to set its threshold in light of its own particular operating environment. The Board decided that federal entities were too diverse to require one threshold for all entities; hence, the Board adopted a materiality approach whereby each entity establishes its own threshold as well as the guidance for bulk purchases. The Board continues to believe that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.”

More recently, the Board provided implementation guidance for IUS capitalization thresholds in TR 16:

- Paragraph 18 says, “Capitalization Threshold: SFFAS 10, paragraph 24, states, “Each federal entity should establish its own threshold as well as guidance on applying the threshold to bulk purchases of software programs (e.g., spreadsheets, word-processing programs, etc.) and to modules or components of a total software system.” When establishing the capitalization threshold for IUS, the federal entity should include both qualitative and quantitative considerations as stated in SFFAC 2 paragraph 46. Qualitative considerations could be applied to IUS assets that require special management attention

because of their importance to the agency mission; high development, operating, or maintenance costs; high risk; high return; or their significant role in the administration of agency programs, finances, property, or other resources.⁶

FN 6 says, “OMB Circular A-11 Preparation, Submission, and Execution of the Budget; Supplement to Circular A-11, Capital Programming Guide, Threshold for Capital Programming, page 2, July 2014.”

- Paragraph 19 says, “When establishing a capitalization threshold for bulk software purchases, the threshold should not be based on unit price. The organization should consider the bulk value and useful life established by the organization to avoid materially distorting period costs and understating asset values.”
- Paragraph 20 says, “OMB notes that a stratified capital programming process involving more or less detail and review based on the size or strategic importance of proposed investments may be appropriate, particularly in large agencies.⁷ Similarly, more than one capitalization threshold could be established for different components of a large agency. Agencies should have well documented thresholds clearly disseminated and implemented across the organization.”

FN 7 says, “See footnote 6.”

Staff has referenced other instances below where the FASAB handbook addresses capitalization thresholds. The Board has addressed capitalization thresholds for PP&E in SFFAS 6:

- Paragraph 13 says, “The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds. Once established, this threshold(s) should be consistently followed and disclosed in the financial reports.”

The basis for conclusions explains the Board’s deliberations on capitalization threshold guidance for PP&E:

- Paragraph 148 says, “Many respondents requested that the Board provide a capitalization threshold as an element of the PP&E definition. The Board addressed this issue in developing the ED. At that time, the Board carefully considered whether to take a prescriptive approach by setting a threshold or to permit entities the latitude to establish a threshold suited to their particular operating environment. The Board believes that Federal entities are sufficiently diverse that one threshold would not be suitable for all entities. For example, Title 2’s \$5,000 threshold would be immaterial for defense department operations but perhaps not for a smaller entity such as the Small Business Administration.”

- Paragraph 149 says, *“Instead of setting a specific threshold, the Board has adopted a materiality approach—just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases. The Board believes that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.”*

The Board provided an illustrative example for applying capitalization thresholds in TR 15:

- Paragraph B4 says, *“A significant part of the GSA's mission is to serve as a supplier of goods and services to Federal agencies on a reimbursable basis. In this role, the GSA has a business need to capture costs (including overhead and indirect costs) at a very granular level. This permits the GSA to establish rates and develop pricing models that will recoup the full cost of operating under a non-appropriated, user-fee model. The difference in operational requirements results in GSA's personal property capitalization threshold of \$10,000, which is lower than FAA and the NRO thresholds of \$100,000. The GSA's personal property capitalization threshold is reflective of the types and quantities of property acquired by the GSA. This is an example of management's role in establishing internal policies and procedures that fit within the parameters outlined in GAAP and align to the entity's operating model.”*

The Board provided guidance for applying capitalization thresholds to leases in TR 20:

- Paragraph 53 says, *“Can reporting entities apply the same capitalization thresholds used for PP&E to lease assets?”*

Generally it is not appropriate to apply PP&E capitalization thresholds to lease assets without considering the unique qualitative and quantitative characteristics of lease assets, and the lease liabilities to which they correspond, and their individual and collective significance in relation to the financial statements. Lease assets and liabilities that are significant, either individually or in the aggregate, should be recognized. Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, reporting entities often establish capitalization thresholds. When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease assets, in addition to the quantitative and qualitative significance of the corresponding lease liabilities, both individually and in the aggregate. Capitalization thresholds should be established in a manner that provides due consideration to the materiality fundamentals discussed in Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting, paragraphs 164.a 164.g.²”

FN 2 says, “Fundamentals are the underlying concepts of financial accounting that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of

summarizing and communicating them to interested parties. See Preamble to Statements of Federal Financial Accounting Concepts.”

Staff analysis

GASB has provided implementation guidance for applying capitalization thresholds to assets. Like FASAB, the GASB guidance makes clear that the standards do not establish a fixed or minimum capitalization threshold for reporting entities.

The GASB guidance also states that reporting entities may capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. The guidance lists computers, furniture, and books as examples of assets for which reporting entities should consider aggregate costs when evaluating capitalization thresholds.

When developing SFFAS 6, FASAB adopted a materiality approach and determined that federal entities should establish capitalization thresholds instead of the Board. Because federal entities are so diverse in size and operations, the Board determined that establishing one threshold would not be suitable for all entities.

FASAB has issued capitalization threshold guidance in level A GAAP for PP&E in SFFAS 6 and software in SFFAS 10 that instructs reporting entities to establish their own capitalization thresholds and policies for applying those thresholds. FASAB has also issued guidance in technical releases and nonauthoritative illustrations explaining how to apply software, business activities, and leases to capitalization thresholds.

Existing guidance in SFFAS 10, paragraph 24, instructs reporting entities to establish their own capitalization thresholds for software components and modules, including bulk purchases of software. Staff believes the examples SFFAS 10 provides for bulk purchases of software (e.g., spreadsheets and word-processing programs) are outdated and too detailed. One working group member suggested updating those examples.

When establishing their capitalization thresholds, the SFFAS 10 guidance says reporting entities should consider whether expensing bulk purchases would distort total expenses and asset values when determining whether to capitalize the collective value of the bulk purchases of software applications or multiple components in a system. A few working group members have asked that the Board clarify guidance for applying agile development processes to capitalization thresholds. For example, should reporting entities capitalize or expense individual iterative releases if individually below the threshold when it is possible that eventually the collective cost of the many iterative releases could end up greater the threshold?

The implementation guidance in TR 16 expands upon establishing capitalization thresholds for software. For example, the guidance says that reporting entities should

consider both quantitative and qualitative factors as discussed in the FASAB conceptual framework.¹⁸

Staff believes this guidance is appropriate as level C guidance. While reporting entities should always consider qualitative and quantitative factors for materiality considerations, staff believes including this guidance in implementation guidance emphasizes the importance of these considerations for capitalization thresholds.

The implementation guidance in TR 16 also directly instructs reporting entities to consider total price, not unit price, for bulk software purchases, even though SFFAS 10 leaves this decision to management. Staff believes this guidance does not conform with the GAAP hierarchy because the level C guidance in TR 16 introduces an accounting requirement not in level A GAAP. The TR 16 guidance also references an outdated OMB Circular.

Nevertheless, the working group generally expressed no concerns with the existing guidance. Some working group members specifically said they find the TR guidance helpful with establishing and applying capitalization thresholds for software.

Staff recommendation

Staff recommends the following guidance for applying capitalization thresholds to intangible assets:

Intangible Asset Capitalization Thresholds

Y1. Reporting entities should establish their own capitalization threshold(s) for intangible assets based on their own financial and operational conditions. Reporting entities should also establish their own policy for evaluating the aggregate cost of bulk acquisitions of substantially similar assets against the applicable capitalization thresholds.

IUS Supplemental

Y2. In accordance with paragraph Y1 of this Statement, reporting entities should establish their own policy to evaluate the aggregate cost of bulk acquisitions of user licenses for a particular software against applicable capitalization thresholds.

Y3. If multiple software applications operate as part of a total system or network, reporting entities should apply applicable capitalization thresholds to each software module or component with distinct standalone functions that benefit end users.

¹⁸ SFFAC 2

This proposed guidance would replace paragraph 24 of SFFAS 10. The staff recommendation would result in new capitalization threshold guidance for general intangible assets and update the existing IUS 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.

Paragraph Y1 provides general capitalization threshold guidance for all intangible assets. One notable difference from current guidance in SFFAS 10, paragraph 24 is that the proposed guidance uses language from SFFAS 6 to say that reporting entities should establish their capitalization threshold based on their own financial condition and operations.

The proposed guidance also removes the outdated examples of software applications that could apply to bulk purchases. Staff believes level A authoritative guidance should avoid examples so that the principle-based guidance remains applicable in the long term.

The proposed guidance also removes the condition that reporting entities should apply aggregate cost of bulk purchases to the capitalization threshold if they determine that expensing the individual unit costs would distort expenses and asset values. SFFAS 6 does not use this language and staff believes it is unnecessarily prescriptive and restrictive.

Like all FASAB accounting requirements, reporting entities should apply overall materiality concepts when establishing policies around capitalization threshold. This includes quantitative and qualitative considerations as explained in TR 16, paragraph 18.

Paragraphs Y2-Y3 provide supplemental capitalization threshold guidance for IUS. Paragraph Y2 essentially applies the example of software licenses to the guidance in paragraph Y1. Staff considered whether paragraph Y2 was necessary because it does not add new guidance other than specifying that software licenses would apply to the general capitalization threshold guidance in paragraph Y1.

However, staff decided to recommend paragraph Y2 for two reasons. First, stakeholders have requested guidance specifically on how to account for software licenses and the Board has addressed recognition guidance specifically for software licenses in previous deliberations.¹⁹

Second, staff believes that existing guidance in TR 16, paragraph 19 contradicts SFFAS 10 by directly requiring reporting entities to consider bulk value instead of unit cost of bulk software purchases to avoid materially distorting period costs and asset values. Staff believes the intangible asset Statement (level A GAAP) should therefore make it

¹⁹ During the December 2024 meeting, the Board agreed reporting entities should capitalize an IUS asset if 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.

clear that management should decide how to apply capitalization thresholds to bulk purchases of software licenses.

Staff notes the TR 16 guidance would still conflict with the level A guidance. However, TR 16 is level C GAAP and would be lower in the GAAP hierarchy than the recommended guidance for this Statement. The Board could recommend that ASIC address these conflicts through amendments to TR 16 in a future project.

Paragraph Y3 addresses how to apply software developed through iterative releases that result in multiple interconnected assets throughout an IT system. The recommended guidance in paragraph Y3 would tie the capitalization threshold guidance to the agile development guidance framework that the Board deliberated during the June 2025 meeting.²⁰

The agile recognition framework deliberated during the June 2025 meeting addresses capitalization cutoff and says in part, “If an iterative release results in a software module or component with a standalone function that benefits end users, reporting entities should account for it as an individual software asset. If an iterative release is dependent on the outcomes of other releases for a complete function, reporting entities should account for the cost incurred for these iterations as one software asset.”

Likewise, proposed paragraph Y3 says that reporting entities should apply capitalization thresholds for software modules or components with a standalone function that benefits end users, not necessarily for each iterative release. Therefore, an individual iterative release or even multiple iterative releases may fall under the established capitalization thresholds. However, reporting entities should apply the capitalization threshold only to one or more iterative releases when together they result in a standalone software module or component asset.

Staff acknowledges the guidance in paragraph Y3 is more prescriptive than the other proposed paragraphs. However, some working group members requested clarification for iterative releases applying to thresholds and staff believes it is necessary to ensure cohesiveness with the agile development recognition guidance in the Statement.

Staff used the phrase “applicable capitalization thresholds” in paragraphs Y2-Y3 because a few working group members were concerned that preparers and auditors could misinterpret the guidance to require agencies to establish separate capitalization thresholds for intangible assets and IUS assets. Staff believes the standards should leave it up to management to determine whether to establish separate capitalization thresholds for intangible assets and IUS assets.

²⁰ FASAB Board material, *Topic B – Software Technology*, June 3, 2025

Working group feedback

The working group generally agreed and/or identified no issues with the recommended guidance. Staff developed the recommended guidance based on several working group members' preferences that the standards continue to allow management maximum flexibility for establishing and applying their own capitalization thresholds.

A few working group members specifically agreed with the proposed guidance allowing management to establish their own capitalization thresholds based on their own unique financial and operational conditions. Another working group member appreciated that the proposed guidance in paragraph Y3 aligns well with the agile development guidance the Board discussed previously.

One working group member recommended that paragraph Y1 make it clearer that the standards do not require reporting entities to establish capitalization thresholds if they choose. Staff believes based on prior SFFAS 6 and SFFAS 10 guidance the Board intended for reporting entities to establish capitalization thresholds. Staff believes a reporting entity could establish that threshold at \$0 and recognize all capital assets if they choose. However, they should still make that determination as it is critical for asset recognition decisions based on materiality considerations.

Regarding paragraph Y2, a few working group members suggested the guidance make it clear that reporting entities should only apply capitalization thresholds to costs of the software license and costs necessary to bring the software into production. Furthermore, one working group member suggested the guidance should also make clear that other costs should not apply to capitalization thresholds, such as training and data conversion costs.

Staff agrees with these recognition requirements. However, per prior Board deliberations, the intangible asset Statement will address these considerations in the recognition and measurement sections of the standards.²¹ The recommended guidance in paragraphs Y1-Y3 specifically address capitalization thresholds but does not address what types of costs reporting entities should capitalize. Staff will make note of this suggestion for future consideration to determine if cross references are needed after reviewing all the guidance together in a draft Statement.

One working group member recommended incorporating more of the capitalization threshold guidance in TR 16, paragraphs 18-20 because they found it valuable for their business processes. As explained earlier, staff believes the recommended guidance uses TR 16 guidance where appropriate for level A. The remaining guidance in TR 16 that is not obsolete or contradictory to the intangible asset Statement would still supplement the standards as implementation guidance.

²¹ See FASAB Board material, Topic B – *Software Technology*, June 3, 2025, pgs. 12-14.

One working group member explained practical difficulties with applying capitalization thresholds to bulk purchases of software licenses. For example, should capitalization thresholds be applied to each order, the obligation line, based on purchases over a month, or purchases over a year?

Staff understands the challenges and acknowledges significant management judgment is needed to establish and apply capitalization thresholds that could lead to inconsistencies across reporting entities. These challenges likely apply to bulk purchase of tangible property as well.

However, staff believes these are questions best addressed in policy by each reporting entity and management should have that flexibility. Based on prior standards, the Board believed it best for reporting entities to establish their own unique policies with applying capitalization thresholds due to the unique nature of each reporting entity.

Question for the Board:

3. Does the Board agree with staff's recommended accounting guidance for capitalization threshold? 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 of intangible assets and IUS, as well as specific scope considerations for the intangible asset statement.

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.

April 2026

At the April 2026 meeting, the Board deliberated:

- Accounting guidance for impairment of intangible assets and internal use software
- Accounting guidance for multiple-element arrangements

The Board overwhelmingly agreed with staff's recommended guidance with a few minor edits.