# Memorandum

**Intangible Asset/IUS**

August 5, 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 E)

## INTRODUCTION

At the April 2026 meeting, the Board deliberated integrated assets, multiuse software, and capitalization threshold guidance.

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

- Note disclosure guidance for intangible assets, including internal use software
- Accounting and reporting guidance for intangible heritage assets

Staff requests the Board's feedback on the recommendations.

## REQUEST FOR FEEDBACK

**Prior to the Board's August meeting**, please review the attached staff analysis and respond to the questions by August 13, 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

August 5, 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 SFFAS.

#### 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 SFFAS 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 Bord 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 SFFAS 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 amortization and enhancement accounting guidance. During the April 2026 meeting, the Board deliberated impairment and multi-element arrangement accounting guidance. During the June 2026 meeting, the Board deliberated integrated assets, multiuse software, and capitalization threshold guidance.[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 accounting guidance for intangible assets, including IUS. For the Board's consideration, this paper recommends the following:

1. Note disclosure guidance for intangible assets, including IUS.

2. Referencing SFFAS 29 standards in the intangible asset SFFAS to apply existing heritage asset recognition and disclosure requirements to intangible heritage assets

Staff requests the Board's feedback on the recommendations.

## Research

For this session, staff coordinated with the working group and other stakeholders to research costs and benefits of note disclosure requirements for intangible assets and to understand the most effective and efficient way to apply SFFAS 29 standards to intangible assets. Additionally, 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 F – Software Technology, October 3, 2023
- 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 – Intangible Asset/Software Technology, June 3, 2026
- FASB ASC 350-30*, General Intangibles Other than Goodwill*
- FASB ASC 350-40, *Internal-Use Software*
- 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
- GAO Report to Congressional Requesters, GAO-21-52 – *Biomedical Research: NIH Should Publicly Report More Information about the Licensing of Its Intellectual Property*, October 2020
- GAO, *Cloud Computing: Agencies Have Increased Usage and Realized Benefits, but Cost and Savings Data Need to Be Better Tracked*, GAO-19-58, May 6, 2019
- GAO-24-105717, *Federal Software Licenses: Agencies Need to Take Action to Achieve Additional Savings*, Jan. 29, 2024
- GAO-25-107114, Cloud Computing: Selected Agencies Need to Implement Updated Guidance for Managing Restrictive Licenses, Nov 13, 2024
- GAO-23-106821, Information Technology: Agencies Need to Continue Addressing Critical Legacy Systems, May 10, 2023
- GASB Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments, June 1999
- GASB Statement No. 51*, Accounting and Financial Reporting for Intangible Assets,* June 2007
- IPSAS 31, *Intangible Assets*, January 2010
- SFFAC 2, *Entity and Display*, June 6, 1995
- SFFAC 10, *Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3*, September 27, 2024
- SFFAS 6, *Accounting for Property, Plant, and Equipment*, November 30, 1995
- SFFAS 10, *Accounting for Internal Use Software*, October 9, 1998
- SFFAS 29, *Heritage Assets and Stewardship Land*, July 7, 2005
- SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the*

*Consolidated Financial Report of the United States Government"*, September 28, 2006

- SFFAS 44, *Accounting For Impairment Of General Property, Plant, And Equipment Remaining In Use*, January 3, 2013
- Technical Release 16, *Implementation Guidance for Internal Use Software*, January 19, 2016
- U.S. Statute 118-213, *SHARE IT Act*, September 9, 2024
- U.S. Senate: Committee on Homeland Security and Governmental Affairs, Report 118-73, *Strengthening Agency Management and Oversight of Software Assets Act*, July 25, 2023

To obtain feedback on the types of information that could be useful if disclosed in federal financial reports, staff spoke with:

- A scientist from a federal research and development center
- A university science professor
- An economist from an economic policy think tank
- A private citizen with state and federal government financial management experience
- Staff from GAO Contracting and National Security Acquisitions
- Staff from GAO Science, Technology Assessment, and Analytics
- Staff from GAO Information Technology Cybersecurity
- Advocacy groups for software/IT resource management in the federal government
- Academics and private citizens who have experience with cloud computing and software licensing in the private industry and federal government
- Advocacy groups that support the benefits of shared services in the federal government
- Staff from the Senate Committee on Homeland Security and Governmental Affairs

Additionally, staff received feedback on the guidance recommendations 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 note disclosure guidance for intangible assets that includes IUS. 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 SFFAS.

## ANALYSIS

According to SFFAC 10, users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Note disclosures are necessary to enhance understandability of the financial statements for users and to provide insight into the complexity and amount of information reported.

The following analysis will discuss:

- FASAB Note Disclosure Concepts
- Existing FASAB guidance
- Other standard-setter guidance
- Staff analysis
- Staff recommendation

### FASAB Note Disclosure Concepts

In 2024, the Board issued SFFAC 10 to update its conceptual framework in SFFAC 2 for note disclosures. For this analysis, staff has provided relevant excerpts from SFFAC 2:

- Paragraph 68 says, *"Financial information is also conveyed through the use of note disclosures, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement one or more of the following:*
    - *Information recognized in financial statements.*
    - *Information about the reporting entity.*
    - *Information about events and conditions not recognized in the statements.*
    - *Information to assist in understanding and assessing the government's accountability.*

*The types of information that may be presented in note disclosures include:*

*A. Relevant information integral to understanding information recognized in financial statements-Note disclosures may explain or further describe information recognized in financial statements. Note disclosures may include, but are not limited to, such information as the nature of or terms used to describe an item, restrictions on the use of an item, relevant disaggregation of an item, uncertainties in measuring items, methods and assumptions used in estimating an item, and/or significant accounting policies affecting items.*

*B. Context or background information regarding the reporting entity and its activities-Note disclosures may supplement financial statements to provide information regarding the entity's mission, programs, significant relationships with other entities, and any special restrictions or privileges that apply to the entity in executing programs and the accountability for resources. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related financial reporting effect.*

*C. Information about past events and current conditions not recognized-Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity's future resources or use of resources. This information may be used to assess the government's ability to continue operating at its current levels.*

*D. Information to demonstrate accountability-Note disclosures may also provide quantitative and qualitative information that demonstrates an entity's accountability to its citizens, including information that may be helpful in assessing the effects of management's decision-making on the entity."*

**Existing FASAB authoritative guidance**

The Board has issued note disclosure guidance for internal use software in SFFAS 10:

- Paragraph 35 says, *"The disclosures required by SFFAS No. 6, paragraph 45, for general PP&E are applicable to general PP&E software. Thus, for material amounts, the following should be disclosed in the financial statements regarding the software:*
    - *The cost, associated amortization, and book value.*
    - *The estimated useful life for each major class of software.*
    - *The method(s) of amortization.*

- *The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for disclosure applicable to the U.S. government-wide financial statements for these activities."*

For reference, SFFAS 6 provides the following for PP&E note disclosures:[2]

- Paragraph 45 says, *"The following are minimum G-PP&E disclosure requirements:*
    - *the cost, associated accumulated depreciation, and book value by major class;*
    - *the use and general basis of any estimates used;*
    - *the estimated useful lives for each major class;*
    - *the method(s) of depreciation for each major class;*
    - *capitalization threshold(s) including any changes in threshold(s) during the period; and*
    - *restrictions on the use or convertability of G-PP&E."*

For note disclosures related to the U.S. government-wide financial statements, SFFAS 32 provides the following:

- Paragraph 23 says, *"The U.S. government-wide financial statements should include the following disclosures:*
    - *a. A broad description of PP&E*
    - *b. For general PP&E land*
        - *i. A note on the balance sheet that discloses information about general PP&E land and permanent land rights which includes:*
            - *1. A concise statement including a general description of the federal government's land explaining how its federal land relates to the mission of the Federal government.*
            - *2. A disclosure of estimated acres by predominant use sub-categories and estimated acres of land held for disposal or exchange by the Federal government.*

[2] To keep this analysis more concise, staff did not include the land acreage disclosure requirements in SFFAS 6, par. 45.

- *c. The cost (excluding land and permanent land rights), associated accumulated depreciation, and book value by major class.*

- *d. A general reference to agency reports for additional information about general PP&E and general PP&E land"*

The standards in SFFAS 44 provide note disclosure requirements for PP&E impairments:

- Paragraph 21 says, *"A general description of the G-PP&E remaining in use for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment, and the financial statement classification of the impairment loss should be disclosed in the notes to the financial statements. Such disclosures should be made in the period the impairment loss is recognized."*

- Paragraph 26 says, *"The U.S. government-wide financial statements should disclose the following if an impairment loss for G-PP&E remaining in use is recognized:*

    - *a. a general description of what constitutes G-PP&E impairment,*

    - *b. the consolidated G-PP&E impairment losses recognized by component entities, and*

    - *c. a reference(s) to component entity report(s) for additional information."*

**Other standard-setter guidance**

FASB, GASB, and IPSASB have issued guidance for note disclosures for intangible assets that includes IUS.

<u>FASB</u>

FASB codification section for general intangibles other than goodwill provides the following:

*Disclosures in the Period of Acquisition*

- 350-30-50-1 says, *"For intangible assets acquired either individually or as part of a group of assets (in asset acquisition, a business combination, acquisition by a not-for-profit entity, or a joint venture formation), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:*

    - *a. For intangible assets subject to amortization, all of the following:*

        - *1. The total amount assigned and the amount assigned to any major intangible asset class*

        - *2. The amount of any significant residual value, in total and by major intangible asset class*

        - *3. The weighted-average amortization period, in total and by major intangible asset class.*

    - *b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.*

    - *c. The amount of research and development assets acquired in a transaction other than a business combination, an acquisition by a not-for-profit entity, or a joint venture formation and written off in the period and the line item in the income statement in which the amounts written off are aggregated.*

    - *d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.*

  *This information also shall be disclosed separately for each material business combination or acquisition by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant."*

*Disclosures for Each Period for Which a Statement of Financial Position Is Presented*

- 350-30-50-2 says, *"The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:*

    - *a. For intangible assets subject to amortization, all of the following:*

        - *1. The gross carrying amount and accumulated amortization, in total and by major intangible asset class*

        - *2. The aggregate amortization expense for the period*

        - *3. The estimated aggregate amortization expense for each of the five succeeding fiscal years.*

    - *b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class*

- *c. The entity's accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset*
- *d. For intangible assets that have been renewed or extended in the period for which a statement of financial position is presented, both of the following:*
  - *1. For entities that capitalize renewal or extension costs, the total amount of costs incurred in the period to renew or extend the term of a recognized intangible asset, by major intangible asset class*
  - *2. The weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.*

*Example 13 (see paragraph 350-30-55-39) illustrates these disclosure requirements."*

*Disclosures Relating to Impairment Losses*

- 350-30-50-3 says, *"For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:*
  - *a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment*
  - *b. The amount of the impairment loss and the method for determining fair value*
  - *c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated*
  - *d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280"*

*Renewal or Extension of an Intangible Asset's Legal or Contractual Life*

- 350-30-50-4 says, *"For a recognized intangible asset, an entity shall disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent or ability (or both intent and ability) to renew or extend the arrangement."*

*Certain Significant Estimates*

- 350-30-50-5 says, *"For guidance on determining whether disclosures about an estimate of the useful life of an intangible asset are required under paragraph 275-10-50-8, see paragraph 275-10-50-15A."*

FASB codification section for internal use software provides the following:

*General*

- 350-40-50-1 says, *"The General Subsection of this Subtopic does not require any incremental disclosures. Disclosure shall be made in accordance with existing authoritative literature including the following:*
    - *a. Topic 275 (Risks and Uncertainties)*
    - *b. Subtopic 730-10 (Research and Development)*
    - *c. Topic 235 (Presentation - Notes to Financial Statements)*
    - *d. Subtopic 360-10 (Property, Plant, & Equipment)*

*Implementation Costs of a Hosting Arrangement That Is a Service Contract*

- *350-40-50-2 says, "An entity shall disclose the nature of its hosting arrangements that are service contracts."*
- *350-40-50-3 says, "The disclosure requirements in the General Subsection of this Section are applicable to the capitalized implementation costs of hosting arrangements that are service contracts. An entity shall make the disclosures in Subtopic 360-10 as if the capitalized implementation costs were a separate major class of depreciable asset."*

*Risks and Uncertainties*

- 275-10-50-1 says, *"All of the disclosures required by this Subtopic shall be included in the basic financial statements. Reporting entities shall make disclosures in their financial statements about the risks and uncertainties existing as of the date of those statements in the following areas:*
    - *a. Nature of operations, including the activities in which the entity is currently engaged if principal operations have not commenced*
    - *b. Use of estimates in the preparation of financial statements*
    - *c. Certain significant estimates*

- *d. Current vulnerability due to certain concentrations.*

*These four areas of disclosure are not mutually exclusive. The information required by some may overlap. Accordingly, the disclosures required by this Subtopic may be combined in various ways, grouped together, or placed in diverse parts of the financial statements, or included as part of the disclosures made pursuant to the requirements of other Topics."*

*Research and Development*

- 730-10-50-1 says, *"Disclosure shall be made in the financial statements of the total research and development costs charged to expense in each period for which an income statement is presented. Such disclosure shall include research and development costs incurred for a computer software product to be sold, leased, or otherwise marketed."*

*Notes to Financial Statements - Examples of Disclosures*

- 235-10-50-4 says, *"Examples of disclosures by an entity commonly required with respect to accounting policies would include, among others, those relating to the following:*
    - *a. Basis of consolidation*
    - *b. Depreciation methods*
    - *c. Amortization of intangibles*
    - *d. Inventory pricing*
    - *e. Recognition of revenue from contracts with customers*
    - *f. Recognition of revenue from leasing operations."*

*Property, Plant, and Equipment – General*

- 360-10-50-1 says, *"Because of the significant effects on financial position and results of operations of the depreciation method or methods used, all of the following disclosures shall be made in the financial statements or in notes thereto:*
    - *a. Depreciation expense for the period*
    - *b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date*

- *c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date*

- *d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets."*

*Impairment or Disposal of Long-Lived Assets - Impairment of Long-Lived Assets Classified as Held and Used*

- 360-10-50-2 says, *"All of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:*

    - *a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment*

    - *b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss*

    - *c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)*

    - *d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280."*

*Impairment or Disposal of Long-Lived Assets - Long-Lived Assets Classified as Held for Sale or Disposed Of*

- 360-10-50-3 says, *"For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:*

    - *a. A description of the facts and circumstances leading to the disposal or the expected disposal.*

    - *b. The expected manner and timing of that disposal.*

    - *c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.*

    - *d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the* *statement of activities for a not-for-profit entity) that includes that gain or loss.*

- *e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.*

- *f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting."*

<u>GASB</u>

The Basis for Conclusions in GASB Statement No. 51 provides the following:

- Paragraph 80 says, *"The Board considered whether the disclosures required for capital assets should be equally applicable to intangible assets. It concluded that such required disclosures should incorporate information related to intangible assets without separation or distinction of that information beyond what is otherwise required in those disclosures. The Board also considered whether disclosures beyond those required for capital assets should be required for intangible assets. The Board considered disclosures specific to intangible assets with indefinite useful lives and internally generated intangible assets, including accounting policy disclosures and discrete identification in the detail of capital asset activity, as the nature of these intangible assets may be considered by some to be unique from other capital assets. The Board concluded, however, that disclosures beyond existing capital asset disclosures required under Statement 34 and other existing disclosures that may relate to these types of intangible assets, including those required under APB Opinion No. 22, Disclosure of Accounting Policies, would not be essential to a user's understanding of the financial statements. Therefore, no specific disclosures were required for intangible assets."*

GASB Statement No. 34 provides the following note disclosure guidance for all capital assets, including intangible assets and IUS:

- Paragraph 116 says, *"Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated."*

- Paragraph 117 says, "*Information presented about major classes of capital assets should include:*
  - *a. Beginning- and end-of-year balances (regardless of whether beginning-of year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost*
  - *b. Capital acquisitions*
  - *c. Sales or other dispositions*
  - *d. Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.*
- Paragraph 120 says, *"Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgment. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government."*

<u>IPSASB</u>

IPSAS 31 provides the following:

*Disclosure – General*

- Paragraph 117 says, *"An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:*
  - *a. Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;*
  - *b. The amortization methods used for intangible assets with finite useful lives;*
  - *c. The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;*
  - *d. The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;*
  - *e. A reconciliation of the carrying amount at the beginning and end of the period showing:*

    - *i. Additions, indicating separately those from internal development and those acquired separately;*
    - *ii. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations and other disposals;*
    - *iii. Increases or decreases during the period resulting from revaluations under paragraphs 74, 84 and 85(if any);*
    - *iv. Impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);*
    - *v. Impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);*
    - *vi. Any amortization recognized during the period;*
    - *vii. Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and*
    - *Other changes in the carrying amount during the period."*

- Paragraph 118 says, *"A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:*
  - *a. Brand names;*
  - *b. Mastheads and publishing titles;*
  - *c. Computer software;*
  - *d. Licenses;*
  - *e. Copyrights, patents, and other industrial property rights, service, and operating rights;*
  - *f. Recipes, formulae, models, designs, and prototypes; and*

  - *g. Intangible assets under development. The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements."*

- Paragraph 119 says, *"An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 117(e)(iii)–(v)."*

- Paragraph 120 says, *"IPSAS 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:*

  - *a. The assessment of an intangible asset's useful life;*

  - *b. The amortization method; or*

  - *c. Residual values."*

*Disclosure - Research and Development Expenditure*

- Paragraph 125 says, *"An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period."*

- Paragraph 126 says, *"Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 64 and 65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 125)."*

*Disclosure – Other Information*

- Paragraph 127 says, *"An entity is encouraged, but not required, to disclose the following information:*

  - *a. A description of any fully amortized intangible asset that is still in use; and*

  - *b. A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard."*

**Staff analysis**

<u>Comparative Analysis of Standard Setter Disclosure Guidance</u>

There are noteworthy similarities and differences between standard setters' note disclosure requirements:

- FASB, GASB, IPSASB, and FASAB all require similar disclosures that provide additional information on the intangible assets that reporting entities capitalize on their balance sheets, such as gross cost, accumulated amortization, and net book value by major classes of asset.[3] All standard-setters also require disclosures related to impairment.

- FASAB and IPSASB require reporting entities to disclose the method of amortization by major asset class. FASAB is the only standard setter that requires disclosure of estimated useful life by asset class.

- For intangible assets with renewal or extension terms, FASB requires disclosure of the weighted-average period before the next renewal or extension by major intangible asset class.

- FASB requires reporting entities to disclose the nature of its hosting arrangements that are service contracts along with capitalized implementation costs as a separate asset category.[4]

- FASB broadly applies its risks and uncertainties disclosure requirements to IUS.

- FASB and IPSASB require reporting entities to disclose total research and development costs charged to expense each period.

- IPSASB provides examples of major classes of intangible assets such as brands, copyrights, licenses, patents, software, recipes, assets under development, etc.

- IPSASB requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect, such as a change in useful life estimate and amortization method.

- IPSASB encourages, but does not require, reporting entities to disclose a description of any fully amortized intangible asset that is still in use and significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria.

Disclosures that Compliment Intangible Asset Capitalization Framework

The Board has held prior deliberations updating its IUS recognition guidance and developing new standards for recognizing intangible assets in federal financial statements. The Board's asset recognition framework focuses on accounting for costs incurred to acquire intangible assets and develop intangible assets (in the case of IUS).

[3] For FASAB, staff is referring to the note disclosure requirements for PP&E and IUS.

[4] During the April 2024 meeting, the Board agreed that reporting entities should not capitalize implementation costs for cloud-service arrangements unless the implementation activities result in a distinct internal use software asset.

In accordance with SFFAC 2, paragraph 68.A., staff believes it is important that note disclosures provide information that help a reader understand the information recognized in financial statements. Therefore, for the intangible asset SFFAS, staff believes that the note disclosure guidance should foremost complement the recognition framework by providing information useful for understanding intangible assets that reporting entities capitalize on their balance sheets.[5]

Furthermore, staff believes that SFFAS 6, SFFAS 10, and SFFAS 44 offer effective disclosure frameworks for intangible assets that is consistent with disclosures required by all accounting standard setters. These common disclosures provide general-purpose information about capitalized asset gross costs, accumulated depreciation/amortization, net book value, useful life estimation, capitalization thresholds, depreciation/amortization methods, and impairment losses categorized by major types of assets.

Staff believes going beyond this basic general purpose disclosure framework involves more detailed disclosures about individual assets and information beyond balance sheet assets. However, non-preparer stakeholders of financial reports often suggest that reports provide more detailed and specific information about their particular interests. The following section highlights those interests.

Stakeholder Interests

Over the course of this project, staff has corresponded with various non-preparer financial statement stakeholders to understand their information needs and suggestions for federal financial reports. Below is a summary of feedback received that staff believes are relevant to reporting disclosures:

- It is beneficial for agencies to know if they have rights to intellectual property related to working relationships with other parties, such as contracts, grants and P3 arrangements.
- Support more transparency of royalty fees that federal entities receive by licensing its intellectual property.
- Recommended that the guidance require agencies to report qualitative information related to intellectual property that federal agencies own, such as names and purposes of patents or the nature and service potential for rights to natural resources.
- Recommend that agencies report how much they spend to maintain their intellectual property.

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[5] During the December 2024 meeting, the Board agreed to develop intangible asset standards requiring reporting entities to recognize identifiable intangible assets that a reporting entity acquires from another entity to match the cost to acquire an intangible asset with the economic benefits and services the intangible asset provides the federal entity in future reporting periods. The Board generally agreed that it is important to develop guidance to improve accountability and transparency over intangible assets in the federal government.

- There is a public benefit to knowing the taxpayer resources that go to the development of various medications and other resources that those taxpayers then pay private companies to receive.

- Would like to see more scrutiny over the costs spent on shared services.

    - Recommend that agencies discuss efficiencies and cost reductions achieved through implementing shared services.

    - Interested in how agencies share resources with one another through shared services and software code.

- Federal agencies should improve accountability and transparency over software licenses and cloud-service arrangements. Additionally, qualitative and quantitative note disclosures could be useful in the annual financial reports.

    - Financial reports should identify mission critical software that agencies cannot easily replace.

    - The terms and conditions of cloud services and software licenses, including pricing, future resource obligations due to multi-year commitments, and limitations of use (i.e., where the software is run).

    - It is important for agencies to report total cloud costs on an annual basis along with future year commitments.

    - It is most important that government agencies are properly tracking and know exactly what they are spending on cloud services so that taxpayer resources are not wasted.

    - Suggest disclosures regarding the risk of increased data storage costs due to vendor lock (i.e., not being able to move the software to another host).

    - Recommend disclosing expenses along with qualitative information, such as name of vendor and purpose of license.

    - Cloud cost reporting requirements would be beneficial so that agencies can have a better understanding of what types of cloud arrangements they acquire so they can have a baseline to know if they are achieving expected savings.

    - Recommend reporting whether a particular cloud-service arrangement requires significant upfront implementation costs.

    - Recommend reporting that could help agencies know what they are spending on cloud and other IT resources so that they can make more informed and cost-effective decisions for future IT investments.

- It is difficult for agencies to justify setting aside significant upfront costs in their budgets for IT investments in the name of achieving future cost savings. It is typically easier to request annual budget resources to maintain existing software on an annual basis.

To provide the information summarized above, more extensive disclosures would be necessary that go beyond the basic disclosure frameworks addressing broad asset categories. While staff understands that there can be many different users with important unique information needs, it is important that the Board consider the costs and benefits of requiring federal entities to provide such information in general purpose financial reports.

**Staff recommendation**

Issuing the new intangible asset SFFAS will introduce new accounting requirements for intangible assets, which most federal agencies have never had to account for or report. Therefore, staff recommends the Board take a practical approach and start by simply requiring reporting entities to disclose the foundational types of information that further inform the reader of broad categories of intangible assets that they recognize on their balance sheet.

Staff recommends the following note disclosure guidance for intangible assets:

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Component Reporting Entity Disclosures

X1. Reporting entities should disclose the following in financial statements for each major class of intangible asset:

a. The cost, associated accumulated amortization, and net book value

b. A description of use

c. Estimated useful life

d. The method of amortization

e. Capitalization threshold(s) including any changes in threshold(s) during the reporting period

f. The nature and amount of impairment loss that occurred during the reporting period

Financial Report of the U.S. Government Disclosures

X2. The U.S. government-wide financial statements should include the following disclosures:

a. A broad description of intangible assets

b. The cost, associated accumulated amortization, and net book value by major class

c. The consolidated intangible asset impairment losses recognized by component entities along with a general description of what constitutes intangible asset impairment.

d. A general reference to agency reports for additional information about intangible assets

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This recommended guidance would establish intangible asset (including IUS) note disclosure requirements for component reporting entities and government-wide reports. Staff developed the recommended disclosure requirements based on existing disclosure requirements in SFFAS 6 for PP&E, SFFAS 10 for IUS, and SFFAS 44 for impairments. Except for a few items discussed below, recommended disclosures would not be significantly different from what reporting entities already report for PP&E and IUS.

Staff believes the recommended note disclosure requirements would complement the capital asset recognition and measurement guidance that the Board has previously deliberated for intangible assets:

- Paragraph X1.a. would require reporting entities to disclose the gross cost, amortization, and net-book value of the major classes of intangible assets.

- Paragraph X1.b. would require reporting entities to disclose at a high level how they use recognized asset classes for delivering goods or services to the public and/or meeting their mission. This disclosure requirement does not currently exist in SFFAS 10. However, staff believes it would be useful for the note disclosures to briefly explain the material types of intangible assets that a reporting entity has capitalized on its balance sheet.

- Paragraphs X1.c. - X1.e. would require reporting entities to disclose their estimated useful life, method of amortization, and capitalization thresholds (including changes to the thresholds) for the major intangible asset classes.

- Paragraph X1.f. would require reporting entities to disclose the nature and amount of any impairment that occurs to its recognized intangible assets. This requirement exists in SFFAS 44 for G-PP&E but not in SFFAS 10 for IUS.

Paragraph X2 applies to the government-wide report and mirrors what SFFAS 32 and SFFAS 44 currently require for PP&E disclosures.[6]

- Paragraph X2.a. requires a general description of intangible assets in the federal environment.

- Paragraph X2.b. requires disclosure of total capitalized costs, amortized costs, and net book value for the period.

- Paragraph X2.c., requires a description of material impairments and consolidated amount of impairment loss among reporting entities.

- Paragraph X2.d. is boilerplate language that requires a reference to relevant component reporting entity reports with material intangible asset balances.

Staff believes these recommendations align with the Board's note disclosure concepts in SFFAC 2, paragraph 68.A by providing relevant information that helps a user understand intangible assets recognized in a reporting entity's balance sheet. For example, while a reporting entity's balance sheet would show one total amount for all capitalized intangible assets, the note disclosure would provide the user with more detail on what types of intangible assets that balance consists of and how the reporting entity accounts for those assets.

Working group feedback

The working group generally agreed with the recommended note disclosures and did not voice any concerns. Several working group members noted and appreciated that the recommendations are consistent with what FASAB requires for G-PP&E.

One working group member recommended including "date placed in service" as a disclosure requirement. Staff believes this could provide useful information into the age or obsolescence of a software asset. However, reporting the date that reporting entities place all capitalized assets in service would require reporting entities to disclose detailed information about individual capitalized assets, which does not align with staff's recommended disclosures that apply to broad categories of assets.

One working group member suggested that note disclosures identify whether an IUS asset is a license acquired from a vendor or internally developed. One working group member suggested that disclosures should identify capitalized intangible assets integrated with physical PP&E. Another working group member suggested that the footnotes should disclose the balance for software development in process, like construction in process.

[6] It does not appear that SFFAS 32 provided government-wide disclosure requirements for SFFAS 10.

Staff believes these suggestions could result in useful information. For example, disclosing software development in process balances would inform users about major ongoing investments in future software assets.

However, staff believes that, based on the recommended guidance, reporting entities could choose to disclose internally developed software, software licenses, integrated assets, and software development in process as distinct types of major asset categories if management believed it would provide useful information.[7]

One working group member suggested that the Board provide guidance defining “major class” for grouping assets for disclosure. IPSASB has provided guidance to help preparers categorize intangible assets for disclosure purposes. However, other than land disclosures FASAB has not typically provided such detailed reporting guidance and has left that decision to preparer judgment. Staff believes that implementation guidance would be a more appropriate level of GAAP to address this question.

One working group member suggested that the note disclosures should present capitalized asset information in a roll-forward manner for the reporting period. For example, reporting beginning balances, additions, disposals, impairment loss, amortization expense, and ending balances.

Staff notes that some reporting entities do choose to provide a table in their PP&E note disclosure with this type of roll-forward information even though SFFAS 6 does not require it. As stated previously, staff recommends that the intangible asset note disclosures be consistent with the existing PP&E disclosure framework. Like PP&E, reporting entities may choose to present the balances in a roll-forward manner.

**Other disclosures considered**

Based on research and stakeholder preferences discussed previously, staff considered multiple other disclosure requirements for intangible assets that this paper does not recommend. Nevertheless, the following analysis will provide costs and benefits for each disclosure idea for the Board’s information and consideration.

<u>Expense disclosure</u>

During the October 2023 meeting, the Board discussed requiring reporting entities to disclose annual cloud-service expenses.[8] Non-preparer stakeholders and some federal entities believed that disclosing annual cost information was the most straightforward and informative way to increase transparency and accountability over federal IT spending. Furthermore, several stakeholders were concerned that there will likely be an

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[7] However, staff believes the Board should consider adding guidance to the intangible asset SFFAS that says reporting entities should recognize internally developed software as “software development in process” until it is ready for its intended use, at which time reporting entities should transfer the balance to a software asset and begin amortization. See SFFAS 6, paragraph 34 for similar guidance for G-PP&E. Staff plans to recommend specific guidance language with an analysis at the October 2026 meeting.

[8] FASAB Board material, Topic F – *Software Technology*, October 3, 2023

overall decrease in IUS asset balances because of incremental software development practices (e.g., Agile) and licensing terms that do not provide the reporting entity control of the software.

Since then, several stakeholders and some working group members have suggested that federal financial reports disclose annual expenses for other IT expenses, such as software licenses, shared software, and cloud implementation costs. Staff also believes that other types of expense disclosures could potentially provide useful information, such as shared services, IT maintenance, and cybersecurity costs. Both FASB and IPSASB require that reporting entities disclose research and development costs.

However, many federal entity preparers have significant concerns with disclosing such specific types of costs in financial reports. Reporting entities typically recognize cloud service and IT maintenance expenses as part of larger contract or operational costs and group them with all other costs on the statement of net cost. Requiring agencies to report specific expenses would require significant financial system adjustments to separately identify those types of costs.

At the request of financial statement users, in 2024 FASB issued new standards requiring disclosure of specific types of expenses, such as employee compensation, inventory purchases, and intangible asset amortization.[9] However, during the public feedback period, many companies said the standards would be tough and costly to adopt, and would require significant, time-intensive, and costly system and process redesign.[10]

Additionally, the Board previously required federal entities to report research and development investment costs in required supplementary stewardship information (RSSI). However, in 2019 the Board eliminated the RSSI category and determined that users prefer cash basis data that the Office of Management and Budget reports annually.[11]

Furthermore, staff believes that if the Board decides to require agencies to disclose specific expenses, then it is best to consider all types of expenses in a separate project, like FASB. For example, there are other larger expense categories that would likely be more material to federal financial reports, such as annual labor costs.

<u>Other Qualitative Disclosures</u>

Several non-preparer stakeholders have suggested that financial reports include narrative disclosures that discuss cost efficiencies achieved with various IT resources. For example, reports could explain how the federal entity uses shared services with other agencies to reduce duplicate spending across the federal government.

[9] FASB No.2024-03, *Disaggregation of Income Statement Expenses*, November 2024

[10] Dozens of Firms, Groups Balk Over Proposed FASB Disclosure Rules on Income Statement Expenses

[11] SFFAS 59, *Omnibus Amendments 2019*, paragraph A3

Additionally, financial reports could discuss how the agency invests in and uses its software to improve its delivery of public services.

Staff believes this could be useful information but believes it is more appropriate in MD&A instead of auditable basic information.[12] Reporting entities could choose to disclose significant cost efficiencies achieved with various IT resources in their MD&A if management determines it is useful and informative information based on the guidance in SFFAS 64.

Some non-preparer stakeholders have also suggested narrative disclosures that discuss risks associated with various IT arrangements with private vendors. For example, reporting entities could provide transparency around risk associated with hosting all their data with one vendor. Reporting entities could also highlight risks of contracts that restrict their ability to use the hosted software with other vendors, exposing the agency to future rate increases.

Additionally, a working group member suggested financial reports should disclose restrictions and encumbrances related to major intangible assets. They believed this would provide clarity on limitations that could affect the asset's use, such as restrictions found in licensing agreements or terms of service. FASB guidance requires risk disclosures related to IUS.

Like cost efficiencies discussed previously, staff believes reporting on significant risks associated with IT arrangements and other intangible assets could be useful information but believes it is more appropriate in MD&A instead of basic information. Reporting entities could choose to disclose this type of information in their MD&A if management determines it is useful and informative information based on the guidance in SFFAS 64.

Some stakeholders and agency preparers have suggested narrative disclosures that provide transparency around the terms of software licenses and cloud-service arrangements. For example, reporting entities could disclose whether the agency is committed to paying for the services for multiple years and whether those commitments involve future rate increases.

Another working group member suggested disclosing a change in the expected likelihood of renewal or extension of an intangible asset, like FASB requirements. Staff notes that FASB guidance also requires reporting entities to disclose the weighted average period before the next renewal or extension of an intangible asset (both explicit and implicit), by major intangible asset class.

Staff believes this could be useful information in the right context. However, staff believes the Board should consider reporting guidance for IT arrangement commitments along with many other types of commitments in the federal government as part of its active commitments project.

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[12] Some agencies have provided this type of information in past AFRs. For example, pages 24-26 in the 2025 HHS AFR discusses multiple examples of how the agency uses software resources to improve operational functionality and mission delivery.

Changes in estimates

Like IPSASB guidance, staff considered recommending that reporting entities disclose a change in estimate associated with a capitalized intangible asset, such as useful life and amortization method. Staff believes this disclosure could potentially provide useful insight into material changes to how a reporting entity alters the amortization of a capitalized intangible asset.

However, this would require reporting entities to disclose information about individual capitalized assets, which does not align with staff's recommended disclosures that apply to broad categories of assets. Furthermore, the Board previously determined that reporting entities should account for changes to useful life estimates prospectively.[13] Therefore, the recommended note disclosures would show material effects from the useful life change in future year reports in the amortization and net book value data.

Finally, staff is not aware that the Board has required this type of note disclosure for other types of capital assets. Therefore, introducing this requirement just for intangible assets would be inconsistent.

Some working group members supported disclosing changes in estimates and believe it could be helpful information. However, most working group members believed it would add burdensome reporting requirements for individual assets with little benefit.

A description of intangible assets that are fully amortized and still in use

Research indicates that federal agencies spend a significant amount of money every year to maintain their legacy software and it is an issue that Congress has interest in addressing.[14] Staff believes that disclosing intangible assets, particularly IUS, that are fully amortized on the balance sheet but still used by the agency could improve transparency in the agency financial report over the billions of dollars that federal agencies spend each year to operate and maintain existing systems, including aging—or "legacy"—systems.

Furthermore, financial reports could pair qualitative information about the fully amortized asset with the annual maintenance costs incurred for that asset to provide decision-useful information for comparing the cost to maintain legacy software versus upfront investment costs to develop or acquire a new software asset. However, in addition to the challenges with expense disclosure mentioned earlier, this would require reporting entities to disclose detailed information about individual capitalized assets that are fully amortized, which does not align with staff's recommended disclosures that apply to broad categories of assets.

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[13] SFFAS 6, paragraph 35

[14] GAO-23-106821, *Information Technology: Agencies Need to Continue Addressing Critical Legacy Systems*, May 10, 2023

A few working group members supported the idea of this disclosure and believed it could provide useful information for oversight and management decision making. One working group member said that this disclosure is critical for identifying an agency's technical debt.[15] Many federal agencies rely on mission-critical legacy software systems that are fully amortized. Disclosing these assets would highlight areas requiring future modernization funding and provide a clearer picture of operational risk.

However, most working group members were highly concerned that this disclosure requirement would require extensive effort to track every software asset that is fully amortized and no longer incurring financial statement expenses. Some working group members also pointed out that this requirement would be inconsistent with the current note disclosure requirements for G-PP&E and the other recommended disclosures for intangible assets that apply to major categories not individual assets.

Revenue earned through royalties from licensing intangible assets

Research and stakeholder discussions indicate that Congress seeks more transparency from federal agencies on the royalty fees they collect from licensing their intellectual property to the public.[16] For example, companies may pay a license fee to use federally owned intellectual property when developing pharmaceuticals. Staff believes that disclosing the revenue earned each year from licensing intellectual property, along with some qualitative information about the technology, could provide transparency around how federal intellectual property contributes to the public.

Some working group members and other stakeholders agreed that this disclosure could provide useful information with how federal resources contribute to the public. However, federal agencies that do collect royalty fees have said that the total annual amount is immaterial to their statement of net cost, and they likely would not disclose this data even if the standards required it.

Additionally, according to prior Board decisions, the intangible asset SFFAS will not require reporting entities to capitalize and amortize costs to internally develop intellectual property (other than IUS). Disclosing the revenue that these types of intangible assets generate would lead to a reporting mismatch. Because the internally generated intellectual property would not be capitalized, there would be no amortization expense to match the revenue that the asset generates.

Finally, staff believes if the Board wants to consider disclosing specific types of revenue, it is best to consider it as a separate project rather than just requiring one type of revenue disclosure that is likely immaterial to the financial statements.

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[15] Technical debt is the future cost to maintain a software system that is attributable to choosing a cheaper short-term solution for its development.

[16] GAO Report to Congressional Requesters, GAO-21-52 – *Biomedical Research: NIH Should Publicly Report More Information about the Licensing of Its Intellectual Property*, October 2020

A general description of intangible assets that do not have measurable value but are material to the reporting entity.

There are many intangible assets in the federal government that provide services and benefits but are difficult if not impossible to accurately value. As stated previously, the Board's current asset recognition framework will only require capitalization of intangible assts based on the acquisition cost.

Nevertheless, there are potential intangible assets that would meet the scope and definition criteria of the SFFAS even if they are not measurable. Reporting entities could disclose some qualitative information about these types of assets.

For example, the NASA logo provides significant branding benefits that supports the agency's mission, even though there are no acquisition costs associated with it, and it is likely extremely difficult to measure a fair value. Some working group members provided other examples that are critical to agency missions and/or help agencies engage with the public they serve. Examples include various internally developed patents not capitalized, military insignias, and the trademark for Smokey the Bear.[17]

Another example is electromagnetic spectrum rights that the federal government owns and manages for the public and federal agencies.[18] [19] In fact, FirstNet has previously disclosed its spectrum allocation in its financial statement footnotes, acknowledging that they are not able to measure a value.[20]

Some working group members said that this disclosure could provide interesting information for intangible assets that are valuable to the agency's mission but are difficult to measure. However, other working group members said that a purely qualitative disclosure requirement in basic information would require immense management judgment and likely lead to auditing challenges. Without measurable value, it would be difficult for management to determine which intangible assets are material for financial statement disclosure and would likely be applied inconsistently across agencies.

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[17] The U.S. Forest Service also earns licensing revenue from the Smokey the Bear Trademark. See Licensing of Smokey Bear | US Forest Service.

[18] Who Regulates the Spectrum | National Telecommunications and Information Administration

[19] In 2000, the Board deliberated a task force discussion paper to consider how to recognize revenue associated with the U.S. government selling rights to various natural resources, including the electromagnetic spectrum (https://files.fasab.gov/pdffiles/natresrpt.pdf).

[20] The FCC granted the FirstNet Authority exclusive rights to the single nationwide Public Safety Wireless Network License, Station WQQE234, for use of 20 MHz of spectrum in the 700 MHz band at no cost. The Station WQQE234 license is renewable every ten years following an application to the FCC. See Note 12 – Revenue Recognition for further details. In its 2023 financial report, FirstNet disclosed the following, "Under FASB Accounting Standards Codification (ASC) subtopic 350-30-25, Intangibles Other than Goodwill, the spectrum license would be recognized at fair value. Because this spectrum has been allocated for public safety use consistent with the mission of the FirstNet Authority, a fair value cannot be determined. Under current law, the spectrum license is not tradeable or exchangeable in any market, and any measure based on potential cash flow would be purely speculative. Therefore, the FirstNet Authority has not recognized in its financial statements any value related to the spectrum license granted by the FCC."

Staff believes it would be more appropriate for agencies to report this type of information as RSI or in the MD&A section of the financial report if management determines the information useful.

Final thoughts

Staff recommends that the intangible asset SFFAS require note disclosures that complement the asset capitalization framework by broadly explaining intangible assets recognized on the balance sheet. Staff believes this is consistent with the Board's disclosure framework for G-PP&E and would strike a good cost-benefit balance.

There are many other types of disclosures to consider. However, staff believes these other disclosures are either more appropriate in MD&A, should be considered as a separate project, and/or are overly detailed and go beyond providing basic information on broad categories of capitalized intangible assets.

**Question for the Board:**

1. Does the Board agree with staff's recommended note disclosure requirements? Please provide your feedback on staff's analysis and recommendation.

## RECOMMENDATION NO. 2

Staff recommends that the Board include a reference(s) to SFFAS 29 standards in the intangible asset SFFAS for reporting entities to apply existing heritage asset recognition and disclosure requirements to intangible heritage assets.

## ANALYSIS

The following analysis will discuss:

- Background
- Existing FASAB guidance
- Staff analysis
- Staff recommendation

## Background

The Board issued SFFAS 29 in 2005 that provided accounting and reporting guidance for heritage assets as basic information. The heritage asset guidance applies to PP&E that provide value to the public for purposes other than producing goods or services, or mission support functions. For example, heritage assets may provide historical, educational, or cultural significance.

The standards in SFFAS 29 essentially require that reporting entities expense the cost (if any) of acquiring a heritage asset in the period incurred and report qualitative information of the heritage assets in note disclosures.

SFFAS 29 specifically applies to PP&E, and SFFAS 6 defines PP&E as a tangible asset.[21] In previous Board meetings, staff provided potential examples of intangible heritage assets, such as historical immigrant and naturalization records, the Smithsonian's preservation of the Apollo Guidance Computer Code used in the 1969 Apollo 11 moon landing, and the National Archive and Records Administration census records.

During the June 2026 meeting, the Board agreed to the following:

- Ensure the intangible asset SFFAS is clear that reporting entities should expense the cost to acquire intangible heritage assets in the period incurred.
- Consider whether reporting entities can apply existing qualitative disclosure requirements in SFFAS 29 to intangible heritage assets.

Therefore, staff's recommendation and analysis in this paper narrowly addresses the Board's above request for determining if reporting entities can apply existing SFFAS 29 standards to intangible assets. Staff did not research or consider alternative accounting and reporting options for intangible heritage assets.

## Existing FASAB guidance

SFFAS 29 provides recognition and disclosure guidance for PP&E heritage assets. Staff has referenced relevant standards from this Statement for this analysis:

*Definitions*

- Paragraph 15 say, *"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*

[21] SFFAS 6, par. 17.

- *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 16 says, *"Heritage assets are generally expected to be preserved indefinitely. One example of evidence that a particular asset is heritage in nature is that it is listed on the National Register of Historic Places."*

- Paragraph 17 says, *"Some investments in heritage assets (e.g., national parks) will meet the definitions and be considered and reported as both heritage assets and stewardship land (see Stewardship Land below). Such reporting would not be considered duplication, as the type of information reported for the physical unit would be different for each category of stewardship asset."*

- 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."*

*Recognition and Measurement*

- Paragraph 19 says, *"With the exception of multi-use heritage assets (addressed in par. 22) the cost of acquisition, improvement, reconstruction, or renovation of heritage assets should be recognized on the statement of net cost for the period in which the cost is incurred. The cost[3] should include all costs incurred during the period to bring the item to its current condition (See par. 26 of SFFAS 6 for examples of the costs to be considered)."*

- Paragraph 20 says, *"With the exception of multi-use heritage assets (addressed in par. 23) no amounts for heritage assets acquired through donation or devised[4] should be recognized in the cost of heritage assets.[5]"*

  FN 3 says, *"For a full discussion of cost, including full cost, direct cost and indirect cost, see SFFAS 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. Also, see par. 94-95, SFFAC 2, Entity and Display."*

  FN 4 says, *"A will or clause of a will disposing of property."*

FN 5 says, *"SFFAS 7, Accounting for Revenue and Other Financing Sources, par. 258-259 explains that stewardship PP&E is "expensed if purchased, but no amount is recognized if it is received as a donation."*

- Paragraph 21 says, *"With the exception of multi-use heritage assets (addressed in par. 24) transfers of heritage assets from one Federal entity to another do not affect the net cost of operations or net position of either entity. However, in some cases, assets included in general PP&E may be transferred to an entity for use as heritage assets. In this instance, the transferring entity should recognize a transfer-out of capitalized assets.*[6]

  FN 6 says, *"SFFAS 7, Accounting for Revenue and Other Financing Sources, par. 74 and par. 345-346."*

*Multi-use 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 23 says, *"Multi-use heritage assets acquired through donation or devise should be recognized as general PP&E at the assets' fair value at the time received, and the amount should also be recognized as "nonexchange revenues" as defined in SFFAS 7, Accounting for Revenue and Other Financing Sources."*

- Paragraph 24 says, *"Transfers of multi-use heritage assets from one Federal entity to another are transfers of capitalized assets. The receiving entity should recognize a transfer-in as an additional financing source and the transferring entity should recognize a transfer-out. The value recorded should be the transferring entity's book value of the multi-use heritage asset. If the receiving entity is not provided the book value, the multi-use heritage asset should be recorded at its estimated fair value.*[7]*"*

  FN 7 says, *"See SFFAS 7, Accounting for Revenue and Other Financing Sources, par. 74 for a discussion of transfers of assets."*

*Disclosures and Required Supplementary Information*

- Paragraph 25 says, *"Entities with heritage assets should reference a note*[8] *on the balance sheet that discloses information about heritage assets, but no asset dollar amount should be shown*[9]*. The note disclosure related to heritage assets should provide the following:*

  - *a. A concise statement explaining how they relate to the mission of the entity.*

- *b. A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.*

- *c. A concise description of each major category of heritage asset. The appropriate level of categorization of heritage assets should be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how it manages the assets.*

- *d. Heritage assets should be quantified in terms of physical units. The appropriate level of aggregation and physical units[10] of measure for each major category should be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how it manages the assets. For each major category of heritage asset (identified in c. above) the following should be reported:*

    - *1. The number of physical units by major category; major categories should be classified by collection or non-collection type heritage assets for which the entity is the steward as of the end of the reporting period;*

    - *2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and*

    - *3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units (by major category) of transfers of heritage assets between Federal entities and the number of physical units (by major category) of heritage assets acquired through donation or devise, if material. In addition, the fair value of heritage assets acquired through donation or devise during the reporting period should be disclosed, if known and material."*

FN 8 says, *"This standard does not prescribe a specific reference or line item entitled "Heritage Assets" as it may be included with other items for which no dollar amounts are recognized (such as stewardship land and other items that in the future may require similar non-financial disclosure) for presentation. Instead, the standard allows entities flexibility in determining the best presentation."*

FN 9 says, *"No asset dollar amount is shown, except for multi-use heritage assets, which are capitalized and reported as part of general PP&E. See par. 22 through 24 and par. 27 for additional explanation."*

FN 10 says, *"Defining physical units as individual items to be counted is neither required nor prohibited. Particularly for collection type heritage assets, it may be more appropriate to define the physical unit as a collection, or a group of assets located at one facility, and then count the number of collections or facilities."*

*U.S. Government-wide Financial Statement Disclosures*

- Paragraph 28 says, *"The U.S. Government-wide financial statement should reference a note on the balance sheet that discloses information about heritage assets, but no asset dollar amount should be shown. The note disclosure related to heritage assets should provide the following:*
    - *a. A concise statement explaining how they relate to the mission of the Federal Government.*
    - *b. A description of the broad categories of heritage assets of the Federal Government.*
    - *c. A general reference to agency reports for additional information about heritage assets, such as agency stewardship policies for heritage assets, physical units by major categories of heritage assets."*
- Paragraph 29 says, *"The U.S. Government-wide financial statement should disclose that multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements and that additional information for the multi-use heritage assets is included with the heritage assets information."*

**Staff analysis**

During the June 2026 meeting, the Board requested that staff research and recommend how the intangible asset SFFAS could apply existing heritage asset standards in SFFAS 29 to heritage intangible assets. Therefore, staff's analysis and recommendation focuses on how best to apply SFFAS 29 standards to intangible heritage assets without having to amend SFFAS 29.

Several federal entities in the working group said they believed they could apply SFFAS 29, as written, to intangible heritage assets. One federal entity said that they already disclose some heritage assets with intangible characteristics in accordance with SFFAS 29.[22]

However, a few federal entities said that applying intangible assets to SFFAS 29 without additional clarification or amendments to SFFAS 29 could cause confusion and inconsistency across agencies with how to apply the standards that were written for tangible PP&E. For example, paragraph 25.d. of SFFAS 29 uses the term "physical unit"

[22] Some federal entities did not believe they have intangible heritage assets and therefore did not have an opinion.

throughout the disclosure guidance for providing direction on how to categorize and quantify heritage assets for disclosure. By their nature, it is difficult to quantify intangible assets based on physical units.

Additionally, paragraph 19 of SFFAS 29 provides guidance for expensing costs incurred to acquire, improve, reconstruct, or renovate heritage assets and references the full costing guidance in SFFAS 6 for measurement. Per prior Board deliberations, the draft intangible asset SFFAS will have its own measurement guidance for acquired intangible assets and internally developed software.[23]

Furthermore, paragraphs 22-24 of SFFAS 29 provides guidance for multi-use heritage assets and requires reporting entities to measure donated and transferred multi-use heritage assets that reporting entities recognize as G-PP&E based on estimated fair value in some circumstances. This guidance would not align with the Board's current recognition framework for intangible assets that only requires asset recognition based on acquisition cost.[24]

Finally, the definition of heritage assets in SFFAS 29 makes clear that the guidance applies only to tangible PP&E. Applying intangible assets to SFFAS 29 without amending the definition in SFFAS 29 will result in conflicting guidance in level A GAAP.

<u>Options for Applying SFFAS 29 to Intangible Assets</u>

Staff believes there are two options for applying heritage intangible assets to existing standards in SFFAS 29 as written:

1. Include language in the scope section of the intangible asset SFFAS that scopes out intangible heritage assets and instructs readers to refer to SFFAS 29 for accounting and reporting of intangible heritage assets.

2. Include specific SFFAS 29 paragraph references in the recognition and disclosure sections of the intangible asset SFFAS along with some clarifying guidance for how to apply the term "physical units" to intangible heritage assets.

Staff believes there are benefits and costs to both approaches. Option 1 would be the quickest and easiest method to implement but would likely result in some confusion and inconsistencies in application across reporting entities for reasons stated above.

Alternatively, option 2 would require more targeted guidance in different sections of the intangible asset SFFAS to specifically instruct readers which parts of SFFAS 29 to apply to heritage intangible assets. This could reduce confusion and inconsistencies with applying the guidance to intangible assets. However, selectively addressing and clarifying specific parts of the SFFAS 29 guidance could unintentionally lead to

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[23] See FASAB Board material, Topic B – *Intangible Assets*, February 5, 2025, and FASAB Board material, Topic B – *Software Technology*, June 3, 2025

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

confusion around applying other parts of the guidance that may be relevant but not referenced in the intangible asset SFFAS.

**Staff recommendation**

Staff recommends option 2 to include specific SFFAS 29 paragraph references in the recognition and disclosure sections of the intangible asset Statement along with some clarifying guidance for how to apply the term “physical units” to intangible heritage assets. Recommended guidance language is below:

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Recognition of Heritage Intangible Assets

Y1. For intangible assets that have heritage asset characteristics as defined in SFFAS 29, paragraph 15, reporting entities should apply recognition and measurement guidance in SFFAS 29, paragraphs 19-21.

Y2. If an acquired intangible asset possesses heritage asset characteristics but is also used by the reporting entity to provide goods or services, support the mission of the entity, or in business-type activities, reporting entities should capitalize the multi-use intangible asset in accordance with paragraphs XX-XX of this Statement (reference recognition and measurement guidance paragraphs).

Disclosure of Heritage Intangible Assets

Y3. For intangible assets that have heritage asset characteristics as defined in SFFAS 29, paragraph 15, reporting entities should apply disclosure guidance in SFFAS 29, paragraphs 25 and 27. Instead of quantifying heritage intangible assets based on physical units, reporting entities should consider whether they are able to identify the intangible asset as an individual unit in accordance with paragraphs XX-XX in this Statement (reference guidance that explains when an intangible asset is identifiable). The U.S. government-wide financial statement should include disclosures in accordance with SFFAS 29, paragraphs 28-29.

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This recommended guidance would reference and align the relevant parts of SFFAS 29 in the intangible asset SFFAS along with minimal interpretation so that readers can effectively apply the SFFAS 29 heritage asset standards to intangible assets. Reporting entities will still need to consider if the asset meets the definition and scope criteria in the intangible asset SFFAS before applying the heritage asset standards.

Paragraph Y1 instructs reporting entities to consider if an intangible asset possesses heritage asset characteristics in accordance with the definition in SFFAS 29. If it meets the definition, then reporting entities should simply apply the recognition and measurement guidance in SFFAS 29 that requires reporting entities to expense relevant costs as incurred.

Paragraph Y2 address recognition for multi-use intangible assets without referring to the SFFAS 29 guidance. The guidance in paragraph Y2 simply clarifies that if an intangible asset possesses heritage asset characteristics in accordance with SFFAS 29, reporting entities should still recognize it as a capital asset in accordance with the intangible asset SFFAS if the agency uses the asset for operational/mission purposes.

The guidance language in the first sentence that says, "to provide goods or services, support the mission of the entity, or in business-type activities" is from the scope section of the intangible asset SFFAS and aligns with the purposes of G-PP&E.[25] This is how the Board has traditionally categorized operational property from stewardship property.

Paragraph Y2 aligns with the recognition guidance for multi-use assets in SFFAS 29 at a high level without directly referencing the actual guidance. The SFFAS 29 multi-use asset guidance in paragraph 22 uses tangible terms, like reconstruction and renovation.

Additionally, paragraphs 23-24 of SFFAS 29 require reporting entities to measure multi-use PP&E assets at estimated fair value in some circumstances and the Board's recognition guidance framework for intangible assets does not require fair value estimation. By not referencing these SFFAS 29 paragraphs in the intangible asset SFFAS, the guidance will remain specific to PP&E.

Paragraph Y3 instructs component reporting entities and government-wide reports to disclose heritage intangible assets in accordance with SFFAS 29, paragraphs 25 and 27, and 28-29 respectively. Staff omitted the reference to deferred maintenance and repair in SFFAS 29, paragraph 26 because those standards apply specifically to tangible PP&E.

Paragraph 25.d. in SFFAS 29 uses the term "physical unit" extensively when providing guidance on how to categorize PP&E heritage assets for disclosure purposes. This does not align with the definition of intangible assets because they do not have physical properties.

Therefore, staff recommends that paragraph Y3 provide some clarifying language that helps readers categorize heritage intangible assets in ways not based on physical units. The recommended guidance would reference a section of the recognition guidance in the intangible asset SFFAS that explains when an intangible asset is identifiable. This means that:

> a. the asset is capable of being separated from the entity and sold, transferred, licensed, or exchanged, either individually or together with a related contract, asset, or liability; or

[25] SFFAS 6, paragraph 23

b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Staff believes this guidance will help reporting entities identify an intangible asset for both recognition and disclosure purposes.

Working group feedback

As stated previously, the working group said that they could apply SFFAS 29 to intangible assets. However, when presented with options 1 and 2, the working group generally preferred staff's recommendation in option 2 because they believed it provides useful clarity and reduces the potential for confusion when applying SFFAS 29 to heritage intangible assets.

One working group member suggested adding footnotes to each paragraph that expands on each topic further. For example, inputting a footnote for paragraph Y1 that further explains how heritage assets characteristics in SFFAS 29 can apply to intangible assets.

Staff believes that the recommended guidance in option 2 is sufficient for reporting entities to apply SFFAS 29 appropriately. Additionally, staff believes there is risk with over explaining the standards in another Statement. Doing so could unintentionally create confusion and even add additional requirements beyond what is in SFFAS 29. Staff believes the recommended guidance effectively strikes the balance of clarifying when necessary but not overexplaining or adding new requirements.

Even with the proposed guidance in option 2, one working group member still had concerns with applying intangible assets to the existing heritage asset standards because paragraph 15 of SFFAS 29 clearly defines heritage assets only as PP&E, which are tangible. The working group member believed that issuing a new SFFAS that applies intangible assets to SFFAS 29 without amending the definition in SFFAS 29 to include intangible assets will result in two distinct level A standards that conflict. They believed that this would cause confusion with applying the standards and lead to inconsistent application among reporting entities.

Staff understands this concern and agrees it could lead to confusion when applying the standards. Staff believes the Board could explain and clarify why the authoritative guidance in the intangible asset SFFAS applies intangible assets to SFFAS 29 in the basis for conclusions. For example, the Board could acknowledge they are aware SFFAS 29 still defines heritage assets only as PP&E, but that the Board believes it is practical to utilize existing heritage asset standards and that reporting entities can still effectively apply intangible assets to SFFAS 29.

Finally, one working group member preferred a middle ground between options 1 and 2. They suggested option 1 but recommended adding broad language in the scope clarifying physical unit quantification and making it clear that fair value guidance in SFFAS 29 does not apply to intangible assets.

The working group member believed this would give preparers clear direction without requiring a full restructuring of the recognition and disclosure sections. Additionally, the working group member believed that the additional clarity in option 2 may add too much complexity with applying SFFAS 29.

Staff believes that if the intangible asset SFFAS clarifies SFFAS 29 guidance on quantifying physical units and fair value measurement, the standards should directly reference the SFFAS 29 paragraphs it is clarifying. As stated previously, staff believes the recommended guidance effectively strikes the balance of clarifying when necessary but not overexplaining or adding new requirements.

Final Thoughts

As stated previously, the Board requested that staff research how the intangible asset SFFAS could apply existing heritage asset standards in SFFAS 29 to heritage intangible assets. Based on working group feedback, staff believes reporting entities could reasonably apply SFFAS 29 to intangible heritage assets using the recommended guidance in option 2.

Staff believes there is some risk of reporting entities applying the standards inconsistently because SFFAS 29 will continue to define heritage assets only as tangible PP&E and will therefore not align with the intangible asset SFFAS. However, as stated previously, staff believes the Board can mitigate this risk by explaining in the basis for conclusions the Board's intent for why the authoritative guidance in the intangible asset SFFAS nevertheless applies intangible assets to SFFAS 29.

**Question for the Board:**

2. Does the Board agree with staff's recommended guidance for applying intangible heritage assets to SFFAS 29? 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 specific SFFAS scope considerations and recognition guidance for software development in process. Staff also plans to present an initial draft of the intangible asset SFFAS that includes all the guidance decisions deliberated for the Board's review and further deliberation.

# 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**

<u>Software Technology</u>

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 following recommended scope, definition, and recognition language for intangible asset standards:

SCOPE

1. This Statement establishes accounting and financial reporting standards for intangible assets, as defined in paragraph 3, that reporting entities acquire for one or more of the following purposes:

    a. For use in providing goods or services, or to support the mission of the reporting entity
    b. For use in business-type activities

2. This Statement applies to all intangible assets except for the following:

    a. Assets resulting from lease transactions addressed in SFFAS 54, Leases
    b. Seized and forfeited property addressed in SFFAS 3, Accounting for Inventory and Related Property
    c. Internally developed intangible assets (other than internally developed software addressed in paragraphs XX-XX of this statement)
    d. Goodwill created through the combination of a reporting entity and another entity

DEFINITIONS

3. For this Statement, an intangible asset is an asset that possesses all the following characteristics:

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

RECOGNITION

4. Reporting entities should capitalize the cost incurred to acquire an intangible asset from another entity if it is identifiable. For this Statement, an intangible asset is identifiable if either:

    a. The asset is capable of being separated from the entity and sold, transferred, licensed, or exchanged, either individually or together with a related contract, asset, or liability; or
    b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

5. Reporting entities should recognize the acquired intangible asset when it is available for use for its intended purposes.

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.

### June 2026

At the Junel 2026 meeting, the Board deliberated the following staff recommendations for intangible assets and internal use software (IUS):

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

The Board agreed with staff's recommended guidance with a few minor edits. The Board also directed staff to expand upon the term "primary-purpose asset" in the standards for integrated assets.

Furthermore, the Board requested that the standards make it clear that reporting entities should expense as incurred the cost to acquire intangible heritage assets. Finally, the Board requested that staff research whether reporting entities can apply existing qualitative disclosure requirements in SFFAS 29, *Heritage Assets and Stewardship Land* to intangible heritage assets.