

Memorandum

Intangible Asset/IUS

October 7, 2026

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

OBJECTIVE

The objective of this meeting is for the Board to review and deliberate a draft exposure draft for a Statement of intangible asset standards. Staff requests the Board's feedback on the draft exposure draft.

REQUEST FOR FEEDBACK

Prior to the Board's October meeting, please review the attached draft exposure draft and staff analysis, and respond to the questions by October 16, 2026.

NEXT STEPS

Pending Board feedback, staff will research and edit the draft exposure draft as needed.

ATTACHMENTS

1. Staff Analysis
2. Draft Exposure Draft: SFFAS XX, *Intangible Assets*
3. Prior Board Meeting Discussion Timeline
4. Intangible Asset Working Definitions

Analysis

Intangible Asset/IUS

October 7, 2026

INTRODUCTION

Purpose

This analysis pertains to the Board's project to develop new accounting standards 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 Board also agreed on a scope, definition, and recognition language for intangible asset standards.

At the June 2025 meeting, the Board agreed to modernize the software development guidance in SFFAS 10 to better align with agile development methods. During technical agenda deliberations at the August 2025 meeting, the Board reaffirmed its plan to issue an exposure draft (ED) for a comprehensive principle-based intangible asset 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. During the August 2026 meeting, the Board

deliberated note disclosure requirements and how to apply existing standards in SFFAS 29, *Heritage Assets and Stewardship Land* to heritage intangible assets.¹

Recommendations and Analyses

For the Board's consideration, this paper recommends a draft exposure draft (ED) for a Statement of intangible asset standards. The draft ED includes recommended edits based on additional research and prior Board deliberations. Staff requests the Board's feedback on the draft ED and associated edits.

Research

For this session, staff coordinated with the working group to review the draft ED. Staff also researched prior working group correspondence and prior Board meeting material and minutes. Staff specifically researched the following documents:

- FASAB Board material, Topic B-Software Technology Guidance Updates, [May 25, 2023](#)
- FASAB meeting minutes: [June 13-14, 2023](#)
- FASAB Board material, Topic F-Software Technology, [October 3, 2023](#)
- FASAB meeting minutes: [October 17-18, 2023](#)
- FASAB Board material, Topic C-Software Technology Guidance Updates, [March 27, 2024](#)
- FASAB meeting minutes: [April 16-17, 2024](#)
- FASAB Board material, *Topic A-1-Software Technology*, [November 19, 2024](#)
- FASAB Board material, *Topic A-2-Intangible Assets*, [November 20, 2024](#)
- FASAB meeting minutes: [December 10, 2024](#)
- FASAB Board material, *Topic A-Software Technology*, [February 6, 2025](#)
- FASAB Board material, *Topic B-Intangible Assets*, [February 5, 2025](#)
- FASAB meeting minutes: [February 25-26, 2025](#)
- FASAB Board material, *Topic B – Software Technology*, [June 3, 2025](#)

¹ See Attachment 3 for a more detailed summary of previous Board meeting deliberations on the software technology project.

- FASAB meeting minutes: [June 17-18, 2025](#)
- FASAB Board material, Topic B-*Intangible Asset/Software Technology*, [September 30, 2025](#)
- FASAB meeting minutes: [December 16-17, 2025](#)
- FASAB Board material, Topic B-*Intangible Asset/Software Technology*, [April 6, 2026](#)
- FASAB meeting minutes: [April 29-30, 2026](#)
- FASAB Board material, Topic A-*Intangible Asset/Software Technology*, [June 3, 2026](#)
- FASAB meeting minutes: [June 16, 2026](#)
- FASAB Board material, Topic-E-*Intangible Asset/Software Technology*, [August 5, 2026](#)
- FASB ASC 350-30, *General Intangibles Other than Goodwill*
- FASB ASC 350-40, *Internal-Use Software*
- 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 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, [December 26, 2007](#)
- SFFAS 1, *Accounting for Selected Assets and Liabilities*, [March 30, 1993](#)
- SFFAS 6, *Accounting for Property, Plant, and Equipment*, [November 30, 1995](#)
- SFFAS 10, *Accounting for Internal Use Software*, [October 9, 1998](#)
- Technical Release 16, *Implementation Guidance for Internal Use Software*, [January 19, 2016](#)

RECOMMENDATION

For Board consideration, staff recommends the draft ED for intangible asset standards in attachment 2. The draft ED includes staff recommended edits for Board deliberation.

ANALYSIS

The recommended draft ED is composed of language based on guidance frameworks the Board deliberated in prior meetings.²

This paper also proposes edits (in blue font) to the draft ED based on requests from Board members from prior meetings, staff research, and working group feedback.

IUS scope

Staff recommends adding the scope language in paragraph 5 of the draft ED to address how the intangible asset SFFAS would rescind SFFAS 10 and apply IUS to the general intangible asset scope in paragraph 4. The recommended language in paragraphs 5.a.-5.c. uses the same scope language from SFFAS 10, paragraph 2 to explain that internal use software is software that a reporting entity uses to operate programs and deliver goods and services.³

Staff believes the existing internal use software descriptions and examples in SFFAS 10, paragraph 2, are still accurate and relevant. Therefore, staff does not recommend updates.

Working group feedback

The working group generally agreed with the proposed guidance in paragraph 5 of the draft ED. A few working group members suggested minimal changes to what is currently in SFFAS 10, paragraph 2.

One working group member questioned if paragraph 5 should exclude cloud-based software as a service (SaaS) arrangements. Staff does not recommend addressing SaaS arrangements in paragraph 5 because reporting entities do in fact use cloud-based software services for internal use purposes. The recognition guidance in paragraphs 24-25 of the draft ED addresses whether SaaS arrangements are service contracts or include a software asset.

One working group member recommended amending the language in paragraph 5.a. to say, “to include, but not limited to” in place of “such as.” One working group member suggested adding “navigational charts” as an example for paragraph 5.b.

² See Background section and attachment 3

³ FASB describes internal use software as software is acquired, internally developed, or modified solely to meet the entity's internal needs. GASB 51 does not describe internal use software.

One working group member recommended replacing the phrase "operate an entity's programs" in paragraph 5.a. with "operate and sustain mission critical functions" to alleviate confusion. They believed that use of the term "programs" within close proximity of "software" could be perceived as computer science or IT specific, and not an entity organizational component for which 5.a. is intended to reference.

Staff does not disagree with these suggestions but decided not to recommend any edits in the draft ED. Staff believes the draft ED should retain existing SFFAS 10 language when appropriate unless there is a significant need to edit the guidance, and staff believes the existing SFFAS 10 language is still relevant and practical based on all working group feedback.

Software definition

Staff recommends that the intangible asset standards define software in footnote 2 of the draft ED using the current definition in SFFAS 10, paragraph 8. Staff recommends minor updates to the definition to address current software technologies.

Staff previously developed the following working definition for software in the glossary appendix:

Software - a set of instructions that tell a computer to operate and perform specific tasks. Software is often used to describe the intangible functional aspects of a computer and includes application and operating system programs, procedures, rules, and any associated instructions pertaining to the operation of a computer system or program.

The working definition is more concise than the SFFAS 10 definition. However, the working group has not voiced a need to update the SFFAS 10 definition other than suggesting updating the definition to address websites, artificial intelligence (AI), and cloud. Staff believes the current SFFAS 10 definition is still applicable for the updated accounting standards.

Working group feedback

Staff initially considered whether the new intangible asset SFFAS needs to define software. However, the working group overwhelmingly preferred that the new standards retain the SFFAS 10 definition, and staff does not believe including the definition causes any issues. Furthermore, a definition of software in the authoritative guidance may improve accounting consistency since the standards provide unique guidance for software as a specific type of intangible asset.

Some working group members have questioned if and how the draft ED will apply to AI. Staff believes AI is software and would apply to the standards if it met the IUS scope in paragraph 5 of the draft ED.⁴ Additionally, staff believes if a reporting entity uses AI

⁴ https://csrc.nist.gov/glossary/term/artificial_intelligence

agents to develop IUS, then the costs should be capitalized in accordance with paragraph 23 of the draft ED. However, staff plans to further research AI to recommend specific accounting guidance for AI, if necessary, at a future meeting.

Scope-out land rights

During the February 2025 meeting, a Board member suggested the scope of the intangible asset SFFAS should not overlap with other assets already addressed by other standards, such as land rights. Therefore, staff recommends updating the scope-out language in paragraph 6 of the draft ED to make it clear that the intangible asset SFFAS does not apply to permanent land rights addressed in SFFAS 59, *Accounting and Reporting of Government Land*.

Staff notes that paragraph 6 already scopes out all assets recognized in accordance with SFFAS 54, *Leases*, including temporary land rights, as well as seized property accounted for in SFFAS 3. Staff does not believe the intangible asset SFFAS requirements would overlap with any other asset recognition requirements from other standards.

SFFAC 5 elements of an asset

When deliberating the scope, definition, and recognition frameworks for intangible assets during the February 2025 meeting, one member suggested that the definition or basis for conclusions address how an intangible asset has measurable value. One member emphasized that it was important that the scope remain flexible to apply to many types of intangible assets, like digital assets. However, another member suggested that the recognition section be clear about the types of intangible assets that reporting entities should recognize and provide more guidance for determining whether an intangible resource meets the SFFAC 5 asset characteristics.

As discussed during the February 2025 meeting, the scope and recognition frameworks require asset recognition for intangible resources that represent measurable future economic benefits and services that the reporting entity has control over.⁵

Future economic benefits and services and control

Paragraph 4 of the draft ED states that the guidance applies to intangible assets that reporting entities use in business-type activities, providing goods or services, or to support the mission of the reporting entity. This is similar to the future economic benefits and services that G-PP&E provides reporting entities.⁶

⁵ SFFAC 5, paragraphs 18-35

⁶ SFFAS 6, paragraph 23

To determine whether a reporting entity has control over an intangible asset, paragraph 8 of the draft ED says that reporting entities should only recognize an intangible asset that:

- 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
- 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.

If both factors in paragraphs 4 and 8 of the draft ED are present, the intangible asset meets the SFFAC 5 elements of an asset. Staff recommends the Board explain and expand upon how the guidance in the standards addresses the SFFAC 5 asset elements in the basis for conclusions.

Measurement

As discussed during the February 2025 meeting, paragraph 8 provides a recognition framework that would require reporting entities to only capitalize intangible assets with measurable value based on the cost a reporting entity incurs to acquire the intangible asset from another entity. In other words, the amount of money that a reporting entity pays another entity to obtain an intangible asset represents the measurable value for capitalization.

Staff notes that paragraphs 32-33 of IPSAS 31 say:

32. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or amount of the inflow.

33. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

Staff recommends the Board explain measurability of intangible assets in a similar manner in the basis for conclusions.

Types of intangible assets

Neither FASB, GASB, nor IPSASB standards for intangible assets apply to specific types of intangible assets, other than software and digital assets (for FASB). Likewise, staff does not recommend that the intangible asset SFFAS state whether the standards

apply to specific types of intangible assets (e.g., patents, datasets, copyrights, trademarks, other rights).

Staff does not believe a reporting entity should recognize an intangible asset based on its name or description alone. Staff believes the reporting entity should recognize an intangible asset in accordance with the following principle-based framework in the draft ED regardless of whether it's a patent, copyright, dataset, or some other type of intellectual property:

1. Meets the definition of an intangible asset (paragraph 7 of the draft ED)
2. Does not apply to other FASAB standards (paragraph 6 of the draft ED)
3. Possesses the asset elements discussed (paragraphs 4 and 8 of the draft ED)
4. Has measurable value (paragraph 8 of the draft ED)

It would be inconsistent to recognize one intangible asset but not another if both represent measurable future economic benefits and services that the entity controls.

Using the above analysis, staff recommends the Board explain in the basis for conclusions why the intangible asset standards do not specifically scope in or scope out different types of intangible assets. Furthermore, staff recommends the Board discuss potential types of intangible assets in the executive summary (like GASB) and/or include a nonauthoritative glossary as an appendix to the standards.⁷

Reporting entities will have to use judgment for their unique situations to determine whether to recognize a specific intangible asset in accordance with the standards. For example, staff believes digital assets typically behave as speculative investments and their future economic benefits are derived from future cash flows from selling them. Therefore, staff does not believe that digital assets would meet the scope or definition of the intangible asset standards since digital assets are financial assets that a federal entity would not typically use to support its mission or provide goods and services.

Working group feedback

Several working group members agreed that including a non-authoritative glossary defining various intangible assets would help reporting entities apply the standards, reduce the risk of understatement, and promote some consistency in reporting. However, one working group member had concerns that a non-authoritative glossary may still be treated as authoritative guidance. A couple of working group members suggested that the standards somehow provide more examples of intangible assets.

Some working group members have asked if the draft ED will apply to digital assets. Staff believes the Board should discuss how to address digital assets based on current federal accounting needs at a future meeting.

⁷ Attachment 4 is a glossary of working definitions for various intangible assets that staff previously developed for prior Board meetings.

Accounting for intangible assets with useful life less than 2 years

When deliberating recognition guidance for software licenses during the 2024 meeting, a few members suggested the Board 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. Staff agrees and believes the intangible asset SFFAS should address this scenario for all intangible assets, not just software licenses.

Therefore, staff recommends moving the “useful life of 2 years or more” criteria from the definition in paragraph 7 to the capitalization criteria in paragraph 8 of the draft ED. Additionally, staff recommends edits in paragraph 9 that references recognition guidance from SFFAS 1 (e.g., expense, liability, and prepaid assets) if the asset does not meet the capitalized asset criteria in paragraph 8.

Internally developed intangible assets

During the December 2024 meeting, the Board agreed that the new intangible asset standards should not require asset capitalization for internally developed intangible assets (other than internally developed software). Consequently, during the February 2025 meeting the Board agreed with staff’s recommendation that the intangible assets SFFAS should scope out internally developed intangible assets, other than software.

Upon further research, staff believes the intangible asset SFFAS should provide expense recognition guidance for internally developed intangible assets, not scope them out entirely. Therefore, staff recommends paragraph 10 of the draft ED say, “Except for software, reporting entities should recognize costs to internally develop an intangible asset as an expense in the period incurred.”

Staff believes this accounting outcome is the same as what the Board intended when scoping out internally developed intangible assets from the SFFAS. However, staff believes the SFFAS should provide expense recognition guidance to ensure consistency among reporting entities.

Staff notes that the FASB codification allows entities to capitalize registration fees and legal costs for internally developed intangible assets, such as patents.⁸ Working group feedback however has indicated that these types of costs are immaterial in the federal environment.

⁸ FASB ASC 350-30-25-3 says, “Costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business or nonprofit activity and related to an entity as a whole, shall be recognized as an expense when incurred.” Additionally, FASB ASC 730 requires that all research and development costs be expensed. Therefore, a private entity following FASB may capitalize patent fees or legal costs associated with an internally developed patent but would not recognize a capital asset for an internally developed patent. This guidance scopes out software for internal use but still requires that software acquired or developed for R&D activities be expensed as incurred.

Internally developed software

Staff recommends that paragraph 11 of the draft ED update language from SFFAS 10, paragraph 9 to briefly explain how reporting entities develop software before going into the recognition and measurement guidance for internally developed software.⁹ Staff believes the recommended language in paragraph 11 of the ED reflects the current federal environment.

Working group feedback

Agile terms

One working group member suggested defining “minimal incremental effort”. However, they said in practice, agencies will probably determine whether the work on the software meets or exceeds their capitalization threshold.

One working group member suggested that the internally developed software description mention the term “agile development” since the new accounting guidance in paragraphs 15-19 of the draft ED align with agile methods that federal agencies now use for software development.

Per the June 2025 Board material, agile software development is an umbrella term used to describe software development methods that incrementally deliver working segments of a product in short iterative cycles instead of delivering a usable product only once at the end of a sequential process. This typically involves cross-functional collaboration among development, operational, and security interests to leverage constant feedback from the end-user to improve the functionality of the product through multiple iterations and provide constant support.

While the guidance in paragraphs 15-19 addresses how to account for software development in an agile environment, staff does not believe it is necessary that the guidance use the term “agile” in the authoritative guidance since it is an umbrella term that encompasses many iterative and incremental development methods. Staff recommends the Board define agile development in a non-authoritative glossary and/or discuss how the guidance was developed for an agile environment in the basis for conclusions.

Implementation questions

Some working group members indicated that implementation guidance will be helpful for applying the new agile development guidance in paragraphs 15-23 of the draft ED. For example, one member said that determining whether development uncertainty is significant in accordance with paragraph 16 would be subject to a high level of judgment.

⁹ The recommended language in the draft ED is from GASB 51, paragraph 9.

Another working group member asked how to apply paragraph 15.a. when management incrementally approves funding for agile software development. Another member noted the challenge with knowing upfront if the cost to develop a software module will cross their agency's capitalization threshold.

Regarding paragraph 18 and footnote 4 of the draft ED, one working group member suggested additional guidance clarifying how to determine the standalone function of the software within each project. One working group member suggested additional guidance and/or examples for determining when a minimum viable product would be ready for its intended use.

One working group member suggested providing additional guidance or examples on how to distinguish capitalizable development costs from expensed activities in agile environments. They believed this would be especially helpful for agile releases that combine new functionality with maintenance activities, such as bug fixes, cybersecurity updates, performance improvements, technical debt reduction, and routine security updates.

Staff believes these challenges were mostly addressed in Board material for the June 2025 meeting when the Board deliberated the agile development guidance framework. Staff believes these issues are best handled by agency policy but agrees that implementation guidance would be helpful for reporting entities applying the new agile accounting framework.

Control criteria for internally developed IUS

Another working group member asked if the control criteria for cloud services/software licenses in paragraph 25 of the draft ED should also apply to internally developed software. During the December 2024 meeting, the Board agreed that cloud services should typically be accounted for as a service contract and not an asset, unless the reporting entity has the right and ability to either run the underlying software on its own hardware or contract with another party, unrelated to the vendor, to host the software.

This guidance in paragraph 25 addresses a very common scenario where an agency enters into a SaaS arrangement with a vendor to use their off-the-shelf software products and services through the cloud. Staff believes that historically, it has been assumed that if a reporting entity internally develops the IUS, then they own and/or have control over the software.

However, a working group member asked how to apply the overall standards in the draft ED for a specific scenario where the agency internally develops IUS that can only operate on a private vendor's proprietary cloud platform. In other words, the agency invests significant upfront costs to develop custom software for operational purposes but does not have the ability to run that internally developed software on its own networks or operate the software with another vendor's platform.

Staff believes the Board should deliberate the accounting for this scenario at a future meeting. Staff plans to research the issue further before providing a recommendation.

Software development in process

Staff recommends adding guidance in paragraph 17 of the draft ED that says reporting entities should recognize capitalized software development costs as “software development in process” until the asset is ready for its intended use.¹⁰ Once the software is ready for its intended use, reporting entities should transfer the accumulated balance to an IUS asset and begin amortization in accordance with paragraphs 37-39 of the draft ED.¹¹

This guidance would align with what SFFAS 6 requires for PP&E.¹² Many reporting entities already account for internally developed software this way. However, staff believes the intangible asset SFFAS should provide this guidance to ensure accounting consistency across the federal government.

Working group feedback

The working group generally agreed with the recommended guidance in paragraph 17 of the draft ED. Most reporting entities confirmed that they already account for internally developed software in accordance with the recommended guidance.

One working group member suggested that reporting entities should recognize an IUS asset when the software is put into service, not when it is ready for its intended use. However, this would not align with the intangible asset recognition guidance the Board deliberated for paragraph 9 of the draft ED and amortization guidance the Board previously deliberated for paragraph 37 of the draft ED.¹³

One working group member suggested that the guidance define the criteria for determining when IUS is 'ready for its intended use'. However, as discussed during the December 2025 meeting, staff believes that level A standards should provide principle-based guidance for management to consider relevant factors to determine when the IUS component is ready for its intended use.

Furthermore, staff believes implementation guidance in TR 16 could be updated to address how to apply the level A requirement. For example, implementation guidance could provide examples of various factors that reporting entities use to consider when

¹⁰ When deliberating amortization guidance during the December 2025 meeting, the Board decided that principle-based standards should provide management flexibility to begin amortization when the software asset is ready for its intended use, which could include completion of final acceptance testing among other criteria. Therefore, staff also updated the guidance in paragraph 17 and footnote 4 of the draft ED for consistency.

¹¹ SFFAS 10 does not provide such guidance for software.

¹² SFFAS 6, paragraph 24

¹³ See FASAB Board material, *Topic B – Intangible Assets*, February 5, 2025, and FASAB Board material, *Topic B-Intangible Asset/Software Technology*, September 30, 2025.

an IUS component is ready for its intended use, such as completing acceptance testing among other things.

One working group member suggested calling the development account “software in development” instead of “software development in process.” Staff recommends using the term “software development in process” to more align with existing similar account terms, such as work in process and construction in process.

Website development costs

During the June 2025 meeting, the Board agreed that reporting entities should apply the recommended accounting guidance for internally developed software to website development costs. Per a member request, staff recommends adding language to paragraph 20 of the draft ED to make it clear that internally developed software guidance also applies to website development.

Reasonable estimates for IUS costs

Based on a member suggestion during the June 2025 meeting, staff recommends adding language to paragraph 23 of the draft ED to make clear that reporting entities may use reasonable estimates for establishing capitalized costs for internally developed software. The member believed that this flexibility remains important for many agencies that do not have cost accounting systems. Staff notes that the substance of the recommended language is the same as guidance in SFFAS 10, paragraph 16.

Interest capitalization

During the June 2025 meeting, a member suggested that the Board further discuss whether and to what extent reporting entities should capitalize interest costs incurred while developing internal-use software (paragraph 23.d. of the draft ED). During the June 2025 deliberations, staff noted the working group had not provided examples of federal entities incurring interest related to borrowing funds for software development. However, reporting entities may incur interest on late invoice payments directly related to software development.

In preliminary discussions the member said that if the Board wants to retain interest as a capitalizable cost in the guidance, they suggest adding the language from SFFAS 6, footnote 30 to distinguish interest incurred from vendors from more general federal borrowings. Therefore, staff recommends updating paragraph 23.d. of the draft ED to clarify that interest costs refer to interest paid by the reporting entity when acquiring goods or services in the development of software.

Data-conversion software

During the June 2025 meeting, a member was concerned that guidance addressing capitalization of software developed or obtained for data conversion in paragraph 23.e. of the draft ED was misplaced and/or needed further clarification. Staff acknowledged

the guidance in 23.e. was different from the other capitalizable costs in paragraph 23 because it clarified that software pertaining to data conversion could fit the scope as an IUS asset. Whereas the other examples, such as service contracts and direct labor, represented types of costs that reporting entities could capitalize as part of IUS.

Upon further consideration, staff recommends that the intangible asset SFFAS address how to account for software developed or obtained for data conversion in the same section (paragraph 14 of the draft ED) that addresses recognizing costs for data conversion activities.

Cloud-computing definition

During June 2023 meeting, staff presented the following cloud-computing definitions to the Board:

Cloud computing – The National Institute of Standards and Technology (NIST) defines cloud computing as a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction. The NIST considers the following as essential characteristics of cloud computing: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service.

Cloud computing - is the on-demand access of information technology resources such as software applications, physical or virtual servers, data storage, development tools, and networking capabilities that are delivered and managed by a service provider over a network.

During deliberations, the Board generally supported staff's recommendation to include the NIST cloud computing definition in the draft financial reporting guidance. However, one member voiced concern that the NIST definition is detailed and preferred to use a more generic and broad definition to provide flexibility in the reporting guidance.

Another member agreed that the NIST definition was wordy and technical, and noted that the working group provided mixed feedback on the two proposed definitions. The member requested that the Board remain flexible to change the definition if new information arises.

Staff originally recommended the more technical NIST definition when the Board was considering developing specific expense reporting requirements for specific types of cloud services. However, when reconsidering the two definitions in the context of the draft ED, staff recommends including the more high-level working group developed definition in footnote 6 for paragraph 24 of the draft ED.

Staff believes this definition is sufficient to apply the associated level A accounting principles for cloud services in paragraphs 24-25 of the draft ED and is less likely to become outdated. Referencing the NIST definition in the intangible asset SFFAS could require the Board to amend the standards if NIST later updates its definition of cloud computing.

SFFAS 1 reference

When discussing recognition guidance for cloud services during the October 2023 meeting, the Board suggested that the guidance directly reference SFFAS 1 to clarify that reporting entities should apply existing prepaid asset and liability recognition guidance for cloud-service payments. During the February 2025 meeting, one member stated that existing liability and prepaid asset guidance should also apply to shared service transactions. Staff recommends these updates in paragraph 24 of the draft ED.

Shared services

During the February 2025 meeting, the Board agreed to apply the software license accounting framework to shared services. Several members believed it was consistent to apply the same asset recognition framework for when federal entities acquire software assets from private vendors and through intragovernmental arrangements.

However, some members believed the Board should further consider the materiality of asset recognition for shared services and the potential challenges of performing intragovernmental transaction eliminations for government-wide reporting. Other members stated that Board guidance does not apply to immaterial items and management should assess materiality for their respective reporting entity when applying accounting guidance. One member noted that preparers and auditors would still have to expend significant effort to confirm that transactions are immaterial and that the Board should consider this as part of the cost-benefit analysis.

Staff emphasized that existing FASAB guidance already requires reporting entities to account for software assets acquired through shared services and that research indicated reporting entities recognize software assets as part of intragovernmental shared services only in rare circumstances. Based on deliberations, the Board agreed to move forward in the project but further research the costs and benefits in recognizing shared service assets, particularly challenges with eliminating intragovernmental transactions for government-wide reporting.

Staff followed up with the entity responsible for government-wide reporting. They were not aware of previously having to account for IUS assets related to shared services but believed existing posting logic is able to handle intragovernmental eliminations related to shared services.

Software acquired at no cost

A member previously suggested amending the first sentence in paragraph 26 of the draft ED to remove the double negative when clarifying that reporting entities should not recognize software acquired from other federal entities at no cost. Therefore, staff recommends replacing “no cost” with “zero cost.”

Working group feedback

One working group member asked if reporting entities would have to recognize imputed costs in accordance with SFFAS 4 for software acquired from another agency at zero cost.¹⁴ Staff does not believe imputed costs apply if an agency uses software code for free that another agency developed for their own internal use purposes.

Imputed costs may apply if an agency were to incur costs to develop software solely for another agency without reimbursement. However, per paragraph 5.c. of the draft ED, the standards would only apply to software that is developed or obtained for internal use and subsequently provided to other federal entities with or without reimbursement.

A working group member asked if the draft ED should also address public domain software that federal entities use when developing software. Staff believes with this scenario, the reporting entity would also not recognize an asset for public domain software used at zero cost. However, staff plans to research this further before making guidance recommendations at a future meeting.

Bundled price discounts

When deliberating accounting guidance for multiple-element arrangements during the April 2026 meeting, the Board agreed to add “for example” to the beginning of the last sentence in paragraph 29 of the draft ED to emphasize that price discounts are just one potential scenario where reporting entities may have to estimate cost allocations for multiple element arrangements. Upon further thought, staff recommends moving the sentence to footnote 7 in paragraph 29 to separate the recognition guidance from an associated example for estimating multiple-element arrangement cost allocations.

Primary-purpose asset

When deliberating accounting guidance for integrated assets during the June 2026 meeting, some members suggested expanding upon the term “primary-purpose asset” in the standards. One member suggested ensuring consistency with the use of the term “predominant use” in SFFAS 59. Staff notes that footnote 46.1a in SFFAS 59 says:

FN 46.1a - Predominant Use of land. Predominant use is the major or primary current use of an asset during the reporting period and does not include

¹⁴ SFFAS 4, paragraph 113A

incidental or infrequent uses of the asset. Moreover, predominant use can change between reporting periods. An asset's predominant use should be consistent with the entity's authorizing legislation but may not always be consistent with the original intent or reason why the asset was initially acquired.

Staff does not believe predominate use of land is completely analogous to the primary purpose of an integrated asset. Predominate use of land focuses on what the reporting entity uses the land for, whereas a reporting entity would need to determine which asset in an integrated asset primarily provides the economic benefits and services to the entity.

Both SFFAS 62, *Transitional Amendment to SFFAS 54* and SFFAS 65, *Embedded Leases Practical Expedient* use the term “primary purpose” for attributing lease and non-lease components of an agreement. However, these standards do not define “primary purpose”.

Staff recommends footnote 8 for paragraph 30 of the draft ED to clarify that a primary-purpose asset is the asset that provides the core functionality for delivering the expected economic benefits and services to the reporting entity.

Bulk purchases

When deliberating capitalization threshold guidance during the June 2026 meeting, the Board agreed to add a new sentence to paragraph 33 of the draft ED so the guidance provides software user licenses as an example of a bulk purchase that reporting entities should consider applying to capitalization thresholds. Upon further thought, staff recommends moving the sentence to footnote 9 in paragraph 33 to separate the capitalization threshold guidance from an associated bulk purchase example.

Significant and nominal upgrades

When deliberating enhancement accounting guidance during the December 2025 meeting, one member suggested that the authoritative guidance clarify the use of the terms “modify” versus “upgrade”. Two members had concerns with the guidance using the terms “significant and nominal” without more clarification in the authoritative guidance. One member suggested using the words “significant and “nonsignificant” since existing FASAB guidance uses “nominal” in a different context.

However, another member had concerns with using “significant” because preparers and auditors may interpret its meaning inconsistently and conflate it with materiality. The member recommended using the terms “nominal” and “more than nominal” and making it clear in the guidance that the terms apply to subsequent financial transactions in relation to the initial cost of the recognized asset. One member noted that paragraph 45 of the draft ED addresses nominal upgrades for only perpetual software licenses and suggested that the guidance address how to account for nominal upgrades for all intangible assets.

Staff recommends the guidance distinguish enhancements from upgrades by deleting “upgrade” from the enhancement guidance in paragraphs 42-44 of the draft ED. Additionally, staff recommends that paragraph 40 of the draft ED address how to account for nominal and more than nominal upgrades to all intangible assets, including software licenses. The term “nominal” and “more than nominal” ties to the useful life estimation guidance in paragraph 36 of the draft ED and consistently accounts for intangible assets renewed or upgraded at more than nominal cost as new assets.

Impairment

When deliberating impairment accounting guidance during the April 2026 meeting, the Board asked staff to streamline language that clarifies how impairment affects the accounting for the useful life of an intangible asset. Therefore, staff updated the language in paragraph 53 of the draft ED to more concisely say that reporting entities should consider decreasing the useful life of an intangible asset when it is impaired, including in situations when reporting entities cannot measure an impairment loss.

A few working group members had concerns about the requirement in paragraph 58.a. to disclose accumulated impairment loss for intangible assets.¹⁵ They said that this disclosure would require each agency to internally track accumulated impairment over each reporting period because current impairment SGL accounts close each year and there is no SGL for an accumulated impairment contra asset. Furthermore, they questioned the need to disclose accumulated impairment for intangible assets when that reporting requirement does not exist for PP&E or IUS.

Staff agrees that FASAB standards do not currently require reporting entities to disclose accumulated impairment for other capital assets. Additionally, the impairment recognition standards require reporting entities to directly reduce the asset value for PP&E and IUS when impaired.

Based on working group concerns and further research, staff recommends the Board not require reporting entities or the governmentwide report to disclose accumulated impairment for intangible assets. Paragraph 58.f. would still require reporting entities to disclose an impairment loss for the reporting period, which would explain an associated decrease in the asset value.

Intangible heritage asset units

During the August 2026 meeting, the Board agreed to reference and align relevant parts of SFFAS 29 in the intangible asset SFFAS along with some clarifying guidance so that readers can apply the SFFAS 29 heritage asset standards to intangible assets. In paragraph 62 of the draft ED, the Board agreed the guidance should clarify that reporting entities should quantify intangible assets based on units instead of physical units when applying disclosure guidance in SFFAS 29.

¹⁵ During the August 2026 meeting, the Board agreed to add “accumulated impairment loss” as a disclosed balance along with cost, accumulated amortization, and net book value for component reporting entities and the CFR, respectively.

Staff recommends that paragraph 62 say reporting entities should quantify heritage intangible assets in terms of individual or collective units for disclosure purposes. Staff believes this aligns the guidance with footnote 10 in SFFAS 29 that explains reporting entities can define physical units in terms of individual items, collections, or groups.

Additionally, staff recommends that paragraph 62 of the draft ED say a heritage intangible asset needs to be identifiable in accordance with paragraph 8 of the draft ED, like other recognized intangible assets, to apply SFFAS 29 disclosure guidance. This makes it clear that reporting entities should only disclose heritage intangible assets that are identifiable as assets that the government controls, otherwise the scope could become wide-ranging, such as cultural resources unique to the United States but not owned or controlled by the U.S. government.

SFFAS 29 conforming amendment

During the August 2026 meeting, the Board agreed to add “intangible assets” to the heritage asset definition in SFFAS 29 to prevent confusion when applying the intangible asset and heritage asset standards together. In paragraph 63 of the draft ED, staff recommends a conforming amendment that would add “intangible assets” to the definition of heritage asset in paragraph 15 of SFFAS 29 to make it clear that heritage assets can include both G-PP&E and intangible assets.

Disclosure Categories

One working group member questioned whether this SFFAS would require reporting entities to disclose intangible assets separate or as part of the PP&E note disclosure. Staff notes that this draft ED would clearly distinguish intangible assets as a capital asset, separate from tangible property, such as PP&E. However, the Board does not typically address specific guidance on note disclosure placement for reporting entities.

Next Steps

Pending Board feedback, staff will update the draft ED as needed. Staff plans to address the following for Board deliberation at a future meeting:

- Per the digital asset research topic, consider if/how the draft ED should address accounting for digital assets
- Consider if more accounting guidance is needed for AI
- Consider whether internally developed software meets the control criteria for an asset if that underlying software can only operate on a specific vendor’s cloud platform
- Consider accounting guidance for public domain software
- Discuss whether to include a glossary in the appendices
- Draft basis for conclusions
- Draft executive summary

Question for the Board:

1. Does the Board agree with staff's recommended edits to the draft ED? Please provide your feedback on staff's analysis and recommendation.

Question for the Board:

2. Does the Board have any other questions or concerns with the draft ED? Please provide your feedback on staff's analysis and recommendation.

Question for the Board:

3. Does the Board believe the draft ED should address any other accounting or reporting issues for intangible assets or IUS? Please provide your feedback on staff's analysis and recommendation.



Federal Accounting Standards Advisory Board

INTANGIBLE ASSETS

ACCOUNTING AND REPORTING GUIDANCE

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled **TITLE**. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by **DUE DATE**.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to intangibles@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

The Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

Terry K. Patton
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The answer is not a complete summary. It should hit the main points and include an appropriate catch all reference to other changes such as “additional disclosures are required.” [Style code is Normal]

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

Provide a plain English explanation of what problem the Board is solving, what improvements will result and how this improvement helps meet objectives. The executive summary should not exceed two pages. [Style code is Normal.]

MATERIALITY

The provisions of this Statement of Federal Financial Accounting Standards would not need to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹ Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to intangibles@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366. We will confirm receipt of your comments. If you do not receive confirmation or if you are unable to email your responses, please contact our office at (202) 512-7350.

All responses are requested by **[insert date]**.

- Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.
- Q2. New Question

INTRODUCTION

PURPOSE

1. Brief history
 - a. Use Outline Number for the text format
 - b. It gives
 - i. Several levels
 - ii. For paragraphs
2. New para

PROPOSED STANDARDS

SCOPE

3. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
4. This Statement establishes accounting and financial reporting standards for intangible assets 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
5. This Statement rescinds SFFAS 10, *Accounting for Internal Use Software*. This Statement's scope in paragraph 4 applies to internal use software (IUS) as a category of intangible asset.² This includes cost for:
 - a. Software used to operate an entity's programs, such as financial, administrative, and project management
 - b. Software used to produce the entity's goods and to provide services (for example, air traffic control and loan servicing)
 - c. Software that is developed or obtained for internal use and subsequently provided to other federal entities with or without reimbursement
6. 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. Permanent land rights addressed in SFFAS 59, *Accounting and Reporting of Government Land*

² Software includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. "Internal use software" means software that is purchased from commercial vendors "off-the shelf," internally developed, or contractor-developed solely to meet the entity's internal or operational needs. Normally software is an integral part of an overall system(s) having interrelationships between software, hardware, websites, cloud services, artificial intelligence agents, personnel, procedures, controls, and data.

- d. ~~Internally developed intangible assets (other than internally developed software addressed in paragraphs 10-22 of this statement)~~
- e. Goodwill created through the combination of a reporting entity and another entity

DEFINITIONS

7. 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 AND MEASUREMENT

8. Reporting entities should capitalize the cost incurred to acquire an intangible asset from another entity if it ~~has an estimated useful life of two years or more~~ and 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.
9. Reporting entities should recognize a ~~acquired~~ capitalized intangible asset when it is available for use for its intended purpose. ~~If the intangible asset does not meet the capitalization criteria in paragraph 8, reporting entities should recognize an expense in the period incurred and account for associated prepayments and liabilities in accordance with SFFAS 1, Accounting for Selected Assets and Liabilities.~~
10. ~~Except for software, reporting entities should recognize costs to internally develop an intangible asset as an expense in the period incurred.~~

11. Software is internally developed if it is developed in-house by the federal entity's personnel and/or by a third-party contractor. This includes commercially available software that is purchased or licensed and modified using more than minimal incremental effort before being put into operation.

Costs to be Expensed as Incurred

12. Reporting entities should expense costs incurred prior to meeting the requirements in paragraph 15.
13. Reporting entities should expense all training costs as incurred.
14. ~~Except as noted in paragraph 23.e.,~~ Reporting entities should expense data conversion costs as incurred. The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation of data between old and new systems, creation of new or additional data, and the actual conversion of old data to the new system. However, reporting entities should account for the costs incurred to develop or obtain software for data conversion purposes in accordance with paragraphs 15-23.

Costs to be Capitalized

15. Reporting entities should begin capitalizing costs when both of the following occur:
 - a. Management authorizes and commits to funding the software development. Examples of authorization and commitment to funding software development include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or an agreement to obtain the software from a third party.
 - b. It is more likely than not that the software development will be completed and be used to perform the function(s) intended with an estimated service life of 2 years or more (referred to as the probable-to-complete recognition threshold).
16. If there is significant uncertainty associated with the development activities of the software, the probable-to-complete recognition threshold described in paragraph 15.b. is not met. Once the significant development uncertainty has been resolved, a reporting entity should evaluate the requirements in paragraph 15 to determine when to begin capitalizing costs. The following are factors that may indicate that there is significant development uncertainty and that the probable-to-complete recognition threshold is not considered to be met:
 - a. The software being developed has novel, unique, unproven functions and features, or technological innovations.
 - b. The significant objectives of the software have not been identified or continue to be substantially revised.
17. Reporting entities should recognize the capitalized costs as software development in process until the software is ready for its intended use. Capitalization should cease once the

software is ready for its intended use and reporting entities should recognize the accumulated costs as an IUS asset. ~~and final acceptance testing is successfully completed.~~

18. If an iterative release results in a software module or component with a standalone function that benefits end users, reporting entities should account for it as an individual software asset.³ If an iterative release is dependent on the outcomes of other releases for a complete function, reporting entities should account for the cost incurred for these iterations as one software asset.⁴
19. After recognizing a software asset in accordance with paragraphs 17-18, reporting entities should account for subsequent iterative releases as either maintenance, enhancements, or a separate software asset in accordance with this Statement.

Additional Considerations for Website Development Costs

20. Reporting entities should account for website development costs in accordance with paragraphs 11-19. Website hosting fees paid to an internet service provider should be expensed over the period of benefit.
21. Accounting for website content involves issues that also apply to other forms of content or information that are not unique to websites. Reporting entities should expense costs to input content into a website.
22. Costs to obtain and register an internet domain should be evaluated for capitalization in accordance with paragraphs 8-9.

Measuring Capitalizable Costs

23. Reporting entities should use historical cost as a measurement basis.⁵ However, reporting entities may use reasonable estimates to establish the capitalized cost of internally developed software. Capitalized costs of software developed or obtained for internal use should include the following:
 - a. Direct costs of materials and services consumed in developing or obtaining internal-use software. Examples of those costs include but are not limited to the following:
 - i. Fees paid to third parties for services provided to develop the software
 - ii. Costs incurred to obtain software licenses from third parties
 - b. Payroll and payroll-related costs (for example, costs of employee benefits, travel expenses, etc.) for employees who spend time directly on software development. Examples of employee activities include but are not limited to, design of chosen path,

³ An iteration is a predefined recurring period of time in which working software is created. Similarly, a release is a planned segment of capabilities that provide useable functionality to the end user.

⁴ Each iterative release may have its own completion milestone acceptance testing before moving forward to the next iteration and final acceptance testing may not always occur. Reporting entities should use judgment to identify a point in time for capitalization cutoff purposes, such as the date that management releases a minimum viable product that provides value to end users.

⁵ See SFFAS 4, *Managerial Cost Accounting Standards and Concepts* for guidance for accounting for direct and indirect costs.

including software configuration and software interfaces, coding, installation to hardware, and testing.

- c. Indirect costs incurred for software development.
- d. Interest costs paid by the reporting entity directly to providers of goods or services related to the acquisition or incurred while developing development of IUS.
- e. ~~Costs incurred to develop or obtain software for data conversion purposes.~~

SOFTWARE LICENSES, CLOUD SERVICES, AND SHARED SOFTWARE

- 24. Reporting entities should recognize payments for cloud-based software services acquired from a private vendor or other government agency as an expense in the period incurred and account for prepayments and liabilities associated with services in accordance with SFFAS 1.⁶
- 25. Reporting entities should account for the underlying software of these arrangements as an acquisition of a license asset in accordance with paragraphs 8-9 if the reporting entity has the right and ability to either run the underlying software on its own hardware or contract with another party, unrelated to the vendor, to host the software. Reporting entities should recognize a liability for software licensing fees not paid upon acquisition of the license.
- 26. Reporting entities should not recognize software acquired from other federal entities at ~~no~~ zero cost. However, reporting entities should recognize costs incurred to further develop or enhance the software in accordance with this Statement if such costs result in a distinct IUS component with significant additional capabilities.

Implementation Costs

- 27. Reporting entities should not capitalize implementation costs for cloud services unless the implementation activities result in a distinct software asset in accordance with this Statement, independent of the associated cloud-service arrangement.

MULTIPLE-ELEMENT ARRANGEMENTS

- 28. Reporting entities may acquire software and other intangible assets from a third party as part of a package of products and services. The price of these arrangements can comprise multiple elements, which may include but not be limited to the following: software license(s), data rights and other intellectual property, cloud-hosting services, cybersecurity, helpdesk support, training, consulting, data management, maintenance, and upgrades.
- 29. Reporting entities should allocate the individual elements of the arrangement among capitalizable and noncapitalizable costs. If separate prices are not explicitly stated within the

⁶ Cloud computing is the on-demand access of information technology resources such as software applications, physical or virtual servers, data storage, development tools, and networking capabilities that are delivered and managed by a service provider over a network.

arrangement, the allocation should be based on a reasonable estimate of the relative cost of the elements in the arrangement.⁷

INTEGRATED ASSETS

30. An intangible asset associated with and necessary to use another intangible or tangible asset should be capitalized as part of the primary-purpose asset unless the reporting entity is also able and intends to use the intangible asset for other purposes or with multiple recognized assets.⁸ Management should use judgment to determine whether the recognizable elements represent a single primary asset or separate distinct assets with standalone service potential for the reporting entity.
31. When recognizing integrated assets as one asset, reporting entities should consider the aggregate costs of the combined assets when applying appropriate capitalization thresholds and consider the characteristics of both elements when estimating one useful life for the asset in accordance with this Statement.
32. For software integrated into and necessary to operate G-PP&E, rather than perform a software-application function for end users, reporting entities should recognize the software as part of the G-PP&E asset. However, reporting entities may recognize a separate IUS asset if the software is used to operate multiple assets or support multiple operational functions and management determines that recognizing a separate IUS asset more appropriately reports the software as a standalone asset to the reporting entity.

CAPITALIZATION THRESHOLD

33. Reporting entities should establish their own capitalization threshold(s) for intangible assets based on their own financial and operational conditions. Reporting entities should also establish their own policy for evaluating the aggregate cost of bulk acquisitions of substantially similar assets against the applicable capitalization thresholds.⁹
34. If multiple software applications operate as part of a total system or network, reporting entities should apply applicable capitalization thresholds to each software module or component with distinct standalone functions that benefit end users.

USEFUL LIFE ESTIMATION

35. The accounting for a recognized intangible asset considers its useful life. This Statement requires reporting entities to estimate the useful life of all recognized intangible assets. Reporting entities should estimate the useful life of a recognized intangible asset based on relevant factors, which may include:

- a. The expected use of the asset by the entity.

⁷ For example, if a multiple-element arrangement includes bundled price discounts, reporting entities should consider allocating the total discount among the estimated costs of the individual elements.

⁸ The primary-purpose asset is the asset that provides the core functionality for delivering the expected economic benefits and services to the reporting entity.

⁹ For example, reporting entities should consider how the purchase of multiple user licenses for a particular software apply to its capitalization thresholds.

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

When estimating the useful life of an IUS asset, reporting entities should especially consider the history of rapid changes in technology when determining the potential obsolescence of the software.

- 36. The useful life of an intangible asset should not exceed the binding arrangements of any contractual terms or legal requirements of the asset but could be shorter depending on other criteria in paragraph 35. If the binding arrangements are for a limited term that can be renewed, reporting entities should consider the renewal period(s) when estimating the useful life only if the reporting entity is likely to renew the term and cost to renew is nominal.

AMORTIZATION

- 37. Reporting entities should amortize the recognized cost of an intangible asset in a systematic and rational manner over the estimated useful life of the asset. Amortization should begin when the asset is ready for its intended use.
- 38. If the estimate of an intangible asset's remaining useful life changes, reporting entities should amortize the remaining carrying amount of the intangible asset prospectively over the remaining useful life. No adjustments should be made to previously recognized amortization.
- 39. For each IUS module or component with a standalone function that benefits end users, amortization should begin when that module or component is ready for its intended use. If a module is dependent on completion of other module(s) for a standalone function, the amortization of that module should begin when all interdependent modules are ready for their intended use.

UPGRADES, ENHANCEMENTS, AND MAINTENANCE

- 40. If the cost to acquire an upgraded version of an existing intangible asset is nominal, reporting entities should expense the cost in the period incurred. If the cost to renew or acquire an upgraded version of an existing intangible asset is more than nominal, significant reporting entities should account for it as a new asset.
- 41. Except for IUS, reporting entities should expense all costs in the period incurred that modify an existing intangible asset.
- 42. Enhancements and upgrades are modifications to existing IUS that result in increased functionality, which means the software can perform substantive tasks it was previously incapable of performing. Enhancements and upgrades normally require new software specifications and may require a change of all or part of the existing software specifications.

43. Reporting entities should capitalize costs incurred to enhance ~~or upgrade~~ existing IUS in accordance with paragraphs 15-23 of this Statement if it is more likely than not that those costs will increase the functionality of the software. Reporting entities should amortize the new amount over the remaining useful life of the asset.
44. Costs not meeting the criteria in paragraph 43 should be considered maintenance and expensed in the period incurred. For example, reporting entities should expense costs incurred solely to repair a design flaw or perform minor enhancements ~~or upgrades~~ that increase the efficiency and security of the software or extend the useful life of the software without increasing its functionality. However, in instances where the useful life of the software is extended, the amortization period should be adjusted consistent with paragraph 38 of this Statement.
45. ~~If the cost to acquire an upgraded version of an existing software license is nominal, reporting entities should expense the cost in the period incurred.~~

IMPAIRMENT

46. Impairment is a significant and permanent decline in the service utility of an intangible asset. The events or changes in circumstances that lead to impairments are not considered normal and ordinary.¹⁰ That is, at the time the intangible asset was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the intangible asset or, (b) if expected, sufficiently predictable to be considered in estimating its useful life.

IDENTIFICATION OF POTENTIAL IMPAIRMENT

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

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

Step 1 – Identify Potential Impairment Indicators

48. Management may identify impairment when conspicuous events or changes in circumstances arise. This Statement does not require entities to conduct an annual or periodic survey solely to identify potential impairments of intangible assets.
49. Some common indicators of potential impairment include:
- a. Changes in the manner or duration of use of an intangible asset
 - b. Impairment of a G-PP&E asset associated with an intangible asset
 - c. Technological changes or evidence of obsolescence

¹⁰ Normal and ordinary denote events or circumstances that fall within the expected useful life of the intangible asset such as standard maintenance activities.

- d. New laws or regulations that limit or restrict intangible asset usage
50. Entities should consider the surrounding circumstances to determine whether a test of potential impairment is necessary. The indicators in paragraph 49 are neither conclusive nor exclusive evidence that a measurable impairment exists.

Step 2 – Impairment Test

51. Intangible assets identified through the process described in paragraphs 48-50 should be tested for impairment. To confirm impairment has occurred, both of the following factors must exist:
- a. The magnitude of the decline in service utility is significant. This means that the intangible asset is no longer capable of providing the same level of service benefits that the reporting entity developed or acquired the asset to provide.
 - b. The decline in service utility is expected to be permanent. The decline is considered permanent when management has no reasonable expectation that the lost service utility will be restored.

MEASURING AND RECOGNIZING IMPAIRMENT LOSSES FOR INTANGIBLE ASSETS THAT REMAIN IN USE

52. If the impaired intangible asset will remain in use, reporting entities should measure the loss due to impairment as the difference between the book value of the impaired asset and either
- a. the cost to acquire an intangible asset that would provide similar remaining service capacity, deflated to the original acquisition period; or
 - b. the portion of book value attributable to the remaining functional elements of the intangible asset.
53. If the intangible asset will remain in use, reporting entities should recognize the loss upon impairment and reduce the book value of the asset accordingly. ~~Reporting entities should also consider updating the useful life of the asset, as needed. If neither the requirements in 50.a. nor 50.b. can be determined,~~ Reporting entities should still consider decreasing the useful life of the intangible asset ~~and continue to amortize the book value over a shorter term than initially established,~~ including in situations when reporting entities are not able to measure an impairment loss.

INTANGIBLE ASSETS REMOVED FROM SERVICE

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

IMPAIRMENT OF SOFTWARE ASSET ALREADY PLACED IN SERVICE

55. When significant changes in operating circumstances for a software module or component occurs, reporting entities should review and determine whether the existing software asset should be considered **for impairment** in accordance with paragraphs 48-51 of this Statement. When identifying impairment indicators for IUS, reporting entities should especially consider whether:
- a. The software is not working as intended due to ongoing operational issues
 - b. A reduction in the functionality of the software occurs so that it can no longer perform tasks it was previously capable of performing
 - c. All or some of the software functions will be replaced by new internally developed software releases or third-party software products or services
56. Reporting entities should measure and recognize IUS impairments in accordance with paragraphs 52-54 of this Statement.

SOFTWARE IN DEVELOPMENT

57. When it is no longer more likely than not that a software asset in development will be completed and placed in service, reporting entities should remove the accumulated work in process balance and recognize a loss. Indications that it may no longer be more likely than not that the software will be completed and placed in service include the following:
- a. A lack of expenditures incurred or future resources budgeted for the project
 - b. Development difficulties that cannot be resolved timely
 - c. Management decides to pursue other avenues for its internal use software needs, such as acquiring software products or services from a third party
 - d. Management priorities change and determine that the internal use software in development is no longer needed

DISCLOSURE REQUIREMENTS

COMPONENT REPORTING ENTITY DISCLOSURES

58. Reporting entities should disclose the following in financial statements for each major class of intangible asset:
- a. The cost, associated accumulated amortization, **accumulated impairment loss**, and **net** book value as of the end of the year
 - b. A brief description of each major class of intangible asset
 - c. Estimated useful lives
 - 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 any impairment losses that are recognized during the reporting period

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

59. 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, ~~accumulated impairment loss~~, and ~~net~~ book value as of the end of the year by major class
- c. A general reference to agency reports for additional information about intangible assets

HERITAGE INTANGIBLE ASSETS

RECOGNITION AND MEASUREMENT OF HERITAGE INTANGIBLE ASSETS

- 60. 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.
- 61. 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 this Statement.

DISCLOSURE OF INTANGIBLE HERITAGE ASSETS

- 62. For identifiable 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 quantify heritage intangible assets in terms of individual or collective units if the identify the intangible asset as an individual unit in accordance with paragraphs XX-XX in this Statement. The U.S. government-wide financial statement should include disclosures in accordance with SFFAS 29, paragraphs 28-29.

CONFORMING AMENDMENTS TO SFFAS 29

63. This paragraph amends paragraph 15 of SFFAS 29 as follows:

15. Heritage assets are property, plant and equipment (PP&E) and intangible assets that are unique for one or more of the following reasons:

- historical or natural significance,
- cultural, educational, or artistic (e.g., aesthetic) importance; or

- significant architectural characteristics.

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

EFFECTIVE DATE

64. The requirements of this Statement are effective for reporting periods beginning after XXX.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting, chapter 7, titled Materiality, for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

A1. A new paragraph style for this appendix.

- a. Works for multi-levels
- b. Test
 - i. Works

A2. Test

A3. Test

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the proposed provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the proposed provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Statements.

DRAFT

APPENDIX C: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX D: GLOSSARY

DRAFT

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Prior Board Meeting Discussion Timeline

August 2021

At the August 2021 meeting, the Board agreed to add an intangible assets project to the technical agenda with the following objectives:

1. Develop updates for software reporting guidance
2. Develop a working definition of intangible assets for the Board's internal use
3. Further assess the costs versus benefits of developing reporting guidance for intangible assets

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

February 2022

Software Technology

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

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

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

The Board decided to first focus on reporting-guidance needs for cloud-service arrangements. Research indicated that federal entities are using cloud services at an increasing rate for operational purposes similar to internally developed software, generally due to the need for less investment risk and more flexibility to alter the amount

and type of services received based on current needs. Therefore, it is critical to address reporting guidance for this commonly used software-technology resource to ensure reporting consistency throughout the federal government.

Intangible Assets

Also at the February 2022 meeting, At the February meeting, the Board agreed with following non-authoritative definition of intangible assets for the Board's internal use.

A recognizable intangible asset is a resource that

- *Lacks physical substance*
- *Represents a nonmonetary asset*
- *Has a useful life greater than two years*
- *Is identifiable as a separate asset from the entity*
- *Embodies future economic benefits or services*
- *The entity controls*
- *Has measurable value*

April 2022

Software Technology

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

- The National Institute of Standards and Technology's (NIST) cloud-computing characteristics are widely accepted and used in the federal government.
- Based on the asset-guidance framework, it is appropriate to approach cloud-service arrangements as lease-type transactions that provide a federal entity access to a provider's software technology resources for the federal entity to use as internal use software for a specified period.
- More research and outreach is needed to develop an informed decision on whether cloud-service arrangements can meet all of the essential characteristics of an asset established in SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.

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

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

June 2022

Software Technology

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

August 2022

Software Technology

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

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

The Board generally supported staff's analysis on whether certain cloud-service arrangement categories could meet the SFFAC 5 essential characteristics of an asset. Some members recommended more research to better understand how federal entities typically incur costs for long-term cloud-service arrangements. One member recommended more research and deliberation on whether cloud-service arrangements

are typical service contracts or if they are more akin to leases or right-to-use assets. Another member recommended consideration of how other standard-setters made their determinations on asset reporting for cloud-service arrangements.

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

October 2022

Software Technology

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

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

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

Several members agreed it was reasonable to conceptualize cloud-service arrangements as right-to-use assets but were concerned that the associated preparer burden and lack of reporting benefits may not justify the need for asset recognition on the balance sheet. The members suggested that disclosures could adequately provide information about the extent that federal entities use cloud-services for mission and operational needs versus purchasing or developing the IT resource internally.

April 2023

Software Technology

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

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

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

June 2023

Software Technology

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

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

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

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

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

October 2023

Software Technology

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

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

The Board generally supported the proposed recognition guidance but preferred the guidance to directly reference existing liability and prepaid asset recognition requirements in SFFAS 1, Accounting for Selected Assets and Liabilities. The Board

had mixed opinions about whether the guidance should require reporting entities to disclose information on cloud-service arrangements.

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

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

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

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

April 2024

Software Technology

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

August 2024

Software Technology

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

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

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

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

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

December 2024

Software Technology

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

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

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

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

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

Intangible Assets

At the December 2024 meeting, the Board also the Board agreed to move forward with the following accounting guidance framework for intangible assets:

1. Guidance requiring reporting entities to recognize identifiable intangible assets that a reporting entity acquires from another entity for use in providing goods or services.
 - A. An intangible asset is identifiable if either:
 - I. The asset is capable of being separated from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability; or
 - II. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
 - B. Reporting entities should measure the value of the recognized intangible asset based on the transaction costs of the asset acquisition.
2. Rescind Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*, and reissue the internal use software guidance, including updates from the Board software technology project, as a component of the intangible asset SFFAS.

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

February 2025

Software Technology

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

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

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

Intangible Asset Concepts

The Board agreed with staff’s recommended concepts amendments for both SFFAC 2, *Entity and Display*, and SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, to address intangible assets at a minimal and high level. Based on deliberations, staff will further consider minor edits to the concepts and will develop a draft exposure draft for the agreed upon intangible asset concepts amendments in an omnibus concepts amendment Statement.

Intangible Asset Standards

The Board agreed with staff’s 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 June 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.

August 2026

At the August 2026 meeting, the Board deliberated the following staff recommendations:

1. Note disclosure guidance for intangible assets, including internal use software
2. Accounting and reporting guidance for intangible heritage assets

The Board agreed on a note disclosure framework for component reporting entities and the Financial Report of the U.S. Government that would complement the capital asset recognition and measurement guidance that the Board has previously deliberated for intangible assets. Upon deliberation, the Board decided not to require the government-wide report to disclose consolidated impairment losses for intangible assets.

Furthermore, the Board agreed to reference and align relevant parts of SFFAS 29, *Heritage Assets and Stewardship Land* in the intangible asset SFFAS along with some clarification so

that readers can apply the SFFAS 29 heritage asset standards to intangible assets. The Board also agreed to include a conforming amendment in the intangible asset SFFAS that would amend SFFAS 29, paragraph 15 to add intangible assets in the definition of heritage assets.

Disclaimer: This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Intangible Asset Working Definitions

Copyright - a type of intellectual property that protects original works of authorship as soon as an author fixes the work in a tangible form of expression. A "work", as defined in the U.S. Copyright Act, can include literary works, choreography, films, music, computer programs and code, plays, sculptures, paintings, and architecture.

Dataset – a collection of data related to a particular topic, theme, or program

Data rights - includes any recorded information of a scientific or technical nature (e.g., product design or maintenance data, computer databases, and computer software documentation).

Electromagnetic Spectrum - The range of electromagnetic radio frequencies (waves per second) used to transmit sound, data, and video across the country. It carries voice between cell phones, television shows from broadcasters to the television, and online information from one computer to the next, wirelessly. The electromagnetic spectrum includes (from longest wavelength to shortest): radio waves, microwaves, infrared, optical (or visible), ultraviolet, x-rays, and gamma-rays.

Intangible Assets – consist of non-monetary assets that lack physical substance

Intellectual Property - Creations of the mind such as musical, literary, and artistic works; inventions; and symbols, names, images, and designs used in commerce, including copyrights, trademarks, patents, and related rights. Under intellectual property law, the holder of one of these abstract "properties" has certain exclusive rights to the creative work, commercial symbol, or invention by which it is covered.

License - a contract between an intellectual property owner and a third party who wishes to use the intellectual property. A license generally permits certain uses for a certain period of time. The range of permitted uses may be broad or narrow; the time period may be limited or expansive.

Patent – a type of intellectual property that provides an owner of an invention the legal right to exclude other people or entities from making, using, or selling the invention for a specified period.

Software - a set of instructions that tell a computer to operate and perform specific tasks. Software is often used to describe the intangible functional aspects of a computer and includes application and operating system programs, procedures, rules, and any associated instructions pertaining to the operation of a computer system or program.

Sovereign power – is the ability to make and enforce laws.

Technical Report - is a deliverable that describes the process, progress, or results of technical or scientific research or the state of a technical or scientific research problem. It might also include recommendations and conclusions of the research.

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Trademark – a type of intellectual property that provides legal rights for a particular sign, design, name, or symbol that identifies a product or service from a specific entity.

Water Right – the legal right to use water from a particular source, such as a stream, lake, reservoir, or irrigation channel.