Intangible Asset Task Force Meeting Minutes
May 12, 2021, 2:00 PM to 3:30 PM EST
Video Conference (WebEx)

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Attendance

Mr. Williams, FASAB senior analyst, conducted the meeting via WebEx. He did not take attendance due to the large number of attendees. It appeared that approximately 50 people attended the meeting.

Introduction

The task force meeting convened around 2:00 PM EST.

Welcome

Mr. Williams welcomed and thanked everyone for their research efforts. He recapped highlights from the February 17, 2021 task force meeting. Minutes from this meeting are located on the FASAB Intangible Assets Task Force webpage.

Summary of research efforts

Mr. Williams then briefly discussed the task force efforts from the past few months. In addition to the original survey questions, Mr. Williams followed up on many responses with more specific questions to understand recognition possibilities and challenges of identified intangible assets. Additionally, he held meetings with several federal reporting entities to understand their management processes for intangible assets. He also met with staff from other accounting standard setting bodies to understand why they have or have not issued guidance for intangible assets and inquired of any advice or lessons learned with previously issued guidance.

The initial task force objectives were to (1) identify existing intangible assets throughout federal reporting entities, (2) consider the benefits to users of federal financial reports from reporting such intangible assets, and (3) consider if preparers can reasonably measure and recognize the identified intangible assets in the financial reports. Mr. Williams stated he is confident that the research efforts adequately accomplished these objectives for reporting to the Board at the upcoming June meeting.

Meeting objectives

Mr. Williams stated the current meeting objectives are to (1) address the consolidated survey responses, (2) present potential ideas for guidance that he plans to brief to the

Board at the June meeting, and (3) answer questions and take suggestions from the task force regarding the proposed ideas.

Consolidated survey responses

Overview

Mr. Williams voiced appreciation and enthusiasm for the survey input. There was widespread participation amongst federal reporting entities along with submissions from auditors and other professionals. Several respondents also replied to follow-up questions while others plan to do so. He encouraged everyone who has not provided an initial response or provided follow-up question responses to do so if they are able. Information provided now or later is helpful for future reference.

Mr. Williams noted that he first requested a broad range of information from respondents with general, open-ended questions. He then followed-up with specific questions to understand complexities of recognizing identified assets and to request opinions on guidance ideas. He stated that the breadth and detail of the information derived from this method is more helpful than a typical survey that asks yes/no questions or asks the importance of issues on a scale basis.

Use of survey data for Board deliberations

Mr. Williams stated that he intends to reference the survey responses as an attachment in the June Board meeting material. Staff will post the Board material, including the survey responses, on the FASAB website along with the summary of the meeting so that it is publicly available. Both the survey and the webpage it is posted will contain the disclaimer "Survey responses are for discussion and research purposes only and do not represent the official positions of the agency/organization or FASAB."

Mr. Williams specified that he does not intend the Board meeting to focus on individual survey responses. He intends to form his guidance ideas, along with potential benefits and concerns of those ideas, holistically from all of the survey responses, federal reporting entity meetings, other standard setting body meetings, and other publication and internet based research. He will not attempt to make a point or suggestion based on any particular response.

Research findings and current guidance ideas

Mr. Williams began his presentation by stating that the material is for discussion purposes only and does not reflect authoritative views of the FASAB or its staff. He noted that the guidance proposal he is presenting is what he intends to brief to the Board in June.

Mr. Williams proceeded to present his guidance ideas based on research results. He began by recapping all of the prior research efforts and highlighting some key facts and statistics about the prevalence of patents and research and development (R&D) spending in the federal government. He also noted current trends in software across federal entities, such as cloud computing and more agile life cycle development processes.

Definition

The Statement of Federal Accounting Concept (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements,* defines an asset as "a resource that embodies economic benefits or services that the federal government controls." Mr. Williams referenced both GASB 51 and IPSAS 31 as inspiration to form the definition of an intangible asset. In addition to meeting the asset criteria in SFFAC 5, an intangible asset generally (1) lacks physical substance, (2) is non-financial in nature, and (3) meets certain useful life criteria, which is typically two years in FASAB guidance.

One task force member questioned the meaning of "non-financial in nature" and stated that intangible assets can have financial value. Mr. Williams responded that the term "non-financial in nature" means that an intangible asset is not a monetary or financial security based asset. He acknowledged however that it might be better to use the term "non-monetary" rather than "non-financial" to avoid future misinterpretation issues.

Scope

Mr. Williams stated the suggested definition could encompass many seemingly intangible assets that existing FASAB guidance more appropriately addresses and should therefore scope out of potential intangible asset guidance. For example, he noted that existing lease guidance already addresses temporary land rights, such as easements, whereas land guidance covers permanent land rights. Additionally, existing public-private partnership (P3) arrangement guidance should address scenarios where an intangible asset is associated with P3 arrangements. Finally, natural resources, such as oil and gas reserves, as well as water and timber rights, exist at some federal reporting entities and potentially represent an intangible right-to-use asset. However, natural resource guidance already exists and is the best framework for any additional guidance needs for natural resource rights.

A notable characteristic of land and natural resource rights is that while the right to the asset is intangible, the actual resource is tangible. For example, land is tangible real property and oil is a depleted tangible resource. Additionally, P3 guidance is more appropriate for assets associated with these types of arrangements as they can involve complex relationships that present questions of asset control between partners. Finally, research showed that resources pertaining to the outer-continental shelf (OCS) occur through leases or royalty fees from oil or gas extraction. Therefore, existing guidance is more appropriate for OCS assets.

In addition to the suggested guidance scope out, Mr. Williams indicated he does not see a need for reporting guidance for goodwill. While internally generated goodwill exists within federal reporting entities, it is not separately identifiable from the entity. Additionally, the survey did not reveal instances of acquisition transactions that can result in externally generated goodwill. Staff considered if public-private acquisitions could occur within federal reporting entities with hospital administration missions. However, upon further correspondence with specific entities, staff is confident these types of transactions do not occur.

Mr. Williams then briefed intangible assets identified at federal reporting entities that he sees a potential need for either new or updated reporting guidance. He grouped these assets into three main categories: (1) intellectual property, (2) software, and (3) other.

Intellectual property

The survey identified many instances of intangible assets at federal reporting entities that represent products of the human intellect, such as inventions, brands, and organized data. Mr. Williams decided to categorize these types of assets as intellectual property. This category can include trademarks, patents, research reports, and data sets, amongst other licensed intellectual property. One task force member requested an example of other licensed intellectual property. Mr. Williams responded that the term serves as a catch all for other examples of intellectual property not yet identified or not as prevalent, such as some type of media-based property or copyright material. Based on research, it appears federal government created material is generally not subject to copyright protections. However, federal copyrights can exist for non-common reasons, such as transfers from other non-government parties.

The survey revealed that these types of assets exist throughout many federal reporting entities but, with a few exceptions, they are not reporting them in their financial reports. This is not surprising because FASAB has not issued guidance on intangible assets, other than software.

Intellectual property – benefits and reporting ideas

Research revealed benefits of these intangible assets to federal reporting entities, along with potential reporting ideas. The following paragraphs address these ideas and benefits.

Several survey respondents indicated that their federal reporting entity receives revenue through license fees primarily related to trademarks and patents. The license fees generally appear incidental to the purpose of the intangible asset. Additionally, no federal reporting entity responded that they sell their intellectual property in the private market. Because of this, Mr. Williams' opinion is there is no practical benefit to recognizing intellectual property value based on discounted cash flows or market valuations. However, he noted that a potential recognition option is to specifically identify and disclose revenue that these intangible assets generate in notes or required supplementary information (RSI) because they are specific economic benefits that fund government efforts to produce assets valuable to society.

Another potential benefit of intellectual property is they can provide service capacity to the federal reporting entity for delivering their mission. This can occur through brand awareness and reputation, or more efficient and effective operations. Mr. Williams emphasized that these benefits are similar to the reasons federal reporting entities capitalize buildings or software on their balance sheets. Therefore, a potential recognition idea is to capitalize purchase or development cost associated with bringing intangible assets to use.

Intellectual property service capacity can also include societal knowledge benefits. Federal reporting entities stated that a primary purpose for patenting inventions or developing data sets is for public knowledge. This includes making patented inventions available for public use to promote and share R&D outputs with society. Another example is making data sets available for use to private businesses, corporations, state governments, federal agencies, or congress for decision-making, policy, or operational reasons. Cost capitalization is also a potential recognition option for this benefit as well as qualitative disclosures regarding the benefits bestowed on society from these assets.

Intellectual property – reporting guidance benefits

Mr. Williams next discussed potential benefits to developing reporting guidance for intellectual property. One benefit relates to basic accrual accounting concepts. Intellectual property, like buildings or software, can require significant upfront cost to purchase or develop and then provide long-term benefits or service capacity to the federal reporting entity. In this scenario, it is appropriate to capitalize the initial cost to bring the asset to service and recognize the expense over the timeframe that the asset provides benefits to the entity.

Another potential reporting benefit comes from identifying and recognizing federal government assets created from R&D efforts funded from taxpayer dollars. Transparency in government operations and spending is crucial for a well-functioning democratic system of government. Additionally, there are opinions that the U.S. government should increase their role in R&D efforts throughout the nation. Increased efforts to track government R&D spending to outputs could instill more confidence in congress with appropriating funds for future R&D efforts. Annual financial reports can help them identify useful outcomes directly to R&D resources.

Another potential benefit is that asset recognition guidance can lead to improved oversight of R&D programs and therefore more effective management of federal resources. This would require cost accounting efforts to identify full cost of resources that directly and indirectly contribute to the production of outputs and assign those costs to outputs. Mr. Williams observed federal reporting entities do not appear to do this, which is understandable because there is no FASAB guidance for intangible assets, other than software.

Intellectual property – reporting guidance challenges, concerns, and complexities

Mr. Williams stressed that many survey respondents, particularly federal reporting entities, reported multiple concerns and challenges with developing recognition guidance for intellectual property. Federal reporting entities also stressed some of these concerns during individual meetings. Mr. Williams noticed a general sense of unease and concern that new reporting guidance could lead to burdensome and non-practical requirements with few benefits.

Multiple survey respondents stated that it is difficult to directly link development cost to an intangible output. For example, when a building is constructed, one can observe the construction effort and the project moving towards a completed output. Additionally, software development projects typically have a goal and developers work towards a final output. It is often not the same with intellectual property. Research and development efforts can occur for years without a clear goal or objective and yet a usable idea or invention could unexpectedly result one day. This makes it difficult to accurately allocate prior cost directly to the output. Survey responses indicated there is a difference between federal reporting entities that have a research application and a general research mission. Federal reporting entities with a research application mission are more likely to work towards a particular goal or output in their R&D efforts.

Another reported concern is that benefits derived from intellectual property often times are not as directly linked to the asset compared to tangible property or software. Federal reporting entities indicated they may develop and use an invention but will not patent it until later, if ever. In addition, the developed invention or patent may go unused for several years after development, if at all. Finally, a federal reporting entity often times does not use the invention directly in their operations but can through a third party that is licensing their patent. It is unclear how often this happens, but it seems rare. Some entities did report more directly using their developed invention assets to achieve their mission objectives and that they retain a form of control over non-patented inventions.

Regarding societal benefits of patents or other invention assets, several respondents indicated that other federal reports exist that convey this information, such as the Technology Transfer Report. Additionally, some noted that federal reporting entities often provide public access to their data sets on their websites. Mr. Williams acknowledged that it is important not to over-burden preparers with recognition or disclosure requirements that result in duplicative effort and results without any additional benefit.

Another concern involves complexities amongst intragovernmental use of data sets. Some federal reporting entities stated that they sometimes develop data set resources that other entities use in their operations and mission delivery. Additionally, a federal reporting entity may use another entity’s data set and expand upon it for their purposes. Mr. Williams stated that these scenarios point to resource control complexities and the risk of reporting the same asset value in financial reports multiple times across federal reporting entities. Another example is when a federal reporting entity develops intellectual property through a contractor and the contractor maintains ownership while the reporting entity maintains certain rights. These examples indicate challenges in determining if a federal reporting entity has control over the resource when they share partial rights associated with the intellectual property.

One task force member stated it is important to weigh the costs vs. benefits of guidance throughout the process and recommended making this more explicit in the June Board presentation. Mr. Williams noted it is ultimately up to the Board to deliberate and decide on costs vs. benefits of issuing guidance. It is the task force's responsibility to identify and notify the Board of specific concerns and complexities of potential guidance. He acknowledged that there are several significant concerns with potential reporting guidance for intellectual property and that he will ensure the Board is fully aware of them throughout the process. He agreed to address the cost vs. benefit concerns in the presentation to the Board.

Intellectual Property – capitalized asset example

One federal reporting entity stated that they currently recognize a purchased data set as a capitalized intangible asset on their balance sheet and amortize it over the estimated useful life. At the request of Mr. Williams, a representative from the federal reporting entity summarized the characteristics and operational benefits of the data set to the task force.

The federal reporting entity purchased data rights from a contractor so they could retain and use the information after expiration of the contract. The data set provides future economic and service benefits through cost savings and facilitating contract award competition. Other service potential includes responding to data calls for Congress and Small Business Administration studies.

The federal reporting entity decided to capitalize the data set as an intangible asset to match the expense in the periods that the asset provides benefits. Expensing the entire purchase amount in the transaction period is misleading because the asset provides benefits to the entity's operations over the long-term. The federal reporting entity stated that FASAB did not have guidance addressing this scenario so they used the generally accepted accounting principle (GAAP) hierarchy to reference FASB guidance for this particular transaction.

Mr. Williams stated this is a great example of an intangible asset that requires significant upfront cost and provides long-term economic benefits to the federal reporting entity, much like a building or software. It highlights and supports cost capitalization as one of the primary asset recognition ideas.

One task force member brought up recognition differences between a purchased and internally developed intangible asset. Mr. Williams acknowledged it is likely much less complicated to identify and measure purchased intangible assets compared to internally developed intangible assets. In this purchase scenario, there is a documented transaction to support the capitalized amount whereas an internally developed intangible asset would comprise many transactions. Mr. Williams thanked the representative for presenting their example to the task force.

Other standard setting body guidance

Mr. Williams considered GASB 51 and IPSAS 31 during his research. He observed that the two standards appear to take generally different approaches to intangible asset guidance. The guidance in GASB 51 seems less prescriptive and leaves room for management judgement to determine what development costs to capitalize. For example, the guidance provides a framework of decision criteria for management that includes determination of an objective, the technical feasibility of the effort, and the intent to complete the effort.

The guidance in IPSAS 31 seems to have more rigid cost capitalization requirements and leaves less discretion to management. Regarding outputs of R&D, the guidance generally says to expense research cost and to capitalize development cost for intangible assets. Mr. Williams stated the two standards have other notable differences that it is not necessary to deliberate at this time.

Mr. Williams opined that the less prescriptive guidance that leaves more judgement to management is the optimal model based on the federal government environment. His initial thoughts are that an overly prescriptive guidance could put too much burden on preparers to force cost capitalization when it is not practical or accurate. This could lead to increased asset values on federal reporting entity balance sheets that are inaccurate and misleading to users. He acknowledged that a broader and less rigid guidance could lead to less intangible assets capitalized but that it is important to meet a high bar when recognizing asset value.

A few stated concerns with leaving a lot of discretion to management is it could lead to inconsistent application across federal reporting entities, disagreements between auditors and management, as well as restatements, creating more preparer burden. Mr. Williams acknowledged these as concerns and stated the Board will weigh factors like this when deliberating guidance.

Software

Mr. Williams then discussed the next intangible asset category, software. Unlike intellectual property, FASAB guidance for software already exists. He stated that based upon prior Board deliberations, task force efforts, technical inquiries, and current task force research, he is confident there is a need to update software guidance. For example, a previous working group determined that current software guidance is insufficient at comprehensively, consistently, and cohesively addressing the breadth of accounting issues agencies encounter. He stated that although current FASAB guidance refers to software as PP&E, software is a quintessential intangible asset and that if an intangible asset statement is eventually developed, software guidance should become part of it.

Mr. Williams observed from survey responses that there are inconsistent recognition practices across federal reporting entities regarding software licenses, cloud based computing arrangements, and website development. Some federal reporting entities reported they view these resources as general operating costs and always expense them whereas some reported they either expense or capitalize the costs based on criteria from existing guidance. Mr. Williams opined that this inconsistency signals a need for additional guidance.

Mr. Williams acknowledged that lack of guidance is likely a major reason there is inconsistent software license and cloud-computing arrangement recognition across federal reporting entities. Technical Release 16 speaks to these transactions but not sufficiently and is outdated. For example, it currently says to consider software licenses with lease criteria for expense and capitalization decisions. The new SFFAS 54 Lease standard will make this irrelevant leaving software licenses unaddressed. Additionally, the technical release speaks to cloud computing arrangements from the perspective of a federal reporting entity providing them as a service to other parties, but does not address the much more common scenario of federal entities acquiring these services as part of their operations. In fact, FASAB guidance does not address subscription based information technology arrangements (SBITA), which are now typical transactions amongst federal reporting entities.

Mr. Williams noted that the typical life cycle development of software has evolved from traditional waterfall style approaches to more agile and iterative-based approaches. From his understanding the primary difference between agile and waterfall approaches is that waterfall projects progress sequentially whereas agile projects progress in repetitive cycles. The waterfall approach to software development occurs in several distinct phases. Instead of creating a timeline for one large project, agile approaches break the project into individual deliverable pieces. Once each deliverable is completed, developers use feedback from the previous phase to plan the next one. The process can then return to a previous phase to offshoot for a new deliverable. Mr. Williams stated that he sees value in updating software guidance to address this development.

Mr. Williams mentioned other software guidance related issues that some federal reporting entities proposed. This includes recognizing updates that modernize legacy systems, as well as differences between software enhancements, personalization, and general upkeep. Some federal reporting entities also requested more guidance on system enhancements, term based IT arrangements that include base and option years, as well as differences in government operated internal cloud arrangements vs. subscribing to vendor cloud computing services.

Mr. Williams concluded the software section by reiterating his position that research supports the need to reexamine FASAB software guidance. The reexamination should consider updates to address recognition inconsistencies, current gaps in guidance, and more modern development life cycle approaches. He noted that the fast and ever changing technology of software likely necessitates frequent updates.

Other intangible asset reporting ideas

Mr. Williams discussed additional reporting ideas for intangible assets that do not fit into the prior two primary categories of intellectual property or software. This includes electromagnetic spectrum and various knowledge based assets. He stated that these ideas are potential options that warrant more consideration.

Other intangible assets – electromagnetic spectrum

Mr. Williams stated that he had a discussion with the agency that manages and allocates spectrum licenses for federal reporting entities. During the discussion, they agreed that it is most likely not practical or beneficial to recognize a value for federal reporting entity spectrum allocations because the cost they pay covers administrative expenses to manage allocations and does not directly correlate with the market value or investment expenses of the spectrum. Additionally, modifications of federal reporting entity allocations occur many times a year.

They did agree that it is potentially beneficial for federal reporting entities to disclose their number of spectrum assignments in financial report notes or RSI. Private entities bid large amounts of money for spectrum licenses in private auctions. Therefore, there are potential benefits if federal agencies were more transparent about the valuable asset they possess and use to improve the effectiveness and efficiency of their mission delivery.

Mr. Williams indicated that he would like to further research potential asset recognition ideas for private sector auctions of spectrum licenses because it is a notable source of revenue to federal reporting entities. He stressed however that this is currently an idea based on his own research and that he wants to explore further with relevant entities and is still attempting to set up discussions.

Other intangible assets – knowledge assets

Mr. Williams reported that some survey respondents described additional types of potential intangible assets within federal reporting entities. This includes human resource related assets such as training and professional expertise, amongst other organizational assets. He noted that federal employee knowledge is a tremendous asset to federal government operations but they are probably difficult to measure and therefore more appropriate as disclosures instead of balance sheet items.

One task force member stressed that knowledge assets, and possibly other intangible assets, may not neatly fit into the definition of an asset, particularly the criteria of economic benefits and control. Mr. Williams acknowledged that this is certainly a point that the Board should consider in future meetings when deliberating guidance development.

Another task force member requested more examples of resources that could fall in the category of knowledge asset and requested an example of a professional expertise asset. Mr. Williams answered that this is currently an open-ended category and challenged other task force members to brainstorm other types of intangible assets that exist at their federal reporting entities. Regarding professional expertise assets, he mentioned a previous employer that collected, categorized, and displayed all of its employees' professional certifications and higher-level degrees (for example CPA, PE, PMP, PhD, etc.). This signaled professional expertise and human knowledge assets of the organization. Another task force member stated that the federal reporting entity he works for already discusses human resource development and knowledge value in the MD&A section of their financial report.

Final thoughts and further task force input

Mr. Williams concluded the presentation by providing his overall position on the benefits, challenges, and complexities of potential reporting guidance for intangible assets. He stated he is confident that it is beneficial to move forward with software guidance updates but that he is not as confident about the need for new reporting guidance for intellectual property or other intangible asset categories. While he is certain that these types of assets exist throughout federal reporting entities, there are significant concerns with the practicality of identifying and measuring their value and that reporting requirements would create too much preparer burden relative to the user benefits.

Several survey respondents made it clear they have legitimate concerns with capitalizing development cost for some intangible assets. They also have concerns about disclosure guidance creating duplicate and unnecessary requirements due to existing reports that may already meet the same objective. Mr. Williams stated that if the Board decides to move forward with developing guidance, he prefers a principles based and nonprescriptive approach that leaves more judgement to management. Optimal guidance would offer financial reporting direction when a federal reporting entity determines they have a potential intangible asset and need financial reporting instructions while also leaving a lot of discretion to management to determine if a situation warrants recognition. He stated his concern of issuing overly rigid guidance that is burdensome to preparers and forces them to capitalize development costs that are misleading and inaccurate.

Mr. Williams asserted that his preferred suggestion to the Board is to move forward with developing software guidance updates but to consider further the benefits, challenges, and complexities of guidance ideas for intellectual property and other categories. He stated that he sees benefits in suggesting that the Board issue an "Invitation to Comment" based on proposed guidance ideas for intellectual property and other asset categories. This would allow federal reporting entities and others to more formally communicate their thoughts and concerns to the Board based on guidance ideas.

Mr. Williams concluded by requesting that task force members provide further comments using a framework of questions to elicit thoughts on (1) the suggested intangible asset definition and scope, (2) other intangible asset types to consider, (3) other perceived concerns or benefits to suggested guidance, and (4) further thoughts on a guidance approach. Mr. Williams encouraged everyone to consider the questions and provide responses within the next week so he can consider them for Board presentation material.

Next steps

Deadline for task force comments

The due date for task force members to provide further thoughts on the Board meeting presentation is May 19, 2021. Mr. Williams will consider any final input from the task force when preparing the Board meeting material.

June Board meeting objectives

Mr. Williams stated that the objectives for the upcoming meeting are to brief the Board on intangible assets that research identified along with benefits and concerns of reporting guidance ideas. He emphasized that staff does not intend to ask the Board to approve or disapprove any particular idea. The goal is to provide the Board a beginning framework of ideas and suggestions that they can consider when they later deliberate if the project should move forward to the guidance development phase.

Conclusion

Mr. Williams concluded by thanking everyone again for all of their efforts. He reiterated the importance of the survey information as a great starting point on the project and that the effort brought to light potential intangible assets that exist throughout federal entities.

The meeting concluded at approximately 3:25 PM EST.