

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Board Meeting Minutes

December 10, 2024

Virtual Meeting via Zoom for Government

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For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by topic; references to these topics in the minutes are hyperlinked.

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: George Scott (chair), R. Scott Bell, Gila Bronner, Bob Dacey, Diane Dudley, Regina Kearney, Terry Patton, and Ray Vicks. The executive director, Monica Valentine, and FASAB counsel, Jason Kirwan, were present throughout the meeting.

Tuesday, December 10, 2024

Administrative Matters

- **Clippings and Updates**

Mr. Scott welcomed Ms. Kearney back to the Board. Ms. Kearney will serve as the Office of Management and Budget representative on the Board, replacing Ms. Carol Johnson.

Mr. Scott asked the members if there were any comments on the clippings provided by staff. He noted the list of outreach activities and the [non-agenda topics memo](#). He also reminded the community that comments on the Board’s annual report and three-year plan were due January 17, 2025.

Agenda Topics

- **Software Technology**

Mr. Joshua Williams, senior analyst, introduced [topic A-1](#) by stating that staff was proposing a scope for software license accounting guidance and recognition and measurement options for software licenses.

He explained that the first proposal considered characteristics of software licenses and FASAB's conceptual framework to propose a scope that distinguishes software licenses from cloud-based software as a service arrangement for recognition guidance purposes. The second proposal considered a cost-benefit analysis of recognition and measurement options for both perpetual and term-based software licenses.

Question 1 – Does the Board agree with staff's proposed asset recognition scope for software licenses? Please provide your feedback on staff's analysis and recommendation.

The Board agreed to move forward with the following scope for software license accounting guidance: "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."

Members generally agreed that the recommended scope would provide principle-based guidance for reporting entities to recognize software licenses as assets based on criteria that indicates the reporting entity has control over the software resource. Furthermore, members generally agreed that the scope would provide flexibility for management to use judgment for determining whether a software resource meets the criteria for a software-license asset or a cloud-service arrangement when applying recognition guidance.

Question 2 – Does the Board agree with staff's recommended recognition and measurement framework for perpetual software licenses? Please provide your feedback on staff's analysis and recommendation.

The Board agreed to move forward with the following recognition and measurement framework for perpetual software licenses: "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."

The Board generally agreed that the accounting framework appropriately matches the cost of acquiring a software asset to the economic benefits and services that the reporting entity receives from the asset in future reporting periods.

Question 3 – Does the Board agree with staff’s recommended recognition and measurement framework for term-based software licenses? Please provide your feedback on staff’s analysis and recommendation.

The majority of members agreed to move forward with the following recognition and measurement framework for term-based software licenses: “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.”

Most members believed that the recommended framework was optimal for improving accounting of software licenses in a way that would be less burdensome for preparers to implement compared to other accounting options. The members agreed that the proposed accounting framework would establish a high bar for recognizing only long-term software licenses as assets and would appropriately match the cost to acquire a software license to the definitive useful life in which the federal entity receives the future economic benefits and services of the software. One member emphasized it was important to also recognize a liability upfront for any known future payments for fees that the reporting entity owes at commencement of the license term.

Members believed the recommended framework would not be particularly burdensome because it would not require management to assess the probability of exercising annual renewal options when measuring asset and liability values for software licenses. One member emphasized that it would be challenging for management to assess probability of exercising annual option periods and did not believe the reporting would be particularly beneficial.

However, some members believed there were also merits for the recognition and measurement option that would apply a right-to-use asset framework and require preparers to recognize an asset and liability based on the term of the software license that includes renewal options if management determines it probable that they will exercise the option period at a significant cost.

A few members believed that this option would result in reporting entities recognizing more software license assets and liabilities for future outflows of resources that the federal entity is likely to incur. The members believed that it is likely that management would execute annual option years for software licenses because they are integral to federal operations and entities could be locked into the software long term due to the significant costs required to move to new software systems. However, some members believed that assessing the probability of exercising future option periods for software licenses could be challenging because software technology becomes obsolete quickly and renewals likely include a repurchase of a better version of the previous software.

Some members believed that there would be reporting benefits of federal entities recognizing a liability for probable future outflows of funds that federal entities will incur to continue acquiring software licenses. However, the members also stated that they understood it would be challenging for preparers to assess probable future costs when measuring asset and liability values for typical software licenses. Members suggested that the Board explain these cost/benefit considerations in the basis for conclusions of the future exposure draft.

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. 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.

Some members believed that the Board should consider allowing prospective reporting to ease preparer burden with implementing any new accounting requirements for software licenses. The members stated that due to the relatively short-term nature of software licenses, it may not be beneficial for federal entities to look back and recognize an asset for software licenses acquired before the effective date of any new accounting requirements.

- **Intangible Assets**

Mr. Williams introduced [topic A-2](#) by stating that staff was proposing:

- Concept statement amendments that address intangible assets in the federal government
- A framework for intangible asset guidance that encompasses intangible assets acquired from other entities and internal use software

He explained that the first proposal recommended nonauthoritative concepts statement amendments that would provide the Board foundational guidelines to develop authoritative accounting guidance for intangible assets. He further explained that the second proposal recommended a framework for authoritative accounting guidance for intangible assets.

Question 1 – Does the Board support moving forward with the recommended conceptual framework amendments? Please provide your feedback on staff's analysis and recommendation.

The Board generally supported moving forward to further deliberate concepts amendments to address intangible assets in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, and SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. However, members

had different opinions on how extensively the concepts statements should address intangible assets.

Some members generally supported staff's proposed amendments and believed that the proposed examples of potential intangible assets in SFFAC 2 and SFFAC 5 were helpful for visualizing the intangible asset environment in the federal government. One member stated that the proposed intangible asset examples would help balance the conceptual framework that currently discusses tangible property, plant, and equipment (PP&E) extensively but is relatively quiet on intangible assets. One member suggested additional examples to address the inherent difficulties with identifying and measuring intangible assets.

Some members supported the concepts amendments in SFFAC 2 that define intangible assets as a potential type of asset recognized on federal balance sheets but did not support the proposed intangible asset examples in the SFFAC 2 or SFFAC 5 amendments. The members believed that SFFAC 5 already provided too many examples of PP&E and that concepts statements should address intangible assets only at a very high level to guide the Board in setting standards. The members cautioned that adding detailed discussions of intangible assets in the concepts statements could overly restrict the Board when developing authoritative standards.

Another member supported the proposed amendments in SFFAC 5 but did not support any amendments to SFFAC 2. The member noted that SFFAC 2, as originally written, only observed the types of asset categories that federal entities were currently recognizing on balance sheets. The member had concerns that adding intangible assets as a distinct type of asset in SFFAC 2 could imply that intangible assets should be distinctly displayed on federal balance sheets as opposed to other types of assets that SFFAC 2 does not address. Furthermore, the member believed that some types of assets that are intangible in substance should be reported as part of PP&E.

Some members supported amending SFFAC 2 and SFFAC 5, but only in a minimal and high-level manner. The members generally believed the proposed intangible asset description in SFFAC 2 was too detailed and contained recognition requirement language more suited to a Statement of Federal Financial Accounting Standards (SFFAS). However, the members did see merit in describing intangible assets in SFFAC 2 since the concepts already describe PP&E.

One member questioned whether the Board needed to address intangible assets in the concepts statements. The member believed that it may be better for the Board and staff to devote time and resources to developing only authoritative guidance for intangible assets and that the Board could address many of the proposed concepts amendments in an intangible assets Statement. However, other members believed the Board should develop some concepts for intangible assets to guide the Board in developing an intangible asset SFFAS.

Mr. Williams stated that, based on member discussions and suggested edits, staff would streamline the SFFAC 2 and SFFAC 5 concepts amendments to address

intangible assets in a very minimal and high-level manner. He stated that staff would propose the updated amendments at a future meeting for the Board's consideration.

Question 2 – Does the Board support moving forward with an intangible asset standard based on the recommended framework? Please provide your feedback on staff's analysis and recommendation.

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 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 standard.

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 Statement due to the potential overlap between intangible assets and internal use software accounting guidance.

Mr. Williams stated that staff will continue to work with the task force and other stakeholders to identify and present additional accounting guidance proposals for intangible assets for the Board's consideration, such as scope, useful life estimation, impairment, and disclosure guidance.

Adjournment

The Board meeting adjourned for the day at 11:05 a.m.

- **Steering Committee Meeting**

The Committee discussed FASAB's fiscal year 2026 and 2027 proposed budgets, as well as other administrative matters.