

Software Working Group Meeting Minutes
December 16, 2021, 1:00 PM to 2:30 PM EST
Video Conference (Zoom)

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Attendance

Mr. Williams, FASAB senior analyst, conducted the meeting via Zoom. Approximately 30 people attended the meeting with representation from the Department of Defense, Census Bureau, Nuclear Regulatory Commission, Securities and Exchange Commission, General Services Administration, Department of Homeland Security, Federal Election Commission, Department of Energy, Veterans Affairs, Department of Commerce, Treasury Fiscal Service, and KPMG.

Introduction

The task force meeting convened around 1:00 PM EST.

Welcome

Mr. Williams welcomed and thanked everyone for their previous research efforts on software related resources. He stated that the information they provided is essential to forming a scope for future software guidance updates. He also stated that he intended the meeting as a roundtable discussion and encouraged participants to speak up anytime with questions or comments.

Meeting objectives

Mr. Williams explained that he planned to present an issues paper to the Board during the February 2022 meeting that presents a framework for developing future software guidance updates. The issues paper will specifically address (1) definitions of software-related resources applicable among federal entities, (2) a scope of software-related resources for future reporting guidance updates, (3) a comparison of current software guidance between FASAB and other standard setting bodies, and (4) the pros and cons of rescinding versus amending existing guidance for updates.

Mr. Williams clarified that the overall goal of the issues paper is to analyze how to bridge the gap between existing FASAB software guidance and stakeholder guidance needs. He stated that the current meeting objectives were to cover the objectives of the issues paper.

Definitions of software resources

The working group proceeded to discuss the various software resource terms and definitions that were developed based on prior correspondence. Mr. Williams emphasized the importance of establishing agreed upon software terms and definitions as a foundation for the Board to deliberate guidance updates in the future. The list included approximately 40 terms and Mr. Williams asked the group to comment on any of them. There were a few specific terms that participants spent considerable time discussing: agile development, cloud service arrangements, and licenses.

Agile development

The group had an informative discussion on the characteristics of the agile software development process. Mr. Williams explained that after considering many various non-linear development terms, such as agile, iterative, incremental, spiral, devops, and devsecops, he initially decided to create the term “agile development” with the intention to represent any non-linear development model for future financial reporting guidance. He further explained that agile development seems to encompass many of the other development models and that creating specific reporting guidance for each could compromise the flexibility and longevity of the guidance.

One working group member questioned if the term agile development was an actual method of development or if it represented a management process that included other non-linear development methods, such as iterative and incremental. Mr. Williams replied that he intended for agile development to represent a non-linear style of development that can include iterative and incremental methods, among others. He clarified that he thought this is the best way to separate and present different software development models to the Board in a simple yet effective way.

Another working group member stated that waterfall (linear) development models consist of clear and sequential phases that have major milestones while multiple phases can occur at once as part of agile (non-linear) development models, making it difficult to separate expense and capital costs. Someone else stated that they categorize the cost through a work schedule in advance in order to appropriately recognize the cost.

Another working group member questioned when a useable product is recognizable on the balance sheet in the agile method. One working group member stated they use a contract period of performance to identify key phases. Some working group members stated that federal entities develop useable software products or add functionality at multiple points during the process while others stated that they only capitalize one final product at the end of the process. Mr. Williams added that he thought a typical software agile development project could produce multiple usable projects with added functionality in short repeated iterations.

Finally, one working group member questioned if agile development could be used during management decisions in determining if a project should be pursued or not. Mr.

Williams concluded the discussion by stating that all of the questions asked and points made were very helpful and would be useful when developing reporting guidance in the future. He decided to keep the term agile development as is.

Cloud service arrangements

The group also deliberated on the definition of cloud service arrangements. Mr. Williams explained that other standard setting bodies appeared to use various terms to describe cloud-computing services received from vendors on a subscription basis, such as subscription based information technology arrangements (SBITAs), hosting arrangements, and cloud computing arrangements. He stated that it was important to decide on a term for federal reporting purposes and that he recommended cloud service arrangements. The term can include infrastructure, platform, and software as a service, among others.

One working group member questioned if the entity or cloud service vendor owns the data used by an entity through a cloud service arrangement. Mr. Williams replied that it was an interesting question but he was not aware of any current guidance that addresses data as an asset. He indicated however, that data migration and transfer were software terms on the list and that the working group would consider the issue later when developing guidance updates.

Another working group member stated that vendors also provide non-cloud based information technology resources on a subscription basis. Finally, one entity mentioned a “cloudbank” scenario in which an entity purchases a certain amount of cloud space upfront to distribute within an entity or to another entity.

Software licenses

The group then discussed software licenses. Mr. Williams explained that he was initially finding it difficult to clearly separate software licenses from other software resources, like software as service arrangements and purchased off-the-shelf software. He initially thought that entities typically acquire software licenses when purchasing software and that it denotes more control of the resource than a cloud service because the user typically downloads the software onto their system when acquiring a license.

One working group member agreed with the notion that acquiring a software license usually involves downloading the software onto the purchasing entity’s system whereas the entity only purchases a service from a vendor on a pay-as-you-go basis over the internet in a cloud service arrangement. However, another working group member stated that the term license could apply to the number of users who acquire access to the cloud service arrangements.

One working group member suggested that there is a distinction between a perpetual software license and a term-based cloud service. A perpetual license requires a one-time purchase, with possible annual maintenance fees, for continuous rights to use the

software on the purchasers system whereas a cloud service provides term-based service to the purchaser on a monthly or annual basis. Finally, one working group member mentioned that a license inherently provides the right-to-use a software product whereas a cloud arrangement is providing a software service.

One working group member suggested either adding “subscription” to the term or definition of software license while another suggested providing certain off-the-shelf software products as examples in the definition. Mr. Williams stated that he would edit the definition to make it clear that federal entities typically acquire software licenses perpetually or through a subscription. Mr. Williams concluded that he and the working group would need to further research software licenses to understand how they apply as a resource in the federal environment.

Other definitions

The working group did not have any questions or comments about the other definitions. Working group members did not have any additional terms to suggest adding to the list. Mr. Williams reminded everyone that the list is a living document and to feel free to let him know of any further additions or edits.

Scope of software resources

Mr. Williams then discussed the tree diagram that depicts a scope of software resources for future guidance updates. He explained that the diagram categorizes major federal software resources, such as internal use software, cloud service arrangements, shared services, and an “other” category that includes blockchain and robotic process automation technology. He pointed out that internal-use-software further break down into internally developed and commercial off-the-shelf software. Mr. Williams stated that he does not currently see a need to differentiate between internally developed and contractor developed software since he suspects most internally developed software involves a combination of contractor and internal labor effort.

Working group members generally agreed that the chart accurately portrayed the desired scope of guidance update needs. One working group member commented that the chart accurately depicted the software license box between commercial off-the-shelf software and software as a service cloud arrangements since it appeared that software licenses pertain to both resources. Mr. Williams agreed that it accurately represents the multiple ways that software licenses are applicable in the federal software environment.

Another working group member suggested editing the chart to show that federal entities sometimes enhance and/or modify commercial off-the-shelf software so that the purchased software is operational in the entity’s system. Another working group member asked if the enhancement, impairment, and disclosure boxes were aligned in a particular order in the chart. Mr. Williams replied that those various activities are not in a particular order and apply to all of the software resource categories in the chart.

Software guidance comparison among standard-setters

Mr. Williams then discussed a table that compares existing software guidance among major financial reporting standard setters, including FASAB. For example, the table compares FASAB, GASB, IPSASB, and FASB guidance on internal use software, software licenses, impairment, and disclosures, among other items. Mr. Williams mostly summarized the table but specifically pointed out the interesting guidance differences between GASB and FASB regarding cloud service arrangements and stated that they could serve as models when FASAB eventually deliberates new guidance.

One working group member asked if the Board would address useful life factors for cloud service arrangements. Mr. Williams stated that he expects the Board to consider useful life guidance for cloud service arrangements in the future, especially as part of potential asset/liability recognition guidance. He encouraged the working group to further review the table and provide any further comments.

Significant software guidance needs

Next, Mr. Williams discussed the major software guidance needs that he had recorded from previous research and correspondence with the working group. Some of the major items concern recognition guidance needs for cloud service arrangements, software licenses, shared services, agile development methods, software in development, and web-based costs, among others. Mr. Williams pointed out that it was especially important that future guidance address issues with inconsistent recognition across federal entities.

The working group generally agreed with the list of guidance needs. One working group member stated that the concept of “significant additional capabilities” was too vague for determining when to expense or capitalize and suggested that future guidance address this. Mr. Williams stated that he would add that to the list and encouraged everyone to consider further any additional guidance needs.

Rescinding versus amending guidance

Finally, Mr. Williams asked the working group for their thoughts on rescinding versus amending existing software guidance when developing future guidance updates. One working group member stated that it depends on the extent of updates. They clarified that if there are a significant number of amendments, it is better to completely rescind and issue new guidance because too many amendments within existing guidance is often confusing to interpret. Another working group member stated that it is burdensome to have to refer to several different documents when researching guidance on one topic.

Mr. Williams generally agreed with the comments and further stated that, in his opinion, it is easier for preparers when FASAB completely rescinds and reissues guidance with all of the updates in one document. He stated that he also thinks that it is burdensome

for preparers to consult multiple documents and to interpret guidance with excessive edits.

Mr. Williams then asked the working group to provide their opinion on a working title for the software guidance updates. He stated that his suggestion was “Software and Other Information Technology Resources” in order to capture the expanded scope of guidance needs beyond internal-use software resources, such as cloud and shared services. The working group generally agreed with someone emphasizing it was important to retain the word “software” in the title. Another working group member suggested the title “Information Technology Resources, to include software.”

Next steps

Mr. Williams encouraged everyone to review the material further and to follow-up with any additional thoughts or concerns with the guidance scope and major guidance needs. He stated that he intended to request the working group review of the software guidance material one more time before the February 2022 Board meeting. He also indicated that he would engage the working group next month about the intangible asset working definition objective.

Conclusion

Mr. Williams concluded by thanking everyone again for all of their time and efforts. He reiterated the importance of their participation in the working group for developing a scope for future software guidance and stated their continued involvement is essential for developing draft guidance in the near future. Mr. Williams wished everyone a happy holiday season and stated that he looked forward to working with them more next year.

The meeting concluded at approximately 2:25 PM EST.