

Memorandum

Intangible Assets

February 1, 2022

To: Members of the Board
From: Josh R. Williams, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Intangible Asset Working Definition** (Topic F)

INTRODUCTION

At the August meeting, the Board officially added an intangible assets project to the technical agenda with objectives to (1) develop updates for software reporting guidance, (2) develop a working definition of intangible asset for the Board's internal use, and (3) further assess the costs versus benefits of developing reporting guidance for intangible assets.

The attached analysis addresses the second objective of developing a working definition of intangible asset for the Board's internal use. For this session, staff is requesting the Board's feedback on the proposed definitional characteristics and potential intangible resources that it could encompass.

REQUEST FOR FEEDBACK BY February 15, 2022

Prior to the Board's February meeting, please review the attached staff recommendations and analyses and respond to the questions by February 15, 2022.

Please submit responses to Josh Williams at WilliamsJR@fasab.gov with a cc to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board feedback, staff will further research and edit the working definition as needed.

ATTACHMENTS

1. Staff Recommendations and Analyses
2. FASAB Intangible Asset References

Staff Analysis Intangible Asset Working Definition

February 1, 2022

CONTEXT

Background

In 2021, staff led a task force to research the significance of intangible assets in the federal government. The research identified potential intangible assets, such as patents, trademarks, data sets, and software-based resources. During Board meeting deliberations, members agreed with staff that research indicated a need to update software guidance. The Board also shared staff concerns with recognition challenges associated with the other types of identified intangible assets. Research showed that these other types of identified intangible assets exist among federal reporting entities but there are significant concerns with the practicality of measuring and recognizing their value.

During the August 2021 meeting, the Board officially added an intangible assets project to the technical agenda with the following three 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 vs. benefits of developing reporting guidance for intangible assets

This analysis addresses the second objective of developing a working definition of intangible asset for the Board's internal use. Given the recognition and measurement concerns of the task force, the Board decided that it was best to establish a non-authoritative definition before further considering the costs versus benefits of developing reporting guidance for intangible assets. Therefore, the definition proposed in this paper is for the Board's internal use only.

Research

Staff formed a working group with representation from several entities to assist in drafting an intangible asset definition. The working group includes representation from

- General Services Administration
- National Aeronautics and Space Administration

- U.S. Coast Guard
- U.S. Citizenship and Immigration Services
- Department of Energy
- Nuclear Regulatory Commission
- Library of Congress
- Department of Commerce
- Treasury
- KPMG

Additionally, staff researched the following intangible asset statements from other standard setters.

- GASB 51, *Accounting and Financial Reporting for Intangible Assets*
- IPSAS 31, *Intangible Assets*
- FASB 350-30-20, *General intangibles other than goodwill*

Refer specifically to GASB 51, paragraphs 1-6 and IPSAS 31, paragraphs 16-25 for further insight on intangible asset definitions from other standard setters. Staff drew on inspiration from these standards, prior survey results, and feedback from the current working group to draft the intangible asset definition and accompanying analysis in the following sections.

RECOMMENDATIONS AND ANALYSES

This paper proposes a working definition of intangible asset along with an analysis of applicable federal resources for the Board to review and deliberate. The purpose of the two questions is to spark dialogue among members regarding appropriate characteristics of an intangible asset definition and the various federal resources that the definition could encompass. Staff is not asking the Board to approve any specific action at this time but requests members' opinions on the proposed definition and any suggestions or concerns so that staff can further research and edit the working definition as needed.

RECOMMENDATION

Intangible asset definition

Based on research of other standard setter guidance, as well as input from the task force and working group volunteers, staff proposes the following definition for an intangible asset.

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*

ANALYSIS

Characteristics of an intangible asset

Each characteristic of the proposed definition derives from GASB 51, IPSASB 31, FASB 350-30-20, and/or FASAB's SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. Staff derived the term "resource", used at the beginning of the definition, from SFFAC 5. Paragraph 21 describes a resource as "a useful or valuable possession or quality of a country, organization or person" or "a means of supplying a want." The paragraph further explains that the government has many resources but that resources are not assets unless they have essential characteristics of assets. The following analysis will discuss in detail each characteristic that makes a resource an intangible asset.

Lacks physical substance

This foundational characteristic establishes the key difference between a tangible and intangible asset. Whereas one can physically touch tangible property, such as land, equipment, or a building, one cannot physically touch intangible property, such as a patent, trademark, data, or software. It appears that GASB, IPSASB, and FASB include this characteristic, in some form, in their definition.

Some intangible assets could present in a tangible manner. For example, sometimes software is stored in a disk device or a document can represent a patent. However, it is important to distinguish the underlying resource from the vessel that represents or contains the resource. For example, the underlying resource associated with software is computer code and the underlying resource associated with a patent is an idea, both lack physical substance.

Represents a nonmonetary asset

This is a characteristic that GASB, IPSASB, and FASB also use, in some form, to classify intangible assets. This characteristic helps separate resources that lack physical substance from an already established major asset category. A nonmonetary¹ asset (1) does not relate to financial related assets that are easily converted to cash² or cash equivalents, such as security investments³ or any other monetary asset; (2) does not represent cash or cash equivalents owed to the entity, such as account, interest, or loan receivables; and (3) does not represent cash related transactions for goods or services owed to the entity, such as an advance or prepayment.

Some other standard setters refer to an intangible asset as nonfinancial rather than nonmonetary, although the underlying principle appears similar. Staff originally considered using the term nonfinancial for this characteristic but some task force members expressed concerns that the term would potentially cause confusion since intangible assets could have a financial value.

A resource that lacks physical substance and does not represent a monetary asset would meet the requirements of an intangible resource but not necessarily an intangible asset without meeting the next characteristics.

Useful life greater than two years

The Board has traditionally required that the useful life of tangible assets be greater than two years. Staff does not see a need for a different useful life for intangible assets.

Identifiable

Both GASB 51 and IPSAS 31 require that an intangible asset is identifiable in some capacity. An intangible asset is generally identifiable if the asset (1) can be separated from the entity as a whole and sold, rented, licensed, or transferred; or (2) derives from a contractual, legal, or other binding arrangement. Note that an intangible asset meets the identifiable characteristic if it meets just one of the two above criteria. Additionally,

¹ Existing FASAB guidance does not define monetary assets

² SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 27 states that cash consists of (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date. FASAB does not currently define "cash equivalents".

³ Existing FASAB guidance only addresses investments in Treasury securities (SFFAS 1, paragraphs 62 – 73)

an asset is separable if an entity is able to separate and transfer the asset regardless of whether the entity intends to do so.

It appears that GASB 51 requires that an intangible asset be identifiable for financial statement recognition, whereas IPSAS 31 requires that the item is identifiable to be an asset in the first place.

Staff recommends making the identifiable characteristic a requirement for an intangible asset, similar to the IPSAS 31 approach. Otherwise, preparers could have difficulty reporting a wide array of nebulous resources that are intrinsic in the entity's operations and structure. Task force members previously voiced concerns that the scope of intangible asset reporting guidance could be so broad that it could encompass federal resources that are difficult for management and auditors to agree on what should be an intangible asset. Staff believes that including the "identifiable" criteria in the definition would alleviate some of these concerns and help management narrow their scope of what to consider an intangible asset.

Embodies future economic benefits or services

According to SFFAC 5, paragraph 22 one essential characteristic of an asset is that a resource must embody economic benefits or services that the entity can use in the future. Paragraph 26 of SFFAC 5 explains that economic benefits manifest as inflows of cash, cash equivalents, goods, or services to the entity while services embodied in an asset can benefit the entity in other ways that enables the entity to achieve its objectives and mission to provide public services.

Even though SFFAC 5 establishes that this characteristic is inherent in all federal government assets, staff chose to make it a specific requirement of the intangible asset definition. This is primarily because the asset characteristics in SFFAC 5 are conceptual and technically non-authoritative, which could leave preparers uncertain of the actual requirements of an intangible asset. Staff believes establishing that the intangible asset must embody future economic benefits and services in the actual definition along with the other criteria will make the requirement clear.

The entity controls access to the economic benefits or services

The other essential characteristic of a federal asset, according to paragraph 29 of SFFAC 5, is that the entity must have control over the resource. This means that the entity has the ability to obtain the economic benefits or services embodied in the resource and can deny or regulate the access of others to the resource. For example, current laws require many federal data sets to be freely available to the public. This type of intangible resource may embody service potential for the entity but the entity most likely lacks control of the resource since they cannot regulate access to others. In this case, it appears that type of data set would not meet the required characteristics of an intangible asset.

For the same reasons stated previously, staff chose to include “control” as a specific characteristic in the intangible asset definition even though SFFAC 5 considers it essential for all federal assets.

Accordingly, if a resource possesses all of the previous six characteristics, then it would be considered an intangible asset eligible for disclosure in the financial reports. However, an intangible asset would not be recognized in financial statements without meeting the following final characteristic.

Has measurable value

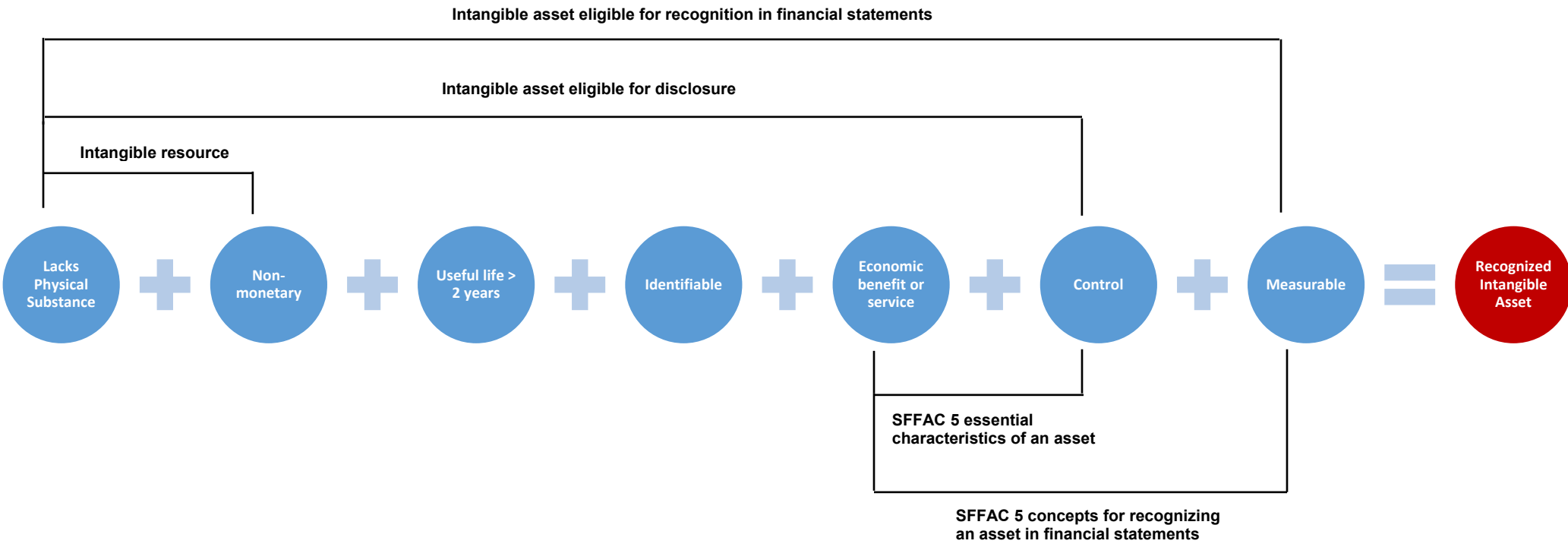
According to SFFAC 5, paragraph 5, to recognize an asset in financial statements, it must be measurable in the sense that a monetary amount can be determined with reasonable certainty or is reasonably estimable. For the same reasons previously stated, staff also chose to include this characteristic in the intangible asset definition.

Task force volunteers were concerned with the difficulty of determining an accurate value for resources that qualify as intangible assets, especially with internally generated intangible assets. Staff believes that including the measurability requirement in the definition will help preparers distinguish what intangible assets are eligible for disclosure or statement recognition. Staff suspects that historical cost, as evidenced by a transactional event, would be the most practical method for management to measure and recognize a monetary value for an intangible asset.

Refer to the diagram on the following page that depicts the previously proposed characteristics for an intangible asset definition. The diagram illustrates how the characteristics align to differentiate the differences in an intangible resource from an intangible asset, and from an intangible asset eligible for disclosure versus one eligible for financial statement recognition.

(Intangible asset definition diagram on next page)

Intangible Asset Definition Diagram



Pending the Board’s feedback, staff will further research and edit the working definition as needed.

Question for the Board:

1. Do members have any feedback on the proposed intangible asset definition?

RECOMMENDATION

Scope of resources

Based on research of other standard setter guidance, as well as input from the task force and working group volunteers, staff has compiled a list of federal resources that would not apply to the proposed intangible asset definition and a list of resources that could apply to the definition. Staff recommends that the Board consider the proposed lists as they could serve as a basis for the scope of future reporting guidance for intangible assets. However, the purpose of this analysis is not to formally establish a scope for potential guidance but to consider how the proposed intangible asset definition could apply to federal resources.

ANALYSIS

Resources not applicable to definition

It is important to consider existing federal assets that would not meet the characteristics of an intangible asset. The following analysis represents resources that staff does not believe would fall under the proposed intangible asset definition.

Property, plant, and equipment (PP&E) – Paragraph 17 of SFFAS 6, *Accounting for Property, Plant, and Equipment* establishes that PP&E consists of tangible assets. Therefore, PP&E represents assets with physical substance, such as buildings, land, vehicles, among others. These assets clearly would not meet the first characteristic that an intangible asset lack physical substance. This includes PP&E associated with or linked to an intangible asset, such as computer servers.

Inventory – Table 1 in SFFAS 3, *Accounting for Inventory and Related Property* refers to inventory as tangible personal property. Similar to PP&E, inventory would also not meet the first characteristic that an intangible asset lack physical substance. This same notion would apply to operating supplies and materials that SFFAS 3 covers as well.

Natural resources – Natural resources⁴ are resources that occur in nature such as oil, natural gas, coal, timber, water, wind, among others. With a few arguable exceptions, such as wind, staff thinks that natural resources generally represent or derive from an asset with physical substance that are either renewed or depleted with use. In other words, the availability of the natural resource decreases when consumed. This denotes a resource that would not meet the first characteristic of an intangible asset.

Security investments – A federal entity’s acquisition of Treasury bonds, corporate bonds, stocks, options, mortgages, or any other type of tradeable financial asset would not meet the nonmonetary requirement for an intangible asset.

Cash-based holdings – Similar to security investments, any asset account representing cash resources, such as bank deposits, money orders, money market funds, escrow accounts, foreign currencies, or fund balance with Treasury (FBwT) would not meet the nonmonetary requirement for an intangible asset.

Receivables – Assets that represent federal entity claims to cash or other assets based on goods or services provided, such as accounts, interest⁵, and loan receivables⁶ would not meet the nonmonetary characteristic for an intangible asset.

Prepaid assets – Advanced cash outlays for goods and services and prepayments⁷ for future periodic expenses made by federal entities represent cash-based transactions for future expenses or goods and services owed to the entity. In the same manner as receivables, prepaid assets may not meet the nonmonetary characteristic for an intangible asset.

Goodwill – Several working group members specifically inquired whether goodwill would apply to the proposed definition. Goodwill generally represents the collective intangible value of an entity based on a combination of resources that are inherent in the entity’s brand or operations. Other guidance generally requires recognizing goodwill in situations when an entity acquires another entity and the purchased price exceeds the net book value of the acquired entity. However, some have inquired about the notion of internal goodwill not recognized by an external transaction.

Staff does not believe that internal goodwill would meet the “identifiable” characteristic of the definition because it cannot be separated from the entity as a whole in any conceivable way and is not based on a binding arrangement. Additionally, goodwill is not measurable without an external transaction with another entity representing a

⁴ See TB 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*, paragraph 11 for a description of natural resources

⁵ See SFFAS 1, paragraphs 40 and 53 for a description of accounts and interest receivables

⁶ SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* addresses loan receivables

⁷ See SFFAS 1, paragraphs 57-58 for a description of advances and prepayments

purchase price. Furthermore, staff is not aware of any instances of federal entities acquiring other entities⁸ that would result in external goodwill.

If a part of internal goodwill was identifiable, then an entity could theoretically report that portion as a specific intangible asset other than goodwill. For example, it is possible that an entity could identify a trademark that represents brand value of the entity. However, the trademark would then identify the brand value separate from goodwill. In summary, it is conceivable for internal goodwill to meet the characteristics of an intangible resource, but not an asset.

The items discussed above are not necessarily a complete list of resources that the intangible asset definition would scope out of future guidance. However, the analysis offers a starting point to envision how the proposed definition could apply to existing federal resources. There are complexities associated with some of the previously discussed resources that could affect whether or not they would fit the proposed definition. Staff will discuss these complexities along with resources that could potentially fit the intangible asset definition in the next section.

Potential intangible assets

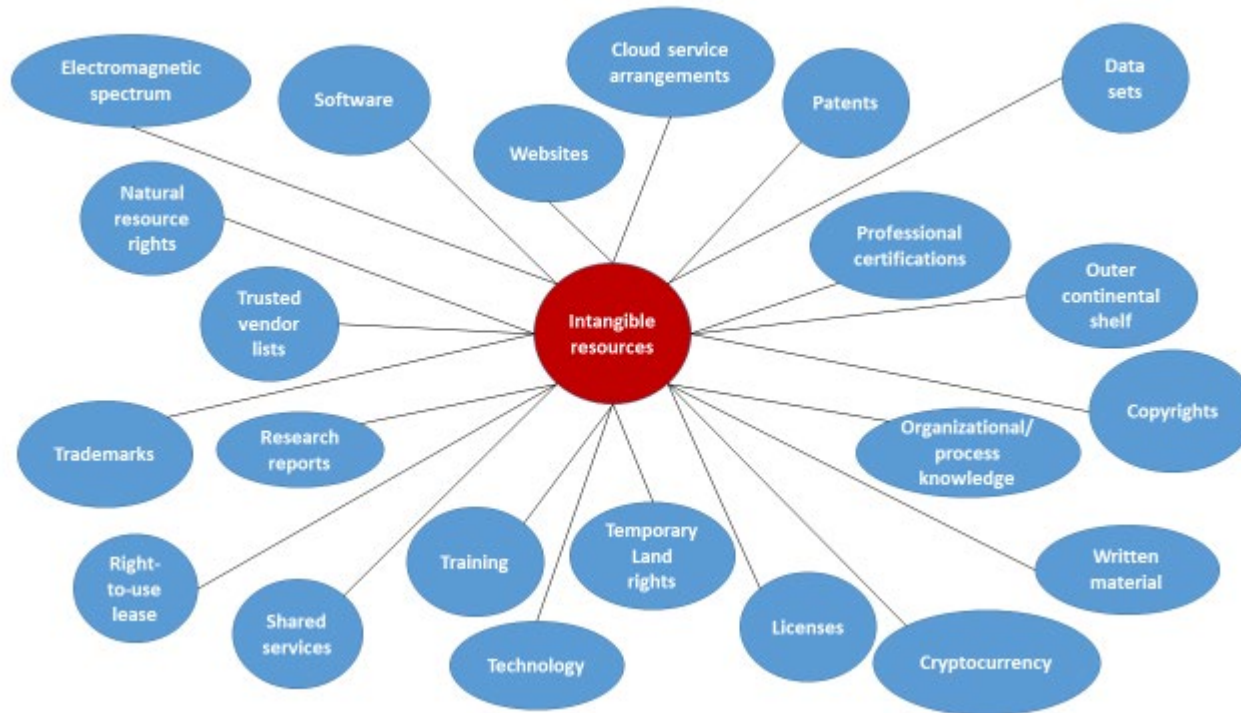
Based on prior task force research and input from the current working group, staff brainstormed various resources that could meet the proposed characteristics of an intangible asset and organized them into the bubble diagram below. This is opposed to the previous section in which staff identified broad categories of resources, such as PP&E, receivables, and goodwill, that would be scoped out of the intangible asset definition.

Note that the bubble diagram addresses “intangible resources”, that is items that would most likely meet the “lack of physical substance” and “nonmonetary” characteristics of an intangible resource. These resources could potentially meet the remaining definition characteristics of an intangible asset depending on individual and unique circumstances of each.

(Intangible resource bubble diagram on next page)

⁸ SFFAS 47, *Reporting Entity*, paragraph 51 describes receiverships and conservatorships as situations in which the federal government takes control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. The paragraph also explains that entities controlled or owned through receiverships or conservatorships are generally disclosure entities. Staff does not believe that these situations would be appropriate for goodwill reporting because they are meant as temporary measures to liquidate failing institutions or guide them back to sound conditions.

Intangible Resource Diagram



The items in the bubble diagram are not necessarily a complete list of resources that the proposed intangible asset definition could encompass. However, the diagram offers a starting point to envision how the proposed definition could apply to many existing federal resources.

The proposed definition does not apply a narrow scope to specific intangible asset categories. Staff intended that the definition encompass a wide range of assets so long as they meet the previously discussed characteristics. For example, the definition does not limit intangible assets to only patents and trademarks nor does it require that all patents and trademarks be an intangible asset. This appears to be in line with other standard setters. Other than software and goodwill, neither GASB 51, IPSAS 31, nor FASB 350-30-20 appear to identify specific intangible assets in their reporting guidance. However, the guidance in GASB 51 and IPSAS 31 each mention various resources as potential examples of intangible assets that could apply to their definition and associated guidance. For example, GASB 51, paragraph 1 states, “Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software.” However, it appears that this narrative only serves as an example of common intangible assets. It does not appear to scope the definition to include only those items.

As stated previously, staff is confident that the resources in the diagram could reasonably meet the requirements of an intangible resource per the proposed definition. However, just because an item is an intangible resource does not mean that it would meet the definition requirements of an intangible asset. Federal entities would have to evaluate each resource on an individual level to make that determination.

Staff expects that many intangible resources would not meet the “identifiable” and “control” characteristics of an intangible asset, nor the “measurable” criteria for statement recognition. For example, SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 182 mentions that intangible factors that affect an entity’s financial condition include information and analysis capabilities, strategic planning, human resource development, and constituent satisfaction (see *Attachment 2* for a list of all instances in which “intangible” is currently used in FASAB statements). It is staff’s opinion that these intangible factors discussed in SFFAC 1 could meet the intangible resource requirements but not necessarily all of the intangible asset characteristics.

This analysis does not address every resource from the bubble diagram in detail. However, the following paragraphs address some significant resources and key challenges.

Intangible rights associated with tangible assets

The differences between a tangible asset and the intangible right-to-use that asset are particularly complex. For example, staff previously suggested that PP&E would not meet the characteristics of an intangible asset but also suggested in the bubble diagram that the right-to-use lease of PP&E could meet the characteristics of an intangible asset. This same notion applies to temporary land rights and natural resource rights.

Ultimately, staff sees two approaches to this challenge of whether it is appropriate to label right-to-use assets as tangible or intangible assets. Below are arguments for each position.

1. Right-to-use assets are tangible assets - The issue of whether a right associated with physical property is an intangible asset could focus on the underlying resource that is actually providing the economic benefit or service. For example, the underlying resource of an easement, lease, and timber rights are tangible assets. These underlying tangible assets are providing the economic benefit or service to the entity even if they access that benefit through a right-to-use arrangement. This principal would lead to the position that rights associated with tangible assets are not intangible assets.
2. Right-to-use assets are intangible assets - The issue of whether a right associated with physical property is an intangible asset could focus on how the entity controls the underlying resource. In other words, does the entity own and fully possess the land or natural resource, or does the entity access the land or natural resource through an intangible right-to-use arrangement. This principal would lead to the position that rights associated with tangible assets are intangible assets.

There are benefits and drawbacks to each position. Regarding the first position, it makes sense to consider whether the underlying resource is tangible or intangible in a right-to-use arrangement to determine if the right-to-use asset is tangible or intangible. However, this would result in fewer resources identified as intangible assets and ultimately any future guidance would address fewer assets.

The second position focuses on how the entity accesses and controls the resource. If an entity controls a resource through an intangible right-to-use arrangement, then it could represent an intangible asset, even if the underlying resource is tangible. This approach could lead to the definition and future guidance encompassing more assets.

Note that staff excluded permanent land rights from temporary land rights in the discussion. Based on Board deliberations concerning SFFAS 59, *Accounting and Reporting of Government Land* permanent land rights are not considered separable from the actual land resource⁹. Therefore, the permanent rights appear to provide a similar level of control as fully owning and possessing the land.

Based on researching past Board deliberations, it is staffs view that the Board has intended to address some right-to-use assets as part of an intangible asset project. Additionally, the Board has already referred to some right-to-use assets as intangible. For example, TR 20, *Implementation Guidance for Leases*, paragraph 18 says “Lease arrangements unbundle the economic benefits and services embodied in leased property and give lessees the intangible right to derive economic services and benefits from tangible assets underlying the lease, which is represented by the recognition of the

⁹ See SFFAS 59, paragraph A31 for a discussion on temporary and permanent land rights.

right-to-use lease asset over the lease term.” Additionally, SFFAC 5, paragraph 27 says, “The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or intangible, such as a right.” Paragraph 25 refers to an easement (a type of land right) as a potential intangible asset (see *Attachment 2*). This indicates that the Board has already considered right-to-use assets as intangible assets (position 2) in existing guidance.

Software technology

The Board is currently considering updates to software reporting guidance as a separate effort. However, the software project relates to this effort in the sense that software would meet the characteristics of an intangible asset according to the proposed definition. Other standard setters appear to consider software an intangible asset and include software recognition guidance in their intangible asset guidance. Paragraph 15 of SFFAS 10, *Accounting for Internal Use Software* currently considers software as general PP&E, a tangible asset. It is staffs’ opinion that this notion is outdated and that software technology is an intangible asset. The Board has acknowledged this in footnote 41 of SFFAS 6 where it indicates that software (and land rights) may be classified as intangible assets by some entities (see *Attachment 2*).

Data sets

The Board has previously identified “information” as a form of intangible value in TB 2017-1, *Intragovernmental Exchange Transactions*, paragraph 18 (see *Attachment 2*). During prior research, staff identified one instance of an entity currently recognizing data sets as an intangible asset in their financial statements. A task force member told staff that their agency purchased data rights from a contractor so they could retain and use the information after the contract expired. The data set purchase provides future economic and service benefits through cost savings and facilitating contract award competition. The entity capitalized the data set as an intangible asset to match expenses in the periods that the asset provides benefits.

Staff envisions that there are instances when data sets would and would not meet the proposed intangible asset characteristics. In this case, it appears that the agency acquired the data set through a binding arrangement and has control of the asset. However, in instances where entities internally produce data sets, they may not meet the “identifiable”, “control”, or “measurable” characteristics of the definition. As stated previously, internally generated data sets likely would not meet the “control” characteristic if laws require that the data be freely available to the public. Additionally, preparers have voiced concern with the difficulty of measuring and recognizing specific internal costs associated with developing data sets, or any other intangible asset.

The point of this example is that staff anticipates that the proposed definition would require significant management judgement to determine if specific resources are considered an intangible asset. For example, not all patents or data sets would meet all of the intangible asset characteristics, but some may. It would be difficult to identify intangible assets based on broad categories alone.

Final thoughts

It is practicable to label assets as intangible assets even if the Board has already addressed them in existing guidance. For example, it is appropriate for separate guidance to address software and leases while the Board refers to them as intangible assets. Any future intangible asset guidance could easily categorize items as intangible assets but also scope out reporting guidance to other existing standards. For example, a separate standard could still address software reporting guidance even if software is considered an intangible asset.

Additionally, a proposed definition is not the only means for establishing a scope for future intangible asset recognition guidance. The Board could further scope out other categories of intangible assets if appropriate.

Pending the Board's feedback, staff will further research and edit the working definition as needed.

Question for the Board:

2. Do members have any feedback regarding which resources the proposed definition should encompass or exclude?

FASAB Intangible Asset References

Statement of Federal Financial Accounting Concepts 1: Objectives of Federal Financial Reporting

182. Increasingly, managers and investors in the private sector are attending to other factors that may sometimes be useful indicators of an entity's financial condition, including such **intangible** factors as the quality of the entity's

- information and analysis capabilities,
- strategic planning,
- human resource development and management, and
- constituent satisfaction.

Statement of Federal Financial Accounting Concepts 5: Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

25. The federal government's resources often are tangible and exchangeable, and the government often has legally enforceable rights of access to the resulting benefits. But the absence of those features is not sufficient to preclude an item from qualifying as an asset. For example, an **intangible** resource, such as an easement on property, is an asset if the federal government can benefit from it and regulate or deny the access of other entities. A resource may embody economic benefits even though the federal government cannot exchange it or sell it—for example a machine that continues to provide a needed service even though there is no market for the machine. Similarly, the fact that the government's ability to access or use a resource is not legally enforceable does not mean that the resource is not an asset, if the government nevertheless can obtain the economic benefits or services it embodies and deny or regulate other entities' access to or use of those economic benefits or services.

27. The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or **intangible**, such as a right. Not all properties embody economic benefits or services and the assumption that a particular type of property will always be an asset is not justified.

Appendix A: Basis for Conclusions

A7. Assets: Tangible or **intangible** items owned by the federal government which would have probable economic benefits that can be obtained or controlled by a federal government entity.

Statement of Federal Financial Accounting Standards 3: Accounting for Inventory and Related Property

67. This subsection defines “forfeited property” and presents the accounting and reporting standards for it. Presented below are examples of forfeited property.
- monetary instruments,
 - intangible property,
 - real property and tangible personal property,
 - property acquired by the government in satisfaction of a tax liability, and
 - unclaimed and abandoned merchandise.
68. Definition. “Forfeited property” consists of (1) monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.
70. Intangible property, real property and tangible personal property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained. The property shall be valued at its fair value at the time of forfeiture. A valuation allowance shall be established for liens or claims from a third-party. This allowance shall be credited for the amount of any expected payments to third-party claimants.

Appendix A: Basis for Conclusions

150. One respondent noted that the definitions of seized and forfeited property seem to be limited to monetary instruments, real property and tangible personal property. The respondent asked that this definition be extended to intangible assets (e.g., savings and loan charters). The Board did broaden the definition to address intangible property.

Statement of Federal Financial Accounting Standards 6: Accounting of Property, Plant, and Equipment

35. Footnote 41 - Software and land [See SFFAS 10 for standard regarding internally developed software] rights, while associated with tangible assets, may be classified as intangible assets by some entities. In this event, they would be subject to amortization rather than depreciation. “Amortization” is applied to intangible assets in the same manner that depreciation is applied to general PP&E—tangible assets.

Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software

Appendix A: Basis for Conclusions

69. The issue of whether to capitalize all, some, or no data conversion cost is a difficult one. Some argue that the cost of converting existing data to a new software system is analogous to the types of cost that the Accounting Principles Board Opinion (APB) No. 17, **Intangible Assets**, requires to be expensed as incurred because they are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole—such as goodwill (APB 17, par. 24). The Board is persuaded that data conversion costs are operating costs and should be expensed.

Statement of Federal Financial Accounting Standards 54: Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment

Appendix A: Basis for Conclusions

A33. The Board also reconsidered the broad scope of the lease definition, which included all nonfinancial assets not specifically excluded in the standards. During deliberations after receiving comment letters, the Board determined that the broader lease definition would necessitate the development of a definition of “nonmonetary assets” and “**intangibles**,” plus the inclusion of a more developed list of excluded transactions. Also, several respondents and task force members advocated a more narrow definition of leases. In an effort to reduce preparer burden, the Board reconsidered its decision and reevaluated the benefits of a narrower lease definition. The Board decided to narrow the scope of the definition to only include PP&E.

Statement of Federal Financial Accounting Standards 59: Accounting and Reporting of Government Land

Appendix A: Basis for Conclusions

A31. Prior to issuing its ED, the Board concluded that temporary land rights (that is, other than permanent land rights) would not be subject to the new requirements of this Statement. The rationale for excluding temporary land rights was based on the Board's belief that (1) such land rights are **intangible assets** and should be addressed in an **Intangibles** project and (2) the cost of separating such land rights from the underlying asset would be prohibitive. Therefore, in SFFAS 6 the Board provided for the recognition of land rights based on the expected service life of the land rights. Specifically, where land rights are for a limited or finite period of time (that is, temporary), the Board provided for amortization/ depreciation of the cost to acquire and maintain such rights. The land rights considered permanent are capitalized along with land. SFFAS 50 provided alternative methods for

establishing opening balances. Specifically, paragraph 13 (which amended par. 40 of SFFAS 6) provides reporting entities that met the SFFAS 50 criteria to apply the option to either (1) exclude both land and (all) land rights from the opening balance of G-PP&E or (2) recognize land and land rights in opening balances based on the provisions of the alternative valuation method (deemed cost).

Statement of Federal Financial Accounting Standards 60: Omnibus Amendments 2021: Leases-Related Topics

Appendix A: Basis for Conclusions

A4. In June and August 2020, the Board discussed omnibus amendments candidates identified by project staff and the task force to include in the exposure draft. The major points of discussion included:

- g. The Board agreed to propose clarifying amendments related to the classification of lease assets by striking the term “PP&E” in SFFAS 54 and SFFAS 57, Omnibus Amendments 2019, in certain locations where use of the term implies that lease assets—rather than the underlying assets—are PP&E. The Board discussed the potential benefits to defining intangible assets but agreed that the most appropriate mechanism for doing so would be in a separate project focused on intangibles. The Board also agreed to propose amendments to SFFAS 6, Accounting for Property, Plant, and Equipment, to clarify that PP&E would not include lease assets or land rights that meet the definition of a lease.

Technical Bulletin 2017-1: Intragovernmental Exchange Transactions

15. What types of value may be considered sacrificed and received for an intragovernmental transaction to be classified as an exchange transaction?

18. Parties considering whether they sacrificed and received value may consider value that is:

- a. direct (such as goods or services made available to them through the actions of the other party);
- b. indirect (such as goods or services made available to support their mission as a result of the actions of the other party);
- c. tangible (such as property, plant, or equipment);
- d. intangible (such as information systems, written materials, or information);
- e. quantitative (such as a specific amount of a good or service); or

- f. qualitative (such as guidance or advice that may not be measurable).

Appendix A: Basis for Conclusions

A21. Certain respondents requested clarity regarding if the receiving entity is directly billed by the vendor. Staff notes that that paragraph 13 explains the ways value may be sacrificed [making a payment, providing something of value, performing a service, or arranging a contract or agreement or coordinating funding on behalf of another party] and paragraph 18 explains the type of value that should be considered [direct, indirect, tangible, **intangible**, quantitative, and qualitative]. If no value is sacrificed, such as for amounts directly billed to and paid by the receiving entity, then the transaction would not meet the definition of an exchange transaction.

Technical Release 20: Implementation Guidance for Leases

18. What is the difference between a right-to-use lease asset and the underlying asset?

The underlying asset is the PP&E being leased. Lease arrangements unbundle the economic benefits and services embodied in leased property and give lessees the **intangible** right to derive economic services and benefits from tangible assets underlying the lease, which is represented by the recognition of the right-to-use lease asset over the lease term. Lessors have the right to rentals and any residual value of the leased property and, therefore, do not derecognize the PP&E asset underlying the lease, in accordance with paragraph 66 of SFFAS 54.

Appendix A: Basis for Conclusions

A10. The AAPC also resumed its analysis of comment letters related to the previously-exposed conforming amendment proposals for TR 10 and TR 16. FASAB staff elevated the issues raised by certain respondents of the ED to the Board. The Board expressed an intent to begin considering projects to comprehensively address **intangible** assets and service-based information technology arrangements. In light of the Board's decision, coupled with due process limitations surrounding the purposes and uses of TRs, the Committee agreed to conform TR 16 by rescinding certain guidance that requires Board action. The Committee also agreed to further conform TR 10 to omnibus proposals more recently agreed to by the Board.

Appendix E: Consolidated Glossary

Assets - Tangible or **intangible** items owned by the federal government which would have probable economic benefits that can be obtained or controlled by a federal government entity. (Adapted from Financial Accounting Standards Board, Statement of Concepts No. 6, Elements of Financial Statements)

Forfeited property - is property for which title has passed to the Government. Forfeited property includes (1) monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.

Product - Any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources.

Property, Forfeited - Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) for which title has vested in the Federal government, over any other asserted legal interest in the property, by exercise of a legal forfeiture process.

Property, Seized - Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) over which the federal government has exercised its power under law to assert possession and control in opposition to any other party asserting a legal interest in the property.

Service - An intangible product or task rendered directly to a customer.