

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Intangible Assets

Issues paper

Objective

- 1 The objective of this session is to seek EFRAG FR TEG-CFSS views on the selected test cases by the IASB for potential changes to the definition of an intangible asset, related guidance and some aspects of recognition. We will also seek views on the principles and topics identified by the IASB to explore further on the selected test cases.
- 2 This agenda paper is prepared to support the discussion on agenda paper 06-03 which is the IASB Staff's paper that will be discussed at the September 2025 ASAF meeting.

Cloud computing arrangements

What are cloud computing arrangements?

- 3 Cloud computing arrangements are arrangements whereby the customer gains on-demand access to computing power such as software, storage, databases, and processing power through internet-based services.
- 4 Cloud computing arrangements can be split into three main categories:
 - (a) SaaS (Software as a service): the customer uses ready-to-go software over the internet (e.g. Outlook or Zoom);
 - (b) PaaS (Platform as a service): a cloud-based environment where the customers (e.g., developers) can build, test, and deploy applications without worrying about infrastructure. The supplier manages infrastructure (servers, storage, networking) and platform tools (databases, operating systems) while customers develop and manage their applications; and
 - (c) IaaS (Infrastructure as a service): customers gain access to IT infrastructure (virtual machines, storage, networks). The supplier manages physical data centres, networking, servers while customers install and manage their own operating systems, applications, and data.
- 5 Cloud computing can be delivered through:

- (a) a public cloud whereby the computing power is delivered over the internet by the supplier who owns and manages the hardware, software, and infrastructure while multiple customers share the same infrastructure; and
 - (b) a private cloud whereby the cloud infrastructure is dedicated exclusively to a single organisation.
- 6 Customers usually pay a recurring fee (subscription) or a fee based on actual usage to access the cloud resources.
- 7 According to the IASB’s feedback gathered, almost all application issued raised were related to SaaS arrangements.

Current IFRS accounting requirements

- 8 If a SaaS arrangement does not contain a software lease, these arrangements fall in the scope of IAS 38 *Intangible assets*. Two IFRS IC agenda decisions related to the SaaS arrangements were issued in the last few years. The first one was issued in March 2019 and was focused on the fees paid or payable to a supplier in a SaaS arrangement. The second IFRS IC agenda decision was issued in March 2021 and was focused on the configuration and customisation costs paid in a SaaS arrangement.

March 2019 IFRS IC Agenda Decision - Customer’s Right to Receive Access to the Supplier’s Software Hosted on the Cloud

- 9 IFRS IC examined how customers should account for a SaaS arrangement where a customer pays for access to cloud-hosted application software managed entirely by the supplier. The contract grants only access—no ownership of underlying hardware or intellectual property is transferred. The key question was: at contract commencement, does the customer receive a software asset or a service over the contract term?
- 10 IFRS IC concluded that, in typical SaaS arrangements, the customer receives a service over the contract term—not an intangible asset as the supplier usually retains control over the software and its use. If the customer prepays fees, these represent a prepayment asset for future service delivery.

March 2021 IFRS IC Agenda Decision - Configuration or Customisation Costs in a Cloud Computing Arrangement

- 11 IFRS IC considered a request regarding how a customer should account for costs incurred in configuring or customising supplier-provided software in a cloud computing (SaaS) arrangement—specifically, whether such costs should be recognized as an intangible asset under IAS 38 or expensed.
- 12 In the SaaS scenario, the supplier controls the underlying software. Therefore, in most cases, configuration or customisation costs do not give rise to an intangible asset because the customer neither controls the software nor acquires a separate resource. However, if configuration results in additional identifiable code over which the customer can obtain future benefits and restrict others, then those costs may qualify for capitalization. If an intangible asset is not recognised, an expense is recognised when the customer receives the configuration or customisation services.

US GAAP accounting requirements

- 13 Regarding the fees paid in a cloud computing arrangement for internal-use: If the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to run the software on its own hardware or contract with another party unrelated to the supplier to host the software, it is recognised as an intangible asset. Otherwise, usually recognised as an expense because the customer receives a service contract.
- 14 Regarding the configuration or customisation costs: Application development stage costs are capitalised as an asset related to the service contract then expensed over the term of the hosting arrangement, while preliminary stage and post-implementation stage costs are expensed.

Issues raised by stakeholders

- 15 Comments raised by the IASB's stakeholders:
 - (a) Shift from software-on-premises models to the cloud computing arrangements resulting in a significant expense in the income statement; and
 - (b) Evidence of structuring SaaS arrangements to achieve a desired accounting outcome and of diversity in applying IAS 38.
- 16 Stakeholders had mixed views on whether the application of the IFRS IC agenda decisions leads to accounting outcomes reflecting the economics of the arrangements (e.g. some questioned the different accounting outcome of on-premise software and SaaS, some also considered that configuration and customisation costs provide the entity with future economic benefits so the agenda decision does not reflect the economic reality).

Principles and topics suggested by the IASB Staff to explore further

Definition of an intangible asset and related guidance

- 17 The principles and topics to explore further in this section are:
 - (a) the meaning of control in the context of an intellectual property (software) license.
 - (b) the rights that the customer have in a SaaS arrangement:
 - (i) determination of the underlying item (the software, the code...).
 - (ii) what kind of rights the customer receives (e.g. a right to use the underlying item, a right to access...).
 - (iii) How does the customer distinguish between the above risk and how to determine when the customer controls them?
 - (iv) How to determine the unit of account?
 - (c) the implications of the mode of access (i.e., on-premises versus SaaS) in determining whether a customer has an intangible asset and whether the customer's rights differ under these two scenarios (e.g. meaning to the right to restrict other's access to the benefits in the context of a software license).
 - (d) the characteristics of an intangible assets compared to tangible assets that might lead the IASB to develop different requirements for this type of assets.

- (e) the application of the Conceptual Framework guidance on executory contracts to the SaaS arrangements.
- (f) whether the IASB can add guidance to help entities distinguish between an intangible asset, a lease contract and a service contract.

Relationship with IFRS 15 Revenue from Contracts with Customers

- 18 The principles and topics to explore further in this section are:
- (a) whether IAS 38 should mirror IFRS 15 for licenses of intellectual property (i.e. right of use give rise to an intangible asset and right of access to a service contract).
 - (b) whether there are IFRS 15 incorporate concepts that would be helpful to include in IAS 38. For example:
 - (i) what rights the supplier is transferring to the customer and when control transfers (i.e. right to use and right to access).
 - (ii) whether different rights under the contract are distinct (e.g. if updates to the software after contract inception are different performance obligations).
 - (iii) If the nature of the customer’s right (right of use or right of access) depends on the ability of the supplier to change the software.

Agile software development

What is agile software development?

- 19 *Agile software development* is an iterative and incremental methodology designed to deliver software more quickly and flexibly, through small, continuous improvements rather than a single, final release. Key features include repeated development cycles, frequent releases of working software, ongoing stakeholder collaboration, and adaptability to change, even at later stages of development.
- 20 In contrast to the waterfall approach which follows a linear and sequential process with limited customer involvement, agile development allows for continuous feedback and is more responsive to evolving user needs.

Current IFRS accounting requirements

- 21 Entities treat such transactions as internally generated intangible assets following the R&D requirements and other relevant requirements in IAS 38.

USGAAP accounting requirements

- 22 Stakeholders in the US expressed concerns that existing guidance is outdated. The US FASB’s proposed amendments to Subtopic 350-40 aim to remove project stages and instead focus on commitment and probability of completion as the basis for capitalisation. The IASB staff noted that similar considerations may be worth exploring further in revising the relevance of IAS 38 requirements to agile software practices.

Issues raised by stakeholders

- 23 Stakeholders informed the IASB that many entities have shifted from traditional waterfall methods to agile development in order to reduce risk and increase flexibility. In their view, the boundary between the R&D phases under IAS 38 has become increasingly blurred in agile environments. They raised concerns that the current recognition model in IAS 38,

which distinguishes between research and development phases, may not adequately reflect the realities of agile practices. While still appropriate for linear projects such as pharmaceutical R&D, its application to agile development may be problematic. Stakeholders also highlighted that distinguishing between costs to be impaired and those to be capitalised may be challenging.

- 24 From a measurement perspective, stakeholders noted that it can be difficult to determine when an asset is complete and when amortisation should begin. They also emphasised that distinguishing between research costs, development costs and maintenance costs may be challenging.
- 25 A large accounting firm noted in its accounting manual that assessing agile software development poses challenges when determining whether related expenditures should be recognised as intangible assets or expensed as incurred, which contrast with traditional software development. Specifically, it identified the following challenges:
- (a) Difficult to determine an appropriate unit of account, as this could vary from the entire software to individual applications, specific functions, or even lines of code;
 - (b) Difficulty to maintain the appropriate balance between capitalising new development costs, derecognising earlier ones, and setting a suitable amortisation period;
 - (c) Certain steps involved in the continuous update process of agile development are similar to maintenance activities, and should be expensed as incurred; and
 - (d) Entities may not have clear budgets for agile projects, increasing the risk that inefficiencies and cost overruns might be incorrectly capitalised.

Principles and topics suggested by the IASB Staff to explore further

- 26 The IASB staff mentioned the following areas to be further explored:
- (a) What is the unit of account for software development costs?
 - (b) Are the current recognition requirements suitable for capitalising costs incurred in agile development? For example:
 - (i) Is it appropriate to remove the distinction between the research and development phase?
 - (ii) Are the notions introduced in the revision of USGAAP helpful when developing new requirements for agile developments (e.g. probable to complete recognition threshold).
 - (iii) How entities distinguish between maintenance and costs that can be recognised as an asset? If additional costs can be recognised could this lead to impairing previously recognised costs?
 - (c) Is additional guidance needed on ceasing capitalisation and the resulting impact on amortisation and impairment? For example, when to cease capitalisation and begin amortisation considering the iterative features of agile developments?
 - (d) How can an entity reliably measure costs? For example:
 - (i) should there be additional guidance on identifying costs directly attributable to an intangible asset in an agile development environment? and

- (ii) Should the concept of abnormal costs incurred in self-developing an asset from IAS 16 be incorporated into IAS 38?

AI and data resources

What AI and data resources are?

- 27 Artificial intelligence (AI) refers to technologies that enable to replicate human-like abilities such as learning, problem-solving, decision-making, and creativity. AI applications are capable of recognizing objects, comprehend language, and adapt based on new data. A subset of AI is generative AI (GenAI) that is focused on creating new data or content rather than simply analysing or classifying data. Powered by machine learning and deep learning, GenAI uses algorithms to predict or make decisions, where deep learning simulates complex human brain-like decision-making process through multilayered neural networks.
- 28 Businesses have increasingly integrated AI into their operations, using it to automate tasks, optimise workflows and process and analyse large datasets. Beyond its operational use, AI is becoming a strategic tool that drives broader business value across business departments including IT operations, marketing, sales, customer service, content creation, cybersecurity, and supply chain management. As AI continues to evolve, companies are urged to address emerging risks associated with generative AI, recruiting for newly emerging roles in the field, and reskilling existing staff to support its effective implementation.

Issues raised by stakeholders

AI

- 29 Preparers suggested to clarify how the definition of an intangible asset applies to a 'library' of pieces of software and code that have limited functionality and value individually but could be incorporated to create another software or AI models that would be functional and valuable.
- 30 Stakeholders questioned whether the prohibition on recognition of training costs would apply to training AI models.
- 31 There were some issues raised similar to those raised on agile development:
- (a) Determining the unit of account.
 - (b) Amortisation and impairment as the AI models are constantly updated.
 - (c) How to distinguish between different stages of development (i.e., development, enhancement and maintenance) when the AI models are frequently updated and the AI itself is learning continually.

Data resources

- 32 Stakeholders noted that financial statements provide insufficient information about data.
- 33 Stakeholders suggested clarifying how the definition of an intangible asset applies to different pieces of data making up a large dataset. It was also noted that who has the rights over the data was unclear especially when the data is publicly available.
- 34 Stakeholders also said that it can be difficult to have a clear separation between the acquisition costs that should be impaired and those that should be recognised as assets.

- 35 Amortisation was also deemed to be difficult as the assessment of useful lives of data assets are challenging to estimate because the datasets are updated continuously.

IASB's staff initial views

- 36 The IASB staff views the application issues related to AI and data resources as similar in nature to the application issues related to cloud computing and agile software development (i.e., determining unit of account, identifying development costs and distinguishing them from enhancement or maintenance costs).
- 37 Consequently, the IASB staff does not think that it is necessary to designate AI or data resources as test cases. Nevertheless, they may use AI and data resources related examples when exploring similar principles and topics associated with cloud computing and agile software development test cases.

EFRAG Secretariat views

- 38 The EFRAG Secretariat agrees with the selected test cases by the IASB (i.e. cloud computing and agile software development) to explore possible updates of the definition of an intangible asset, related guidance and some aspects of recognition requirements. EFRAG FR TEG members noted in previous meetings that the current accounting treatment should be reviewed to make it more suitable for new intangibles, such as SaaS (i.e. FR TEG-CFSS meeting 10 March 2025 and FR TEG meeting 15 April 2025). In addition, the IASB's suggested test cases (SaaS and agile software developments) were recommended by EFRAG as part of the Recommendations and Feedback Statement on the Discussion Paper *Better Information on Intangibles – Which is the best way to go?* Specifically, EFRAG suggested that the IASB reviews the R&D guidance as the current requirements are more suited for traditional R&D linear process with definable milestones and less suited to modern research and development processes, such as iterative development approaches (i.e. akin to agile software development). EFRAG also suggested that the IASB reviews the accounting for software and IT to address concerns expressed that substantial investments (such as those in cloud computing arrangements) fail to meet the current recognition criteria.
- 39 The Recommendations and Feedback Statement also recommended the review of accounting for emerging types of transactions such as crypto assets. In this regard, the EFRAG's recommendation and feedback statement on the DP Accounting for crypto-assets (liabilities): holder and issuer perspective recommended the amendments and/or clarification of existing standard, starting by addressing the accounting for holders of crypto-assets, specifically by amending IAS 38 Intangible Assets to allow for Fair Value through Profit or Loss (FVPL) for crypto-assets. However, we do not recommend that the IASB selects crypto assets as selected test case at this stage, because they plan to consider crypto-assets at a later stage, when addressing Intangible assets held for investment. In addition, some FR TEG-CFSS members questioned the consideration of Intangible assets held for investment as part of IAS 38.
- 40 The EFRAG Secretariat initially agrees with the IASB staff view that the issues related to AI and data sources are similar in nature to the issues related to cloud computing and agile software development. However, the topic should be discussed and confirmed during this meeting. Many AI tools allow companies to configure settings or include companies' policies and manuals so AI responses are adapted to the company's culture and needs.

There are also entities that use AI developers to develop custom solutions to connect AI directly to an entity's software (e.g. ERP, CRM). The EFRAG Secretariat's initial view is that AI accounting issues could be seen being similar to those related to SaaS and agile software development (e.g. the unit of account, application of the concept of control, useful life, if the AI improvements are capitalised leading to the impairment of previous versions...). Therefore, the EFRAG Secretariat tends to agree with the IASB staff that they could consider AI and data sources examples when preparing topics associated with cloud computing and agile software development test cases.

Questions to EFRAG FR TEG-CFSS

- 41 Do you agree with the selected test cases (i.e. SaaS and agile software development) as new type of intangibles for potential changes to the definition of an intangible asset, related guidance and some aspects of recognition? If not, what would be your alternative?
- 42 Do you agree with the principles and topics to be further explored by the IASB regarding SaaS (paragraphs 17 and 18) and agile software development (paragraph 26)?
- 43 Do you agree with the staff's initial view not to select AI or data resources as specific test cases for further exploration?