
Emerging Economies Group meeting

Date	November 2025
Project	Intangible Assets
Topic	Project update and input on initial streams
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Purpose of this session



Provide an **update on the project** since December 2024 (slides 6–13), focusing on the IASB's work on:

- **test cases** for potential changes to the definition and some aspects of recognition requirements stream (slide 11)
- **user information needs** (slide 12)



Seek EEG members' advice on:

- whether the staff have accurately identified and described the principles and topics to explore further for selected test cases—**cloud computing** (slides 15–32) and **agile software development** (slides 33–45)
- whether there is a need to select **artificial intelligence-related data and solutions (AI)** and **data resources** as test cases, and why (slides 46–49)
- what **information users** of financial statements (users) in their jurisdictions **need** in relation to recognised and unrecognised intangible assets and expenditure associated with them, and whether those needs differ **by sector or type of intangible asset** (slides 50–55)

Questions for EEG members (1/3)

Selected test cases—Cloud computing and agile software development

1. Do you agree with the staff's analysis of the principles and topics to explore further, as set out in slides 30–32 and 44–45? Do you think anything is missing and, if so, what?
-

Questions for EEG members (2/3)

Potential test cases

AI and data resources

2. Do you agree with the staff's initial view not to select AI or data resources as specific test cases for further exploration (slides 47–49)? If not, why? Are there any other concerns you have heard from stakeholders in your jurisdiction?

Other

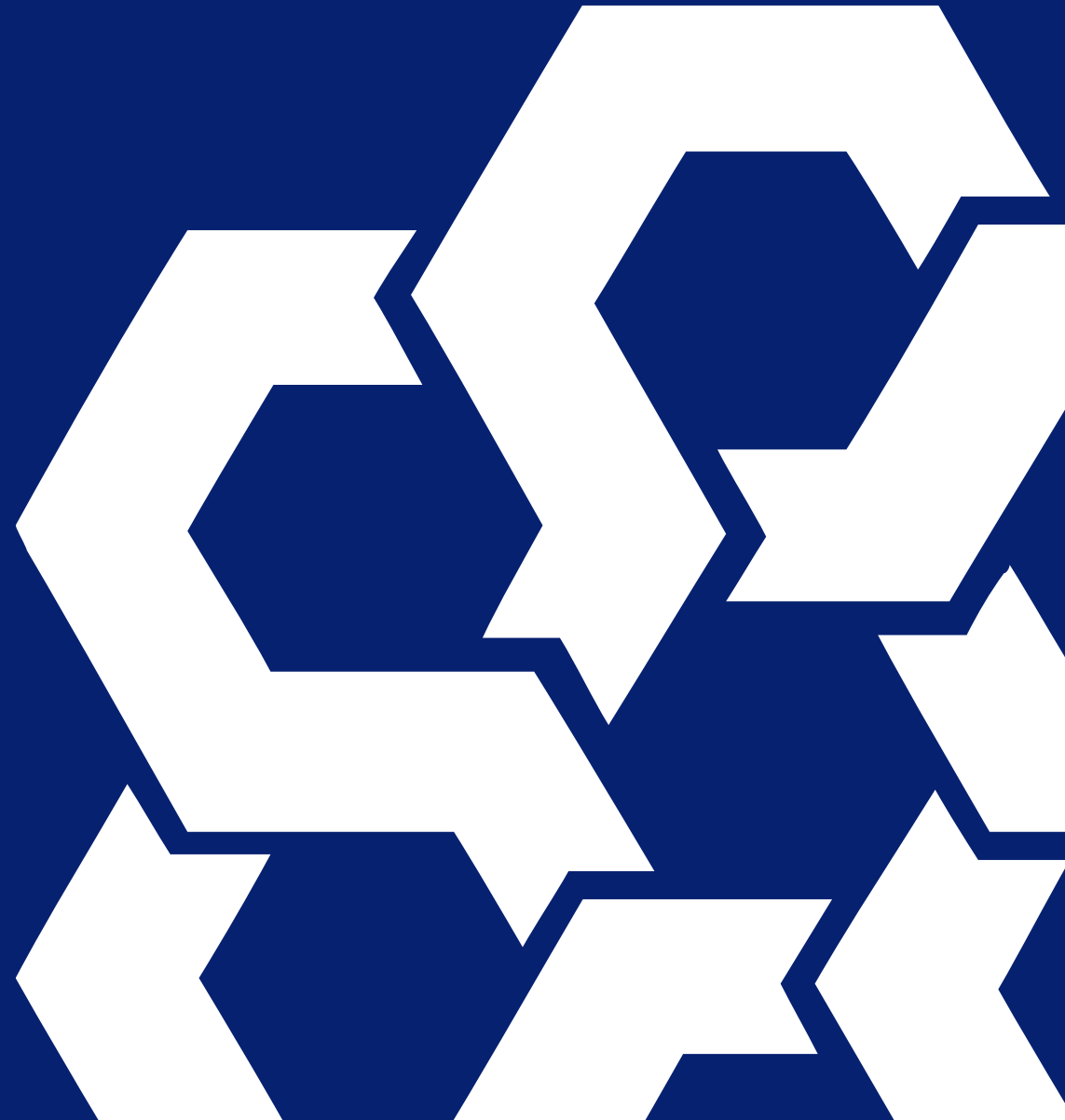
3. Is there another potential test case you think the IASB should consider?
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Questions for EEG members (3/3)

User information needs

4. Is there a significant variation in the level of disclosure in annual reports about intangible assets by sector or by intangible asset type? If so, for which sectors / asset types are users most / least satisfied with the information provided by entities?
 5. Do our initial findings on information currently provided by entities (slide 55) reflect your users' experience?
 6. What could the IASB do to improve the usefulness of information about intangible assets (recognised and unrecognised) in financial statements? For example, do users ask for:
 - a. more disaggregated information about recognised intangible assets or associated expenses?
 - b. more qualitative information about key intangible assets?
 - c. information about specific types of intangible assets (for example, data resources or cloud computing arrangements)?
 7. Is there information in the financial statements that users say is unhelpful for their analysis or information that they ignore—for example, is the distinction between capitalised development costs and research expenses helpful, unhelpful or of little interest?
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Project update



Initial research on the project

Areas of focus

- Project started April 2024
- Initial research sought evidence on:
 - the **problem** the project should seek to resolve
 - the **topics** to explore
 - **how best to stage work** to deliver timely improvements



Key messages from initial research (1/2)¹

No single overall problem

- Main themes:
 - IAS 38 *Intangible Assets* is out of date and requires modernisation
 - financial statements are not providing their users with enough information about intangible items
- Mixed views on whether the IASB should address:
 - lack of comparability between entities growing organically and through acquisitions
 - the gap between an entity's market capitalisation and the book value of its net assets
- Mixed views on whether fundamental changes to the principles in IAS 38 are needed

Call for timely improvements

¹ For more details on stakeholder feedback see March 2025 [Agenda Paper 17A](#)

Key messages from initial research (2/2)



Some level of support for exploring almost all topics

- Mixed views on topics to prioritise
- The strongest support for addressing:
 - application issues related to newer types of intangible assets and new ways of using them (such as cloud computing and agile software development)
 - presentation and disclosure topics (such as more disaggregated information about expenses and better information about unrecognised intangible assets)
- Mixed views on the need for and possible ways of improving comparability between acquired and internally generated intangible assets
- Limited support for exploring more recognition of intangible assets
 - but some calls for testing the robustness of the recognition requirements as part of a comprehensive review
- Strong support for addressing intangible assets held for investment, such as cryptocurrencies and carbon credits – either as part of this project or as a separate project
- Less appetite for expanding the scope of IAS 38 to capture a broader range of intangible items or for reconsidering the scope exclusions, such as goodwill

May 2025 IASB decisions

Objectives

- Improve the usefulness of information entities provide about intangible items in their financial statements
- Update IAS 38, in particular to make it more suitable for newer types of intangible items and new ways of using them

Approach

-  Starting a comprehensive review in a targeted way
-  Regular reflection points to assess additional evidence

Topics the project will explore

- ✓ Potential changes to the definition and some aspects of recognition requirements (using test cases)
- ✓ User information needs

Initial
streams

- ✓ Intangible assets held for investment
- ✓ Broader review of recognition
- ✓ Disclosure requirements
- ✓ Comparability of information about acquired and internally generated intangible assets
- Ⓢ Broader intangible items

Later streams
(subject to
change)

TBC

Initial streams of work (1/2)

Potential changes to the definition of an intangible asset, related guidance and some aspects of recognition requirements

Good entry point

Explores fundamental aspects of IAS 38 and could inform other aspects of the project

- 🎯 explore underlying causes of application issues based on test cases related to newer types of intangible assets and new ways of using them
- 🎯 develop potential solutions using the *Conceptual Framework for Financial Reporting* as a starting point and consider the effects of any potential amendments on the broader population of intangible assets

Based on test cases

- ✓ **Cloud computing and agile software development**
 - most commonly raised by stakeholders
 - the underlying causes are likely to be relevant for a wide range of newer types of intangible assets and new ways of using intangible assets
- ? **AI and data resources**
 - some concerns from stakeholders
 - additional research to understand the concerns and how widespread they are, assess the effects on financial reporting and determine whether application issues related to AI and data resources would be useful test cases

Initial streams of work (2/2)

User information needs

Cross-cutting stream

Would contribute to all topics

-  explore user information needs in more detail particularly whether this differs by type of intangible asset
-  consider whether changes to the definition, recognition, measurement and/or disclosure requirements would be necessary to provide more useful information

What the IASB is doing



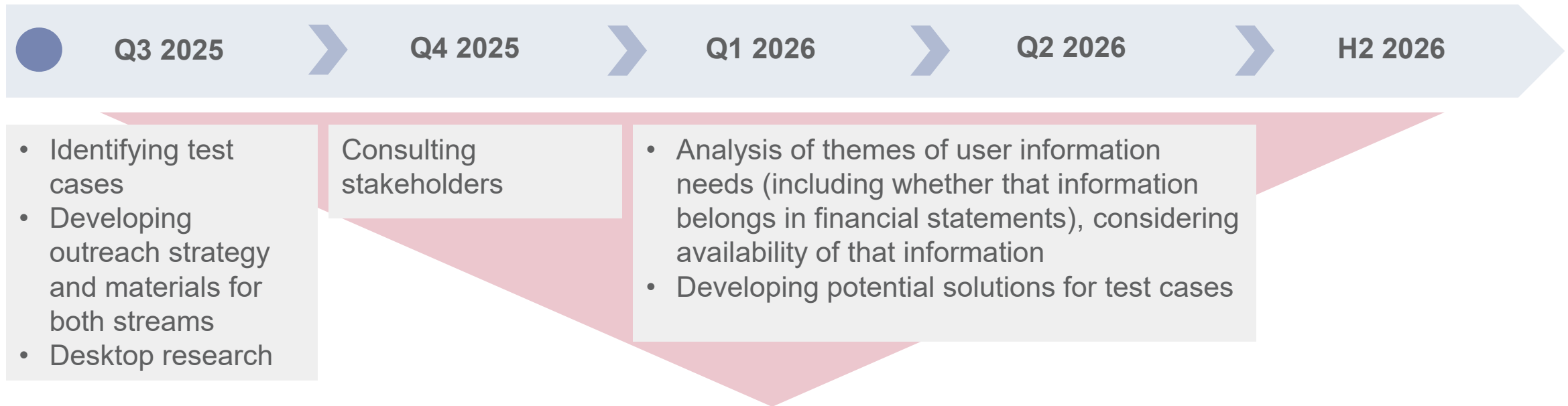
Building on the input received to date



Exploring – by sector and by type of intangible asset:

- what information about intangibles assets and associated expenditure users are trying to understand
- what users are doing with that information
- where users are getting that information today

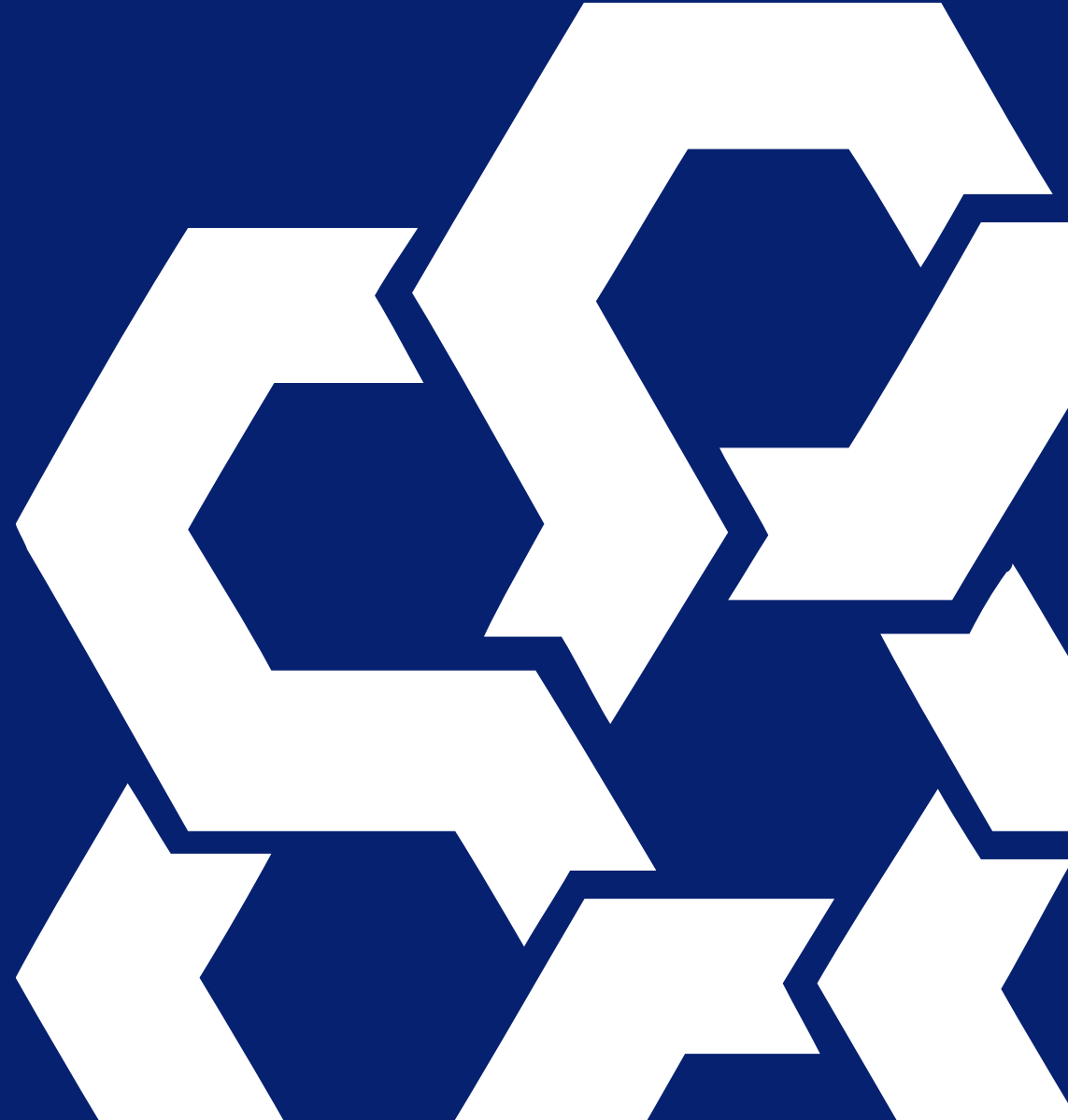
Indicative timeline for the initial streams of work



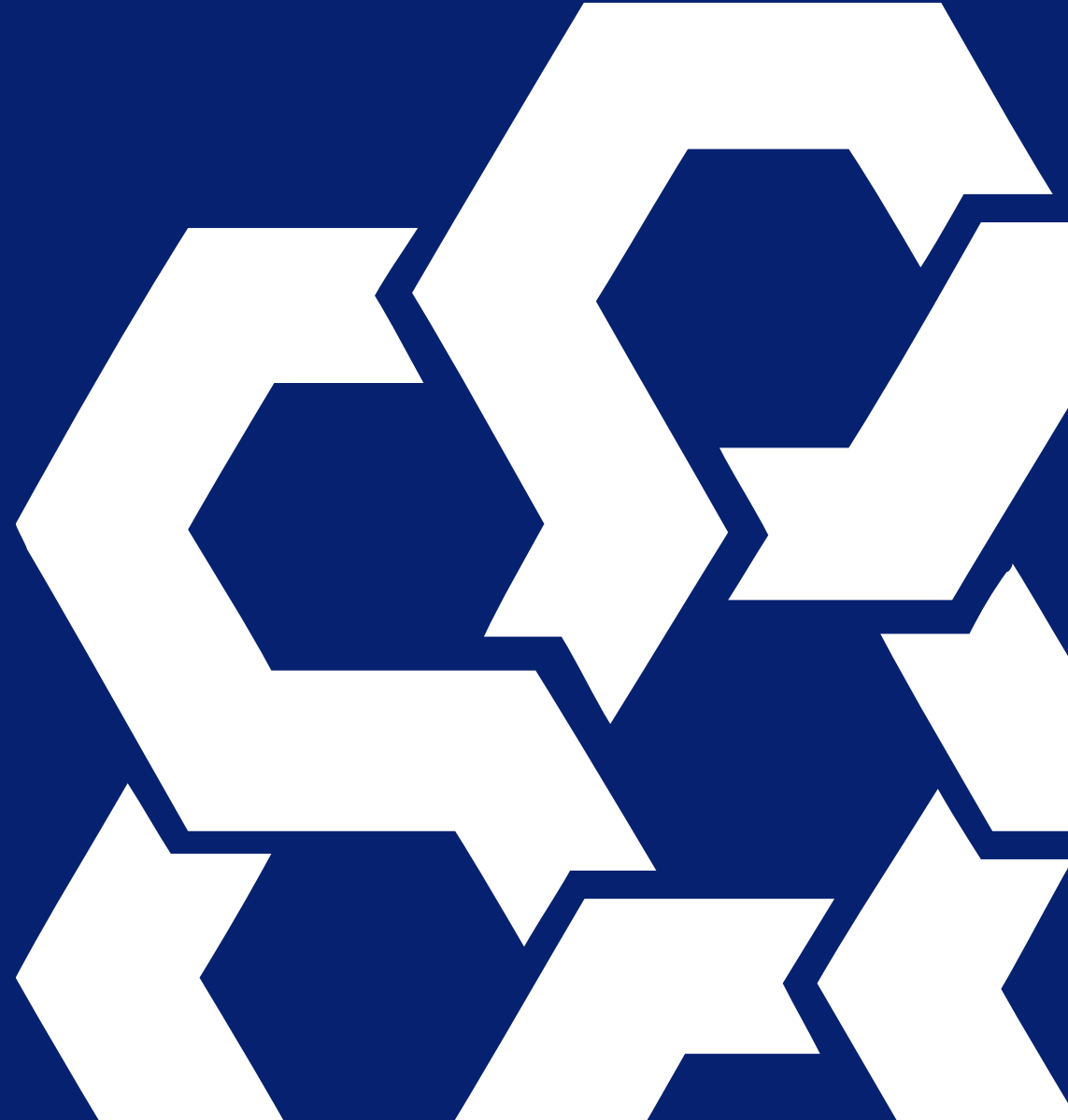
After completing work, the IASB will be able to:

- assess whether there is an opportunity to make discrete meaningful improvements to IAS 38 or whether further work is needed before the IASB could consult on any changes to IAS 38
- assess how its findings may affect other groups of topics and their prioritisation

Potential changes to the definition and some aspects of recognition requirements (using test cases)



Selected test case – Cloud computing arrangements



What are cloud computing arrangements and how are they accounted for today?

What are cloud computing arrangements?

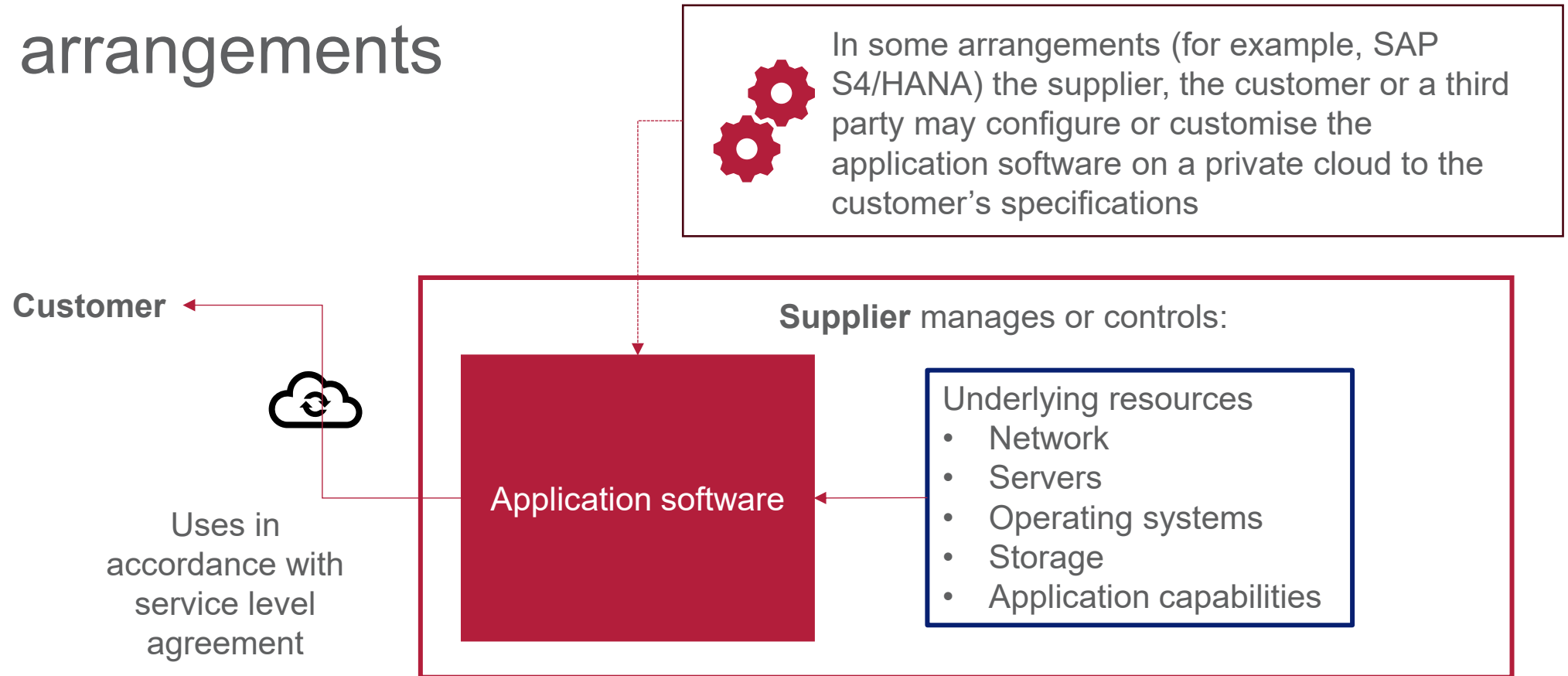
Cloud computing arrangements involve an agreement between a customer and cloud service provider for the on-demand delivery of computing resources, including software or infrastructure, over the internet.

Other characteristics of these arrangements include:

- Customers usually pay a **recurring fee (subscription)** or a **fee based on actual usage** for access to the cloud resources
- The **supplier operates, maintains and sometimes updates the software or infrastructure** the customer has access to
- Cloud computing can be delivered through **public clouds** (shared resources), **private clouds** (dedicated resources) or a combination of both
- Software as a Service (**SaaS**), Platform as a Service (**PaaS**) and Infrastructure as a Service (**IaaS**) are common types of cloud computing arrangements

Almost all application issues raised by stakeholders commenting on cloud computing arrangements related to SaaS arrangements, therefore the staff selected them as a basis for its analysis

SaaS arrangements



Examples:

Outlook, Gmail, Salesforce, Cisco WebEx, Dropbox, ZenDesk, MailChimp, Slack, HubSpot, DocuSign, Google Apps, Microsoft Office 365, SAP S4/HANA

Relevant IAS 38 requirements

Assuming a SaaS arrangement does not contain a software lease, these arrangements are in the scope of IAS 38 *Intangible Assets*. The relevant requirements are:

- **The definitions** of an intangible asset and an asset (paragraphs 8–17 of IAS 38), in particular **the requirement to control an asset** (paragraph 13)
- **The ability to recognise an item as an intangible asset** (paragraph 18) and **the recognition criteria** (paragraphs 21–23)
- **Recognition of an expense** relating to intangible items (paragraphs 68–70), including:
 - **expenditure incurred to provide future economic benefits but no intangible asset can be recognised** (paragraph 69)
 - **determining when services are received** (paragraph 69A)

The IFRS Interpretations Committee (Committee) published two agenda decisions related to SaaS arrangements:

- March 2019 Agenda Decision *Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud* (IAS 38) (see slide 20)
- March 2021 Agenda Decision *Configuration or Customisation Costs in a Cloud Computing Arrangement* (IAS 38) (see slide 21)

March 2019 Committee Agenda Decision

✓ With a focus on **fees** paid or payable to a supplier in a **SaaS arrangement**

For the fact pattern described in the Agenda Decision:

Committee conclusion: A contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a **service contract**. The customer receives the service—the access to the software—over the contract term. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer

Committee observations:

- **A software lease?** No, because a right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not in itself give the customer any decision-making rights about how and for what purpose the software is used (see IFRS 16 *Leases* for the **definition of a lease**)
- **A software intangible asset?** Not at the commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and restrict other's access to those benefits (see IAS 38's requirements about **control**)

March 2021 Committee Agenda Decision

✓ With a focus on **configuration and customisation costs** paid in a **SaaS arrangement**

For the fact pattern described in the Agenda Decision:

Summary of Committee observations:

- **Recognise an intangible asset?** The customer often would not recognise an intangible asset because it does not control the software being configured or customised, and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software
 - In some circumstances, the arrangement may result in, for example, additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits. In that case, in determining whether to recognise the additional code as an intangible asset, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38
- **If an intangible asset is not recognised, how to account for configuration and customisation costs?** As an expense when the customer receives the configuration or customisation services
 - IAS 38 includes no requirements that deal with the identification of the services the customer receives in determining when the supplier performs those services in accordance with the contract to deliver them. IFRS 15 includes requirements that suppliers apply in identifying the promised goods or services in a contract with a customer
 - The customer applies paragraphs 69–69A of IAS 38 and determines when the supplier (for example, software supplier or third-party) performs those services in accordance with the contract

Staff findings to date

SaaS arrangements – what we heard (1/2)

General considerations

- There is a shift from software-on-premises models to cloud computing arrangements, resulting in a significant expense in the income statement, affecting EBITDA and other profitability measures communicated to users
- There is some evidence of structuring SaaS arrangements to achieve a desired accounting outcome and of diversity in applying IAS 38 requirements

Definition of an intangible asset

- Stakeholders suggested, in the context of a software licence, clarifying:
 - the economic resource being controlled
 - the appropriate unit of account
 - what restricting others' access to benefits means
- They also suggested exploring whether there is a right that is an asset that configuration and customisation costs can be attached to

SaaS arrangements – what we heard (2/2)

IFRS Interpretations Committee agenda decisions

- Stakeholders said that the 2019 and 2021 agenda decisions added clarity but had mixed views on whether their application leads to accounting outcomes reflecting the economics of the arrangements:
 - some stakeholders agreed with the outcomes
 - some stakeholders disagreed:
 - they questioned why expenditure that results in the same functionality for the customer leads to different accounting outcomes depending on whether software is on-premises or in the cloud
 - they said configuration and customisation costs enable the software to work and provide the entity with future economic benefits; accordingly, recognising a large expense upfront does not reflect the economics of the activity

Work of other standard- setters

- The FASB published specific requirements on SaaS arrangements, as set out on slide 25

US GAAP – SaaS arrangements²

Topic	Asset	Expense
Fees paid in a cloud computing arrangement for internal-use (ASU 2015-05—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement)	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
Configuration or customisation costs (implementation costs) (ASU 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract)	Based on development stage: ³ Application development stage costs (depending on nature of the costs) are capitalised as an asset related to the service contract (same line item as prepayment for fees of associated hosting arrangement) then expensed over the term of the hosting arrangement	Based on development stage: ³ Preliminary stage and post-implementation stage costs are expensed

² US GAAP requirements are specific to Internal-Use Software

³ The amendments in the September 2025 ASU *Targeted Improvements to the Accounting for Internal Use Software (Subtopic 350-40)* removed all references to project stages throughout Subtopic 350-40 (see slides 40–41)

Review of annual reports (1/2)

The staff reviewed a sample of 24 entities' (16 customers and 8 suppliers) annual reports to gain an understanding of disclosures on cloud computing arrangements⁴

Customers

- Most customers **did not specifically mention cloud computing arrangements in their financial statements**. A few mentioned transition to cloud in the front half of their annual reports with no further disclosure
- A few customers mentioned accounting for cloud computing arrangements in their **accounting policies note**, particularly as a key judgement regarding whether configuration and customisation costs in a SaaS arrangement are capitalised or expensed
- One customer disclosed a **measurement adjustment** in its business combinations note to derecognise cloud computing configuration costs after **acquiring a US GAAP reporter**
- A few South African entities separately broke out cloud, computer or software expenditure in the **operating expenses note**

⁴ It is difficult to identify entities that have significant cloud computing arrangements directly from annual reports. The staff's limited sample included:

- entities identified as having the highest number of hits for terms 'software as a service (SaaS)', 'platform as a service (PaaS)', 'cloud computing' and 'software expenses / expenditure' based on AlphaSense screening of IFRS reporters' annual reports
- preparers who specifically raised application issues related to cloud computing during the initial research phase of the project

The staff determined whether entities were customers or suppliers based on its review of the nature of cloud computing arrangements for those businesses

Review of annual reports (2/2)

Suppliers

- Some suppliers **differentiated between revenue from software licenses (right to use recognised at a point in time) and cloud computing arrangements (right to access recognised over time)** in their revenue accounting policies. For example:
 - one supplier said that a right to access arises when the supplier undertakes activities that **significantly affect** the intellectual property, the rights granted **expose the customer** to any positive or negative effects of the **supplier's activities**, and those activities do not result in the transfer of a good or service to the customer
 - another supplier said that cloud revenue arises when a customer **does not have the right to terminate the hosting contract or take possession** of the software
- Some suppliers disclosed **specific KPIs related to cloud revenues** in their investor presentations and annual reports (for example, cloud revenue, cloud backlog, subscription revenue, customer net promoter score)

Staff analysis

How the staff identified potential principles and topics to explore further



The staff reviewed:

- the **current requirements in IAS 38**
- the **March 2019 and March 2021 IFRS Interpretations Committee Agenda Decisions**, as well as the staff papers and Committee meetings relating to those Agenda Decisions
- **feedback from stakeholders** received to date
- work of **other national standard-setters**, including the FASB
- a limited sample of entities' **disclosures** on cloud computing arrangements

Principles and topics to explore further (1/3)

Definition of an intangible asset and related guidance

- **What does control mean in the context of an intellectual property (software) licence?**
 - **What rights does the customer have in a SaaS arrangement?** For example:
 - **What is the underlying item?** For example, is it the software, the code, a downloaded copy of the software, etc.?
 - **Does the customer receive:**
 - a ‘right to use the underlying item’;
 - a ‘right to receive access to the underlying item’ (rights that correspond to an obligation of another party); or
 - a ‘right to receive a right to use the underlying item’ (rights that correspond to an obligation of another party)?
 - **How does the customer distinguish between the rights set out above? What factors determine whether the customer controls those rights?**
 - **How does the customer determine the unit of account?**
 - **Does the mode of access – on-premise versus SaaS – matter when determining whether a customer has an intangible asset? Do the customer’s rights differ under these two scenarios?** For example:
 - does the right to continue using the software without the supplier’s involvement matter?
 - what does the right to restrict others’ access to the benefits mean in the context of a software licence, and is it necessary/key in determining control?
 - what is the underlying item in these two scenarios?

Principles and topics to explore further (2/3)

Definition of an intangible asset and related guidance (continued)

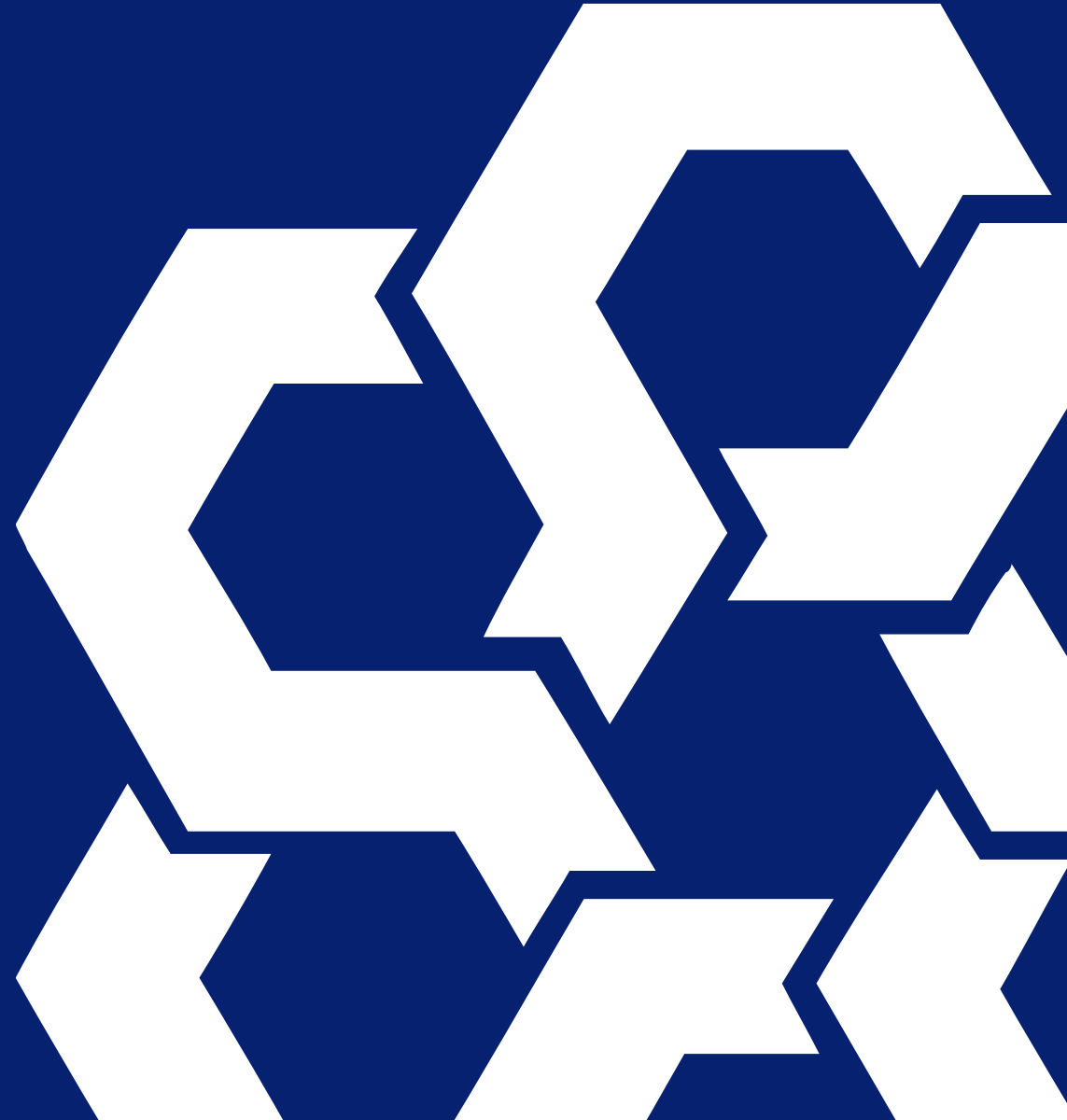
- **What are the differences between a tangible asset and an intangible asset that might lead the IASB to develop different requirements for intangible assets?** Is different or additional guidance necessary because of the nature of an intangible asset, for example, because it is easy to replicate copies of an intangible asset?
- **How does the *Conceptual Framework* guidance on executory contracts apply to the SaaS arrangement?** For example:
 - is there a conceptual basis for recognising configuration and customisation costs as an asset? Can the combined right to receive a service and obligation to pay the supplier over the term of the contract in an executory contract be considered to contain an asset (right) to which the configuration and customisation costs can be attached?
- **Can the IASB add guidance to help entities distinguish between an intangible asset, a lease contract and a service contract?**

Principles and topics to explore further (3/3)

Relationship with IFRS 15 *Revenue from Contracts with Customers*

- **Should IAS 38 be a mirror of IFRS 15 for licences of intellectual property?** For example, if the supplier recognises revenue at a point in time, does the customer always have an intangible asset and if the supplier recognises revenue over time does the customer always have a service contract?
- **Are there concepts in IFRS 15 that would be helpful to include in IAS 38?** For example:
 - what rights the supplier is transferring to the customer and when control of those rights transfers (a right to access the supplier's intellectual property as it exists throughout the arrangement versus a right to use the supplier's intellectual property as it exists at a point in time when the arrangement is entered into)
 - whether different rights under the same arrangement are distinct (for example, can the customer use the software independently of the supplier's hosting services, or if updates to the software after contract inception represent a distinct performance obligation)
 - whether the nature of the customer's right (use or access) depends on the supplier's ability to change the software

Selected test case – Agile software development



What is agile software
development and how is it
accounted for today?

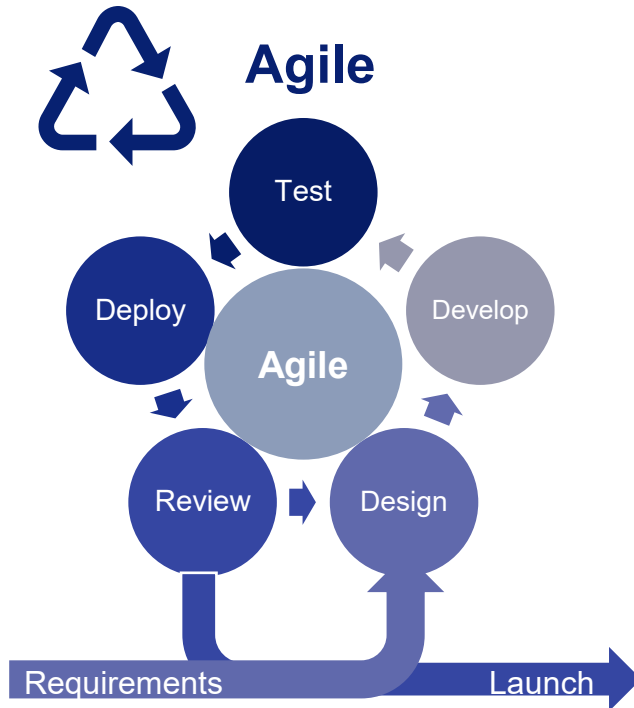
What is agile software development?

Agile software development is a methodology focused on iterative and incremental progress, allowing an entity to deliver software to customers or stakeholders more quickly. This approach emphasises delivering small, incremental changes to a product rather than delivering a complete product at the end of a development cycle

Key characteristics of agile software development include:

- Software is built and improved through **repeated cycles** (iterations), rather than all at once at the end of a long or a milestone-driven development cycle
- The process results in **quicker delivery** of software that aligns with customer or stakeholder needs. Working software is delivered in **small increments**, allowing for continuous feedback and improvements
- The approach is highly **flexible and adaptable**. It embraces change, even late in development, to ensure the product remains relevant and valuable
- Agile software development emphasises close **collaboration with customers and stakeholders** throughout the development process to ensure the product meets their needs and expectations

Agile software development



VS



Waterfall

- Requirements
- Design
- Develop
- Test
- Deploy
- Maintenance

Iterative and incremental	Development approach	Linear and sequential
Frequent release of working software	Delivery	One final delivery at the end
Continuous collaboration and feedback	Customer involvement	Limited to initial and final phases
Highly adaptable to change	Flexibility	Rigid once requirements are set

Relevant IAS 38 requirements

- IAS 38 requires an entity to classify the generation of an internally generated intangible asset into separate phases to assess whether the asset meets the criteria for recognition (paragraph 52 of IAS 38):
 - **in the research phase** expenditure is recognised as **an expense** when it is incurred (paragraph 54)
 - **in the development phase** expenditure is recognised **as an asset only when certain criteria are met** (paragraph 57)
- **If an entity cannot distinguish the research phase from the development phase** of an internal project to create an intangible asset, the entity **treats the expenditure** on that project **as if it were incurred in the research phase** only (paragraph 53)
- The cost of an internally generated intangible asset is the sum of expenditure incurred **from the date when** the intangible asset **first meets the recognition criteria** (paragraph 65)
- The cost of an internally generated intangible asset **comprises all directly attributable costs** necessary to create, produce, and prepare the asset to **be capable of operating** in the manner intended by management (paragraph 66)
- **Identified inefficiencies** and initial operating losses incurred before the asset achieves planned performance are **not components of the cost** of an internally generated intangible asset (paragraph 67(b))
- **Amortisation begins when** the asset is **available for use** (paragraph 97)

Staff findings to date

Agile software development – what we heard

General considerations

- Stakeholders mentioned that entities now often use an agile or iterative method to develop software, rather than the waterfall method, to reduce risks and obtain flexibility
- The boundary between the research phase and the development phase is becoming increasingly blurred in agile software development practices

Recognition of an intangible asset

- The existing recognition requirements in IAS 38, which apply two distinct phases, do not reflect current software development practices
- The current two-phase approach is still appropriate in one-off R&D projects, such as drug development in the pharmaceutical industry—therefore the IASB needs to be careful of unintended consequences
- Determining the unit of account and componentisation is challenging:
 - when an entity updates its software in an agile manner, it can be difficult to determine which costs should be impaired and which should be recognised

Measurement of costs

- It may be difficult to identify costs related to research, those related to development and those related to maintenance
 - It is difficult to determine when an asset is ‘complete’ and when amortisation should start
-

US GAAP – ASU *Targeted Improvements to the Accounting for Internal Use Software (Subtopic 350-40)* (1/2)

Background

- Preparer and practitioner stakeholders said **the guidance in Subtopic 350-40 is outdated and lacks relevance** given the evolution of software development:
 - many entities have **shifted** from using a prescriptive and sequential development method **to using an incremental and iterative development** method
 - current internal-use software accounting requirements **do not** specifically **address software developed using an incremental and iterative method**
 - there are challenges in applying the current internal-use software guidance, which has led to **diversity in practice** in determining **when to begin capitalising** internal-use software costs
- Exposure Draft issued 29 October 2024. Comment letter period closed 27 January 2025
- Based on the feedback received, on 18 September 2025, the FASB issued the final Accounting Standards Update (ASU) as set out on slide 41. The amendments in the ASU are effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods. Early adoption is permitted.

US GAAP – ASU *Targeted Improvements to the Accounting for Internal Use Software (Subtopic 350-40)* (2/2)

Main amendments

- **remove all references to project stages** throughout *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*⁵
- **clarify** that if there is **significant uncertainty** associated with the development activities of the software (**significant development uncertainty**), the **probable-to-complete recognition threshold is not considered to be met** until the uncertainty has been resolved
- **include two factors** that indicate that **significant development uncertainty** exists:
 - **novel or unproven software** – the software being developed has technological innovations or novel, unique, unproven functions or features, and the related uncertainty, if identified, has not been resolved through coding and testing
 - **significant performance requirements** – the significant performance requirements of the software have not been identified, or the identified requirements continue to be substantially revised

⁵ An entity would be required to start capitalising software costs when both of the following occur:

(a) management has authorised and committed to funding the software project; and

(b) it is probable that the project will be completed, and the software will be used to perform the function intended ('probable-to-complete recognition threshold').

Review of annual reports

The staff reviewed a sample of 23 entities' annual reports to gain an understanding of disclosures on agile software development⁶

- A few entities mentioned the **trend** toward AI and cloud-driven software development in the first half of their annual reports, but they did **not highlight** any features of **agile software development**, such as iterative processes
- Some entities disclosed **general capitalisation accounting policies** related to internally developed assets in their accounting policy notes. Most of them referred to the requirements in paragraph 57 of IAS 38 (**development phase criteria**)
- None of the entities **disclosed specific accounting policies** related to **agile software development**, such as how to determine a development phase in the agile software development process, or when the amortisation of agile software development-related assets begins

⁶ It is difficult to identify entities that use agile software development methods directly from annual reports. The staff's limited sample included:

- entities identified as agile software development method adopters through Copilot AI analysis of articles, news reports, annual reports and academic papers
- preparers who specifically raised application issues related to agile software development during the initial research phase of the project

Staff analysis

Principles and topics to explore further (1/2)

Definition and related guidance

- **What is the unit of account for software development costs?** For example, is it appropriate to provide additional guidance to help an entity decide a suitable unit of account (for example, code vs. software vs. project) in an agile development environment? Can an intangible asset be ‘componentised’?

Recognition

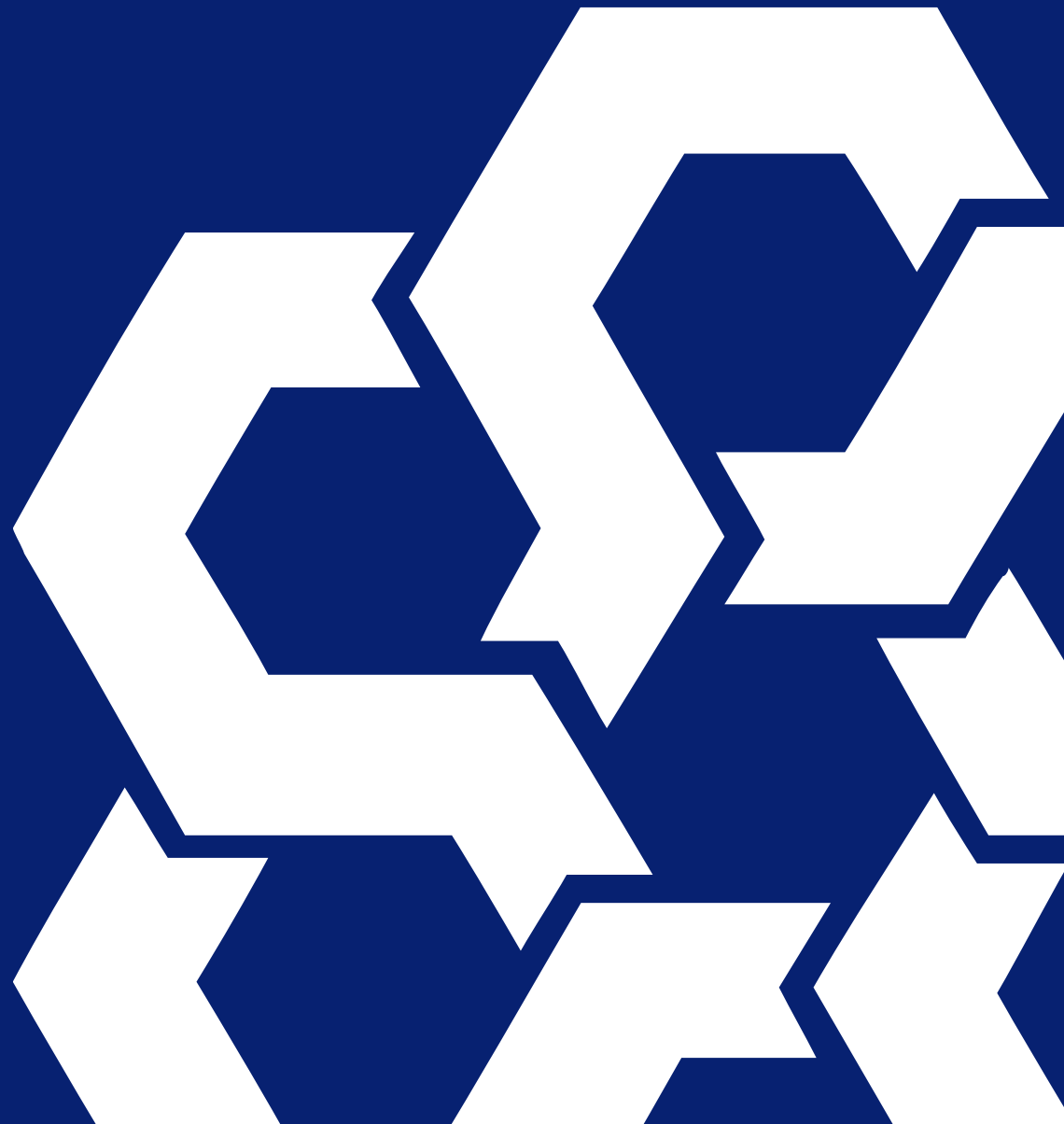
- **Are the current recognition requirements suitable for capitalising costs incurred in agile development?** For example:
 - would it be appropriate to have different recognition requirements based on the method of development (for example, waterfall or linear vs. agile)?
 - should the IASB explore developing new recognition requirements or updating parts of existing requirements (for example, technical feasibility, probability of generating future economic benefits) for recognising assets in agile development? Is it appropriate to remove the distinction between the research and development phases?
 - would other notions in the revision of US GAAP (see slides 40–41) be helpful when developing new requirements for agile development (for example, probable-to-complete recognition threshold or novel or unproven functions)?
 - how do entities distinguish between maintenance and costs that can be recognised as an asset, and if additional costs can be recognised could this lead to impairing previously recognised development costs?

Principles and topics to explore further (2/2)

Measurement

- **Is additional guidance needed on ceasing capitalisation and the resulting impact on amortisation and impairment?** For example:
 - when to cease capitalisation and begin amortisation of an intangible asset taking into account the iterative features of agile software development?
 - what are the implications of decisions on unit of account for impairment and amortisation of development costs during an agile development process? Is additional guidance on impairment and amortisation required?
- **How can an entity reliably measure costs?** For example:
 - should the IASB explore developing additional guidance on identifying costs directly attributable to a particular intangible asset in an agile development environment?
 - should the concept of abnormal (and therefore ‘normal’) costs incurred in self-developing an asset from IAS 16 *Property, Plant and Equipment* be incorporated into IAS 38 (potentially updating or clarifying paragraph 67(b) of IAS 38)?

AI and data resources



AI and data resources – what we heard (1/2)

Stakeholders said AI and data resources are becoming an **important driver of entity value and entities are investing increasingly in these resources**. However, they say that IAS 38 provides insufficient guidance for accounting for these resources

AI

- Preparers suggested clarifying how the **definition of an intangible asset applies to a ‘library’ of pieces of software and code** that, individually, have limited functionality and value but could be put together to make up other software and AI models that would have value
- There were similar questions to those raised on agile software development regarding **unit of account** and **amortisation and impairment**. In addition, what activities are development, enhancement or maintenance when AI models are frequently updated to improve output and AI itself is continually learning?
- Stakeholders also questioned whether the prohibition on recognition of **training costs** would apply in the case of training an AI model
- **Amortisation** of these assets may be challenging as it is difficult to determine when an asset is ‘complete’ and when amortisation should start. Stakeholders also highlighted the **relatively short useful lives** of AI models as they are constantly updated

AI and data resources – what we heard (2/2)

Data resources

- Many respondents to the IASB surveys⁸ said that **financial statements** provide **insufficient information** about data
- Stakeholders suggested clarifying how the **definition of an intangible asset**, including the related guidance on the **unit of account**, applies to different pieces of data making up a large dataset. It is also sometimes unclear who has the **rights over the data**, particularly in situations where data is publicly available
- It can be difficult to determine which data acquisition costs should be impaired and which should be recognised as assets when datasets are continually updated (**unit of account and componentisation**).
- **Amortisation** of data assets may be challenging, particularly the **assessment of useful lives** as data sets are continually updated and can have multiple use cases (for example, questions about whether data resources have an indefinite or finite useful life)
- **The Chinese Ministry of Finance has issued guidance** on when and how to recognise data resources as an asset and what to disclose about them based on existing Chinese Accounting Standards (which are substantially converged with IFRS Accounting Standards)

⁸ In October 2024 the IASB launched two surveys—for users of financial statements and for other stakeholders—to obtain feedback on the information about intangibles currently provided in the financial statements and on the problem to be solved in the Intangible Assets project, the scope of the project and the approach to work (see [Agenda Paper 17C](#) and [Agenda Paper 17D](#) for the February 2025 IASB meeting)

AI and data resources – initial staff views

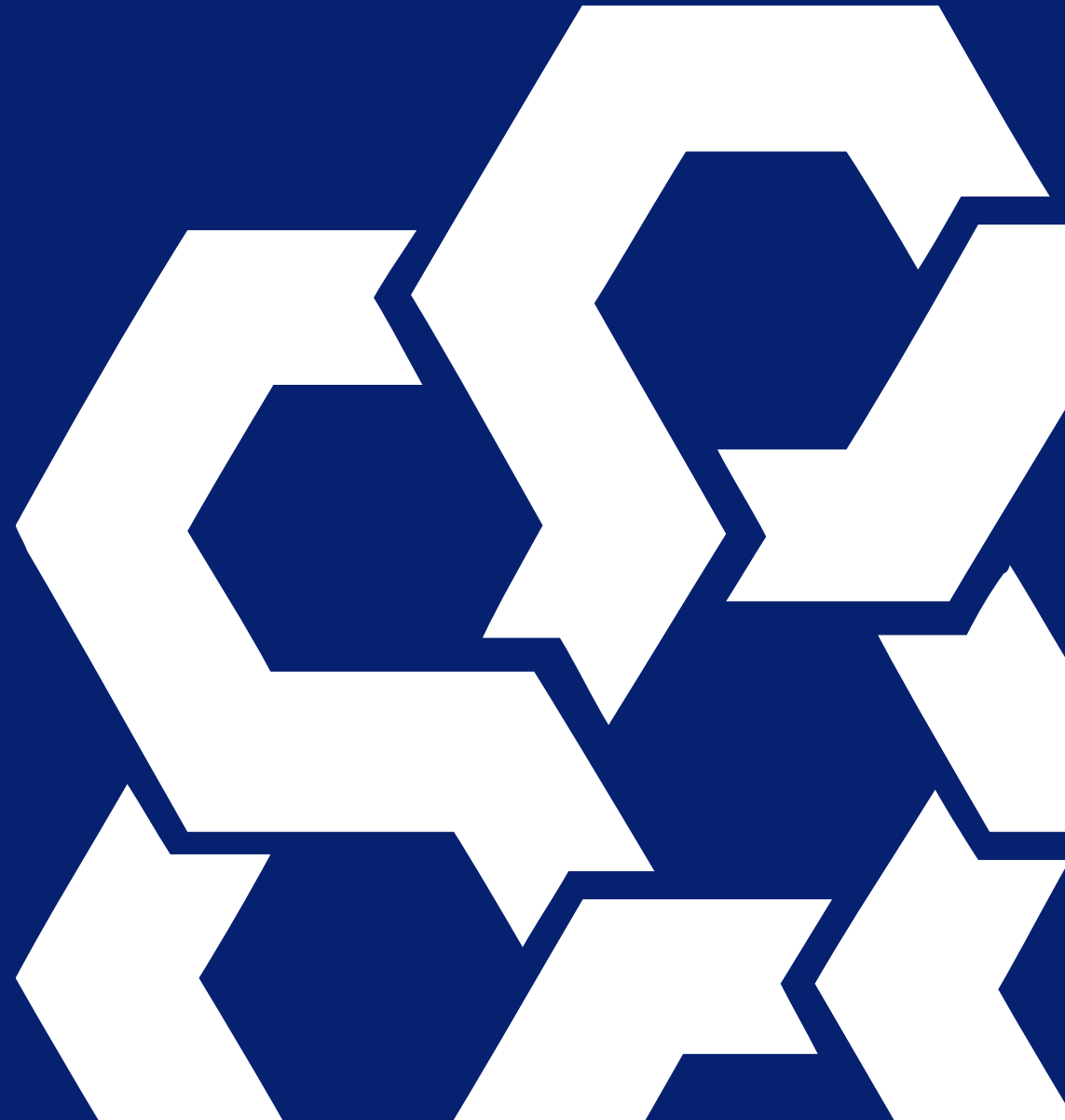
The staff think that the application issues related to AI and data resources are **very similar in nature to the application issues related to cloud computing and agile software development**—most of the issues relate to determining unit of account, identifying development costs and distinguishing them from enhancement or maintenance costs

Therefore, the staff think that many of the issues that were raised by stakeholders in the context of AI and data resources will be considered in exploring those other test cases (see slides 30–32 and 44–45). **As a result, the staff do not think it is necessary to designate AI or data resources as separate test cases**

However, the staff think that AI and data resources may provide some **useful examples** that the IASB could use when exploring similar principles or topics associated with cloud computing and agile software development test cases, and to **test potential solutions**. For example:

- issues related to unit of account for different pieces of code and data could help explore and test solutions when thinking about broader unit of account issues

User information needs



User information needs and the role of financial statements

Financial statements (and therefore IFRS Accounting Standards) seek to provide their users with:

- financial information to make decisions
- inputs into their financial analysis

However, there is a **financial reporting gap**:⁸

Financial statements show:

- History
- Cost
- Inventory of items / transactions
- Size

What really matters to users:

- Future
- Value
- Information
- Competitive advantage

In the Intangible Assets project we aim to explore how financial statements could help meet user information needs:

- This work is anchored in the objective of financial statements and focuses on information about an entity's assets, liabilities, equity, income and expenses
- Financial statements cannot provide all the information users need about intangible assets. Some of the other information users need might be found in other reports

⁸ Source: <https://blogs.cfainstitute.org/investor/2018/08/27/franchise-quality-score-a-metric-for-intangibles/>

Initial feedback from users



Users of financial statements rated a project on Intangible Assets as **high priority**

Financial statements are the most **important source** of information about intangible assets

But financial statements provide **insufficient information** about intangible assets

Users provided **wide range of suggestions** for information they would find useful – **no prevalent theme**

Users **adjust financial statements** in relation to intangible assets for many different reasons:

- better reflect their view of economic performance of the business
- because of insufficient information about intangible assets.

Users are primarily concerned about the role **intangible assets** play **as an input** into **how a business creates value** rather than as an output used for valuation

See [Agenda Paper 17C](#) to the IASB's February 2025 meeting for more information

Exploring user information needs further

Entities use wide range of intangible items to create value and generate cash flows:

- Brands
- Customer relationships
- Patents
- Intellectual property (IP) and licenses
- Software
- Research and development (R&D)
- Data
- Human capital
- Franchise agreements
- Musical works

Do investor information
needs vary by type of
intangible item?

Clear message from initial outreach—must consider user
information needs:



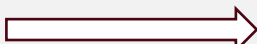
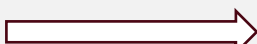
by sector



by type of intangible item

What we expect user information needs to be

- Users focus on **benefits** entities derive from intangible assets rather than the intangible assets themselves, for example:

Research		unique selling proposition
Patents		barriers to entry
Brands		pricing power
- Entities' 'intangible' activity aims to create value for the business—often by developing products—and can be represented by various intangible assets and associated expenditure (see slide 53) in the financial statements.
- We do not think users want to know about those different types of intangible assets specifically, but instead want to know about the creation of value holistically, to evaluate the **economic value** of potential products, for example:
 - What is the entity's idea?
 - What are the risks?
 - What progress is being made?
 - How much is the entity spending on the idea?
 - How is the entity protecting its IP?
 - What market is the product being targeted for, how big is that market?
 - What marketing activities is the entity undertaking to make a market for the new product and how much is being spent on this?

Findings to date

Our initial outreach with users and desktop research suggest that:

- Users obtain **much of the information** they need about intangible assets from the **narrative sections** of annual reports⁹
- Although the amount of that information ranges from a single paragraph to multi-page roadmaps with key performance indicators (KPIs), it seems to be **useful for understanding entities' value drivers**
- **Information in financial statements** about entities' intangible assets is **limited**:
 - **most information** provided focuses on recognised intangible assets which are predominantly **related to M&A activity**;
 - **disaggregated** spending (by product, programme, segment, or phase of project) is **rare**;
 - information about **R&D expenses** is presented by most entities in a **single line-item**; and
 - **advertising** and **marketing** expenses are **not always separately disclosed** by entities.
- It is often **difficult to connect the narrative information** with the amounts included in the **financial statements** and hence it can be difficult to understand the relationship between expenditure on intangible items (for example, R&D spend and advertising and marketing associated with new products) and expected future benefits, limiting the usefulness of both sets of intangible-related information.

⁹ We use 'narrative sections of annual reports' in this presentation to cover reports such as Management Commentary, Management's Discussion and Analysis (MD&A), Strategic Report, Environmental, Social and Governance (ESG) or Sustainability reports.

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