Purpose of the paper

1. This paper:

    (a) provides a recap of the discussions of the International Accounting Standards Board's (IASB) on the work stream exploring potential changes to some aspects of the definition of an intangible asset and recognition requirements (paragraphs 2–4);

    (b) explains the approach to staff analysis on:

        (i) selecting test cases for this work stream (paragraphs 5–12); and

        (ii) identifying principles and topics to explore further for the selected test cases (paragraphs 13–17); and

    (c) sets out the next steps for the work on the selected test cases (paragraphs 18–20).

Recap of the IASB's previous discussion

2.   In May 2025, the IASB selected, as one of the two initial work streams, exploring potential changes to some aspects of the definition of an intangible asset and recognition requirements.

3.   In the IASB's view, this work stream provides a good entry point into the project as it could allow the IASB to explore fundamental aspects of IAS 38 *Intangible Assets*, help start the project in a more manageable way and inform other aspects of the project.

4.   The IASB decided to use test cases related to newer types of intangible assets and new ways of using them to understand the underlying causes of the application issues, identify the principles in IAS 38 that could be improved and develop possible solutions using updated concepts in the *Conceptual Framework for Financial Reporting* as a starting point. The IASB will then test whether identified solutions would work for more traditional intangible assets to avoid unintended consequences.

Approach to staff analysis

Selection of test cases

5.   In selecting test cases, we considered how widespread related stakeholder concerns are, how significant the effects on financial reporting are and how relevant any underlying issues are—and potential solutions would be—for a broader population of intangible assets. We have selected cloud computing and agile software development as test cases because:

   (a)   application issues related to cloud computing and agile software development were most commonly raised by stakeholders during the initial phase of the project.

   (b)   underlying issues—such as those related to the assessment of control or the distinction between research and development phases—are likely to be

relevant for a wide range of newer types of intangible assets and new ways of developing and using intangible assets, as well as for more traditional intangible assets. Potential changes might help meet the project's objective of updating IAS 38, in particular to make it more suitable for newer types of intangible assets and new ways of using them.

(c)   exploring these test cases may provide insights that will help explore later work streams, for example, in a broader review of recognition.

6.   We also heard some concerns about accounting for data resources and artificial intelligence-related data and solutions (AI). We performed additional exploratory work to understand stakeholders' concerns and underlying issues and determine whether application issues related to data resources and AI would be useful test cases.

7.   During this exploratory work, we firstly performed desktop research and held 12 in-depth conversations with stakeholders who raised concerns about data resources and AI, including seven preparers, four accountancy firms and a national standard-setter. Our desktop research and conversations focused on:

(a)   the typical characteristics of data resources and AI;

(b)   stakeholders' views on challenges related to reporting on data resources and AI and whether they differ from those related to the cloud computing and agile software development test cases; and

(c)   whether there are any other test cases they thought the IASB should explore.

8.   We then tested our initial conclusions on whether to include additional test cases with:

(a)   the Accounting Standards Advisory Forum (ASAF);

(b)   the Emerging Economies Group (EEG); and

(c)   the Global Preparers Forum (GPF).

9.   Furthermore, we have consulted users of financial statements (users) on:

(a)   whether there are any significant deficiencies in information provided by entities about data resources and AI; and

(b)   what the IASB could do to improve the usefulness of information.

10.   To date, we have obtained users' views in a Capital Markets Advisory Committee (CMAC) meeting, a user workshop on digital intangible assets organised by the European Financial Reporting Advisory Group (EFRAG), an EFRAG insurance working group meeting and a meeting with two technology sector analysts. We also asked ASAF and EEG members to inform us of user information needs related to selected and potential test cases. We will continue our work on user information needs and will reflect any additional user input in our analysis and future papers.

11.   Finally, we reviewed the Chinese Ministry of Finance's *Interim Provisions on Accounting Treatment of Enterprise Data Resources* and the results of two studies setting out how listed entities in China have implemented the Interim Provisions in the 2024 financial year.

12.   Agenda Paper 17D for this meeting summarises the findings of our exploratory work and presents staff analysis on whether selecting test cases other than cloud computing and agile software development would be helpful for the work stream exploring potential changes to some aspects of the definition and recognition requirements.

Identification of principles and topics to explore further for selected test cases

13.   We began identifying principles and topics to explore further for the cloud computing and agile software development test cases by reviewing the current requirements in IAS 38 and the March 2019 and March 2021 IFRS Interpretations Committee (Committee) Agenda Decisions on software as a service (SaaS) arrangements, as well as staff papers and Committee meetings relating to those Agenda Decisions. This review helped us identify the accounting issues related to our selected test cases raised in the past.

14. We then performed desktop research and held 10 in-depth conversations with stakeholders who raised concerns related to the test cases during the initial phase of the project, including five preparers, four accountancy firms and an organisation representing regulators from Europe. Our desktop research and conversations focused on:

    (a) the typical characteristics of:

        (i) cloud computing arrangements and the rights and obligations a customer and a supplier have in various types of arrangements; and

        (ii) agile software development; and

    (b) stakeholders' views on the current accounting treatment of:

        (i) cloud computing arrangements, including whether the requirements in IAS 38 and the related Committee Agenda Decisions result in outcomes that reflect the economics of these cloud computing arrangements and what the IASB could do to help entities make judgements in accounting for such arrangements; and

        (ii) software developed using an agile method.

15. The work performed in paragraph 14 allowed us to form some initial thoughts on what principles and topics the IASB could explore further for each test case (see Appendix A of Agenda Paper 17B and Appendix A of Agenda Paper 17C for this meeting). We tested whether we had accurately identified these principles and topics with IASB consultative groups, including ASAF, EEG and GPF.

16. Furthermore, we spoke to the users and organisations representing users set out in paragraph 10 to help us understand user information needs, including:

    (a) whether there are any significant deficiencies in information provided by entities about cloud computing arrangements and agile software development; and

    (b) what the IASB could do to improve the usefulness of information.

17.   We also reviewed:

(a)   a limited sample of entities' annual reports to find out more about the information entities disclose about cloud computing arrangements and agile software development.

(b)   work of other national standard-setters, including the US Financial Accounting Standards Board (FASB). The FASB have, over the past 10 years and recently, updated their requirements for accounting for cloud computing arrangements and software development costs. Our review was intended to help us understand FASB stakeholders' concerns and how they were addressed.

Next steps for this work stream

18.   Going forward, the IASB will explore the principles and topics identified for each test case and work to develop potential solutions. This work will be largely based on the feedback and evidence collected to date, but we may consult individual stakeholders if necessary to clarify specific aspects of the selected test cases. Potential solutions will then be tested on a broader population of intangible assets, the population of which will be discussed with the IASB prior to testing. The IASB will then decide whether it would be worth considering issuing discrete improvements to IAS 38 based on this work.

19.   Exploring the identified principles and topics does not mean that the IASB intends to make fundamental changes to these principles and topics—whether and what changes will be proposed will depend on the results of exploring these principles and topics.

20.   We plan to start discussing the principles and topics with the IASB in Q2 2026 and continue these discussions throughout the year. We will consult IASB consultative groups as necessary as the work progresses in H2 2026.