
IASB[®] Meeting

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Project **Intangible Assets**

Topic **Potential changes to some aspects of the definition and recognition requirements—cloud computing arrangements test case**

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Purpose of the paper

1. This paper summarises staff research and provides staff analysis on principles and topics to explore further for the cloud computing arrangements test case. Paragraphs 5 and 13–17 of Agenda Paper 17A for this meeting explains why we selected cloud computing as a test case and our approach to identifying principles and topics to explore further.
2. This paper does not ask the International Accounting Standards Board (IASB) to make any decisions. However, we welcome IASB members' comments, questions or suggestions.

Structure of the paper

3. This paper is structured as follows:
 - (a) [background information](#);
 - (b) [staff research](#);
 - (c) [staff analysis](#);

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- (d) [question for IASB members;](#)
 - (e) [Appendix A—Initial staff thoughts on principles and topics the IASB could explore further;](#) and
 - (f) [Appendix B—Diagram representing a typical software as a service \(SaaS\) arrangement.](#)

Background information

4. Cloud computing arrangements involve an agreement between a customer and cloud service provider (supplier) for the on-demand delivery of computing resources, including software or infrastructure, over the internet. 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 that the customer has access to. Cloud computing resources can be delivered through public clouds (shared resources), private clouds (dedicated resources) or a combination of both (often referred to as a hybrid cloud). A customer often has the option to configure or customise the cloud computing resources being provided in a cloud computing arrangement to meet its business needs.
5. Common types of cloud computing arrangements include:
 - (a) SaaS, in which the customer obtains access to a fully functioning software application hosted and operated by the supplier (see Appendix B);
 - (b) platform as a service (PaaS), in which the customer obtains access to a development and deployment environment, instead of a finished software application (aimed primarily at developers and IT operations staff within the customer, instead of software end users); and
 - (c) infrastructure as a service (IaaS), in which the customer obtains access to basic computing resources, such as servers, storage and networks.

Staff research

Accounting for cloud computing arrangements today

IAS 38 requirements

6. If a cloud computing arrangement does not contain a software lease (as defined in IFRS 16 *Leases*), the arrangement falls within the scope of IAS 38 *Intangible Assets*. To account for a cloud computing arrangement, an entity needs to consider:
- (a) the definitions of an intangible asset and an asset (paragraphs 8–17 of IAS 38), including the requirement to control an asset (paragraph 13 of IAS 38);
 - (b) the requirements for recognising an item as an intangible asset (paragraph 18 of IAS 38) and the recognition criteria (paragraphs 21–23 of IAS 38); and
 - (c) the requirements for recognising an expense relating to intangible items (paragraphs 68–70 of IAS 38), including for:
 - (i) expenditure incurred to provide future economic benefits but for which no intangible asset can be recognised (paragraph 69 of IAS 38); and
 - (ii) determining when services are received (paragraph 69A of IAS 38).

IFRS Interpretations Committee agenda decisions

7. In response to application questions submitted by stakeholders, the IFRS Interpretations Committee (Committee) published two agenda decisions related to SaaS arrangements:
- (a) [March 2019 Agenda Decision *Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud*](#) (IAS 38) (2019 Agenda Decision) (see paragraph 8); and
 - (b) [March 2021 Agenda Decision *Configuration or Customisation Costs in a Cloud Computing Arrangement*](#) (IAS 38) (2021 Agenda Decision) (see paragraph 9).

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8. The 2019 Agenda Decision focused on fees paid or payable to a supplier in a SaaS arrangement. For the fact pattern described in the Agenda Decision, the Committee concluded that 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. The Committee also observed that:
- (a) the arrangement does not constitute a software lease 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.
 - (b) the arrangement does not result in a software intangible asset 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 others' access to those benefits.
9. The 2021 Agenda Decision focused on configuration and customisation costs paid in a SaaS arrangement. For the fact pattern described in the 2021 Agenda Decision, the Committee observed that:
- (a) the customer often would not recognise an intangible asset in relation to configuration or customisation of the software 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. However, 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.

- (b) if an intangible asset is not recognised, the customer recognises the configuration and customisation costs as an expense when the customer receives the configuration or customisation services. IAS 38 does not specify requirements for the identification of the services the customer receives in determining when the supplier performs those services in accordance with the contract to receive them. However, IFRS 15 *Revenue from Contracts with Customers* 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 (either the software supplier or a third party) performs those services in accordance with the contract.

US GAAP requirements

10. In April 2015, the FASB issued [Accounting Standards Update 2015-05](#), *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05)*. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software licence. A cloud computing arrangement includes a software licence, and thus accounted for under Subtopic 350-40, if:
 - (a) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty; and
 - (b) 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.
11. If a cloud computing arrangement does not include a software licence, the customer accounts for the arrangement as a service contract and recognises the fees paid as an expense.

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12. In August 2018, the FASB issued [Accounting Standards Update 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* (ASU 2018-15). ASU 2018-15 aimed to clarify the accounting for implementation costs of a hosting arrangement that is a service contract and align the accounting for implementation costs for hosting arrangements, regardless of whether they convey a licence to the hosted software. Whether configuration and customisation costs are recognised as an intangible asset is based on the development stage. As such:
- (a) application development stage costs (depending on the nature of the costs) are capitalised as an asset related to the service contract in the same line item as prepayments for fees of the associated hosting arrangement and then recognised as an expense over the term of the hosting arrangement.
 - (b) preliminary stage and post-implementation stage costs are recognised as an expense as incurred.
13. However, in September 2025, the FASB issued [Accounting Standards Update 2025-06](#), *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal Use Software* (ASU 2025-06). ASU 2025-06 removed all references to project stages throughout Subtopic 350-40. As a result, when ASU 2025-06 comes into effect, an entity will start capitalising implementation costs when:
- (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 (the ‘probable-to-complete recognition threshold’).
14. The amendments in ASU 2025-06 are effective for annual reporting periods beginning on or after 15 December 2027 and interim reporting periods within those annual

reporting periods. Early adoption is permitted as of the beginning of an annual reporting period.

Desktop review and stakeholder feedback

15. During the initial phase of the project, many stakeholders, particularly preparers of financial statements and accountancy firms, suggested the IASB explore issues related to cloud computing arrangements, particularly SaaS arrangements. Most of these stakeholders expressed a view that the costs incurred to enter into a SaaS arrangement, and to configure and customise the software to the entity's needs, are akin to the costs incurred to set up software installed on the entity's own premises and therefore should be allowed to be recognised as an asset on the balance sheet. A few stakeholders said that the Committee's 2019 and 2021 Agenda Decisions were not helpful for making accounting judgements or led to outcomes that might not reflect the economics of the arrangement.
16. We used a combination of desktop research and outreach to determine the underlying issues and identify the principles and topics to explore further. Almost all the initial feedback on cloud computing arrangements related to SaaS arrangements, so in our research and outreach we focused on SaaS arrangements. Paragraphs 13–17 of Agenda Paper 17A for this meeting explain how we did our research and consulted stakeholders.
17. This section summarises:
 - (a) the findings of our desktop research and in-depth conversations with stakeholders who had raised concerns related to SaaS in the initial phase of the project. The findings focus on:
 - (i) the typical characteristics of SaaS arrangements and the rights and obligations a customer and a supplier have in various types of arrangements (paragraph 18); and

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- (ii) stakeholders' views on the current accounting treatment of SaaS 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 (paragraphs 19–25).
 - (b) feedback from IASB consultative groups on the initial staff thoughts on what principles and topics the IASB could consider (see Appendix A) (paragraphs 26–28).
 - (c) feedback from users of financial statements (users) on whether there are any significant deficiencies in information provided by entities about cloud computing arrangements, and what the IASB could do to improve the usefulness of information (paragraphs 29–30).
 - (d) the results of our review of a limited sample of entities' annual reports (paragraphs 31–32).

Characteristics of SaaS arrangements

18. During our in-depth conversations, many stakeholders, including most preparers and accountancy firms, confirmed that entities are changing the way in which they obtain computer resources—shifting from on-premises software to SaaS arrangements. Our desktop research and in-depth conversations with stakeholders indicated that:
- (a) in a SaaS arrangement, the customer typically accesses the software through a web browser or an application interface and does not manage or control the underlying infrastructure (such as networks, servers or storage), operating system or software code. Most preparers we spoke to confirmed that a customer would lose access to the software if a SaaS arrangement ended, although they would retain their data.
 - (b) the supplier in a SaaS arrangement is responsible for deploying, configuring, maintaining and updating the software. All suppliers we spoke to confirmed

that they retain the intellectual property rights over the software code, and that they merely grant access to their customers to use that code.

- (c) in some arrangements, for example if the customer enters into an arrangement to access a customisable enterprise resource planning (ERP) solution (such as SAP Cloud ERP), the supplier, the customer or its nominated third party may configure or customise the software to the customer's specifications. This work may take some time and result in significant expenditure. Most suppliers we spoke to said that they retain control over the intellectual property related to configuration and customisation software code if they are the party who performs the configuration and customisation activities—for example, they can include it in future software releases for other clients. However, a few preparers said that a customer can retain control over a configuration or customisation code if the supplier (on a private cloud), the customer or a third party performs the configuration or customisation activities. One preparer said that customisation is often performed by a third party, with the customer controlling the resulting code and gaining rights to use it in other software solutions or to sell it.
- (d) arrangements can be delivered through either public, private or hybrid clouds:
 - (i) in a public cloud arrangement, highly scalable cloud computing resources are shared between multiple customers (referred to as tenants).
 - (ii) in a private cloud arrangement, the cloud computing resources are typically hosted behind the customer's firewall or on a dedicated server behind the supplier's firewall, and the customer has the ability to restrict access to others. Unlike a data centre, a private cloud is a pool of shared resources optimised for the use of the entity.
 - (iii) in a hybrid cloud arrangement, an entity uses a combination of public cloud, private cloud and on-premises systems and uses processes that allow information to flow securely between these systems.

Stakeholder views on current accounting treatment and suggestions for improvements

19. During our in-depth conversations, most customers said they recognise expenditure related to SaaS arrangements as an expense when incurred. For some customers, large upfront implementation costs—distinct from ongoing subscription fees—have led to large one-off expenses in the income statement, affecting EBITDA and other profitability measures reported to users.
20. Feedback on the Committee’s 2019 and 2021 Agenda Decisions was mixed. While some stakeholders said that the decisions provided clarity, others, like those we consulted in the initial phase of the project, questioned whether the Agenda Decisions could lead to accounting outcomes that might not reflect the economics of SaaS arrangements. Accountancy firms expressed mixed views on whether the problems arise from the 2019 Agenda Decision, the 2021 Agenda Decision or both.
21. Regarding the 2019 Agenda Decision, many stakeholders argued that, in substance, SaaS arrangements deliver the same economic benefits as on-premises software solutions but have resulted in vastly different accounting outcomes. A common reason cited for not recognising costs related to SaaS arrangements as intangible assets is the difficulty in demonstrating control over the underlying item. A few preparers and accountancy firms told us that they have seen SaaS arrangements structured to help demonstrate control and thus to achieve a desired accounting outcome.
22. Some stakeholders were particularly concerned about the 2021 Agenda Decision on configuration and customisation costs, saying that recognising a large expense as incurred when configuration and customisation activities take place does not reflect the economics of the activities. They argued that configuration and customisation activities enable the software to meet the customer’s specifications and are often expected to generate future economic benefits from that software over multiple periods.

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23. Interestingly, a few stakeholders that enter into SaaS arrangements as a customer and also supply SaaS arrangements to their customers said that they share the concerns set out in paragraphs 21–22 for arrangements in which they are a customer. However, when they are a supplier in an arrangement, these stakeholders said that their customers have only a right to access (as defined in IFRS 15) and do not control the software or any configuration and customisation code.
24. During the initial phase of the project, some stakeholders said that the IASB should use the updated definition of an asset and related guidance in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* as a starting point. To address concerns set out in paragraphs 21–22, during our in-depth conversations, stakeholders continued to suggest that the IASB consider improvements to some aspects of the definition of an intangible asset:
- (a) most stakeholders asked for better guidance on applying the control criterion. For example, some stakeholders asked whether, and if so how, factors such as the mode of access (on-premises or SaaS), the ability to download and use the software independently and the ability to restrict others' access influence who controls the underlying item in these arrangements.
 - (b) another common request was to address questions related to the nature of the asset and the unit of account. For example, stakeholders asked whether the underlying item in a SaaS arrangement is the software itself or the right to access the software. Stakeholders also questioned whether configuration and customisation costs that create code could be accounted for separately from the original software code and recognised as an intangible asset.
25. Furthermore, a few stakeholders said:
- (a) if a SaaS arrangement is concluded to be an executory contract whereby the customer pays for the right to access the software and the supplier has an obligation to provide continuous software availability in accordance with the service level agreement, and neither party has fully fulfilled its obligations, the

IASB could consider whether the costs of configuration and customisation could attach to the customer's right within the executory contract.

- (b) some concepts in IFRS 15 could be helpful in determining control in SaaS arrangements. This included one supplier who said they use some of the principles in IFRS 15 to advise their customers on the accounting for their SaaS arrangements.
- (c) upfront implementation costs related to SaaS arrangements could be accounted for as a prepayment asset and recognised as an expense over the life of the arrangement (similar to the FASB approach in ASU 2018-15, as described in paragraph 12).

Feedback from consultative groups

26. All [Accounting Standards Advisory Forum](#) (ASAF), most [Emerging Economies Group](#) (EEG) and many [Global Preparers Forum](#) (GPF) members agreed with using SaaS arrangements as a test case, with a GPF member saying that SaaS arrangements represent a well-understood fact pattern. An ASAF member representing the Asia-Oceania region suggested broadening the consideration beyond plain SaaS arrangements to include PaaS arrangements to reflect the increasing complexity of cloud computing arrangements. A few GPF and ASAF members suggested the IASB add another test case or replace one or both of the suggested test cases (that is, those related to SaaS and agile software development) with known application issues related to more traditional intangible assets. One GPF member argued the suggested test cases are too complex, while another member suggested avoiding focusing on software only. An ASAF member and a few GPF members emphasised that the IASB should focus on developing principles, rather than solving application issues.

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27. Most ASAF, EEG and GPF members agreed with our analysis of the principles and topics that the IASB should explore further. One EEG member agreed with, and most other consultative group members raised no issue with, our suggestion that the IASB use the updated *Conceptual Framework* as a starting point (see [Appendix A](#)). However, a few members expressed concerns about some aspects of the principles and topics to explore further:
- (a) some ASAF and a few GPF members expressed concerns about mirroring IFRS 15 requirements because of potential unintended consequences; and
 - (b) an ASAF member expressed some reservations about finding common principles for updating the definition of an intangible asset to suit all types of intangible assets.
28. A few ASAF, EEG and GPF members provided additional examples of principles and topics the IASB should explore further, such as:
- (a) the need to assess future economic benefits of using software in various arrangements;
 - (b) the implications of the method of delivery (whether arrangements are delivered through private or public clouds) and the level of supplier involvement; and
 - (c) the accounting treatment of prepayments made to SaaS providers.

Feedback from users

29. Many users did not comment specifically on whether there are any significant deficiencies in financial statements for cloud computing arrangements and spoke more generally about newer types of intangible assets. Users said that they:
- (a) need more information about newer types of intangible assets, including the amounts invested in them and how they contribute to value creation;
 - (b) need more transparency on judgements made in capitalisation decisions; and
 - (c) want to understand the level of control over assets.

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30. A [Capital Markets Advisory Committee](#) (CMAC) member suggested the IASB consider expanding recognition of intangible assets, for example, for agile software development, cloud computing arrangements, AI and data resources. However, to date, we have generally heard little interest from users in recognising more intangible assets in the balance sheet.

Desktop review of annual reports

31. In H2 2025, we reviewed a limited sample of entities' annual reports to find out more about the information entities disclose about cloud computing arrangements. Identifying entities that have significant cloud computing arrangements was challenging. Our sample included:
- (a) entities with the highest mention of terms 'software as a service / (SaaS)', 'platform as a service / (PaaS)', 'cloud computing' and 'software expenses / expenditure' based on AlphaSense screening of IFRS preparers' annual reports; and
 - (b) preparers who raised application issues related to cloud computing during the initial research phase.
32. The sample comprised 24 entities: 16 customers and eight suppliers of cloud computing arrangements. Overall, references to cloud computing arrangements in financial statements were limited. A few customers disclosed accounting policy judgements or reported software or cloud-related expenses separately from other operating expenses. A few suppliers distinguished software licences from cloud services in revenue accounting policies and reported cloud-related metrics—such as subscription revenue and cloud backlog—in the narrative reporting section of their annual reports.

Staff analysis

Fact pattern for further exploration

33. Most of the issues raised by stakeholders related to SaaS arrangements. We heard that the Committee's agenda decisions did not resolve all stakeholders' issues and that many stakeholders consider that current accounting might not reflect the economics of such arrangements. Therefore, we have selected SaaS arrangements as a basis for our analysis.
34. There are many variations of SaaS arrangements. However, they are becoming increasingly common and now represent a well-understood fact pattern. We tried to identify common characteristics in paragraphs 18(a)–18(c), and an arrangement with those characteristics will form the basis for our analysis. Where relevant, we will also consider how common variations (for example, resources provided through a public, private or hybrid cloud) could affect an entity's judgements.
35. A few stakeholders asked the IASB to consider other types of cloud arrangements, such as PaaS arrangements, as additional test cases. However, we have not heard of specific challenges related to such arrangements. As noted in paragraph 18 of Agenda Paper 17A for this meeting, we intend to test any potential solutions on the broader population of intangible assets. We think it would be more suitable to consider other types of cloud computing arrangements when testing potential solutions rather than exploring them as an additional test case.
36. In considering the impact of any potential solutions on the broader population of intangible assets, the IASB could also think about whether potential solutions will work for:
- (a) a more traditional licence-based intangible asset, such as a broadcasting licence; and
 - (b) newer, more upcoming types of intangible assets, such as data resources and artificial intelligence.

Principles and topics to explore further

37. Many stakeholders raised concerns that the accounting for SaaS arrangements might not reflect the economics of the transaction. In their view, at least some SaaS arrangements should result in an intangible asset for the customer, but the requirements in IAS 38 make it difficult to recognise an asset.
38. We have concluded that stakeholder concerns centre around an entity's ability to recognise an asset, or when to recognise expenses, for costs related to a SaaS arrangement—consistent with feedback that many intangible assets are not being recognised. The concerns were particularly strong for configuration and customisation costs. The underlying issues around an entity's ability to recognise an asset relate to the challenges in identifying the rights obtained in a SaaS arrangement, who controls those rights and determining the unit of account. Exploring these issues might provide the IASB with more information for the broader review of recognition of intangible assets.
39. The Committee's agenda decisions (and an entity's judgements when accounting for a SaaS arrangement) are based on the definition of an intangible asset in IAS 38, which relies on determining what resource an entity is obtaining and whether it has control over that resource. However, IAS 38 does not include guidance on identifying the resource, other than how to distinguish an intangible asset from goodwill, and the guidance on control is limited and challenging to apply to these types of arrangements.
40. Stakeholders' questions show that judgements on identifying the resource and control are challenging. For example:
- (a) the 'unit of account' (or nature of the asset) questions (see paragraph 24(b)) indicate that it would be helpful to consider what the underlying item in an arrangement is—for example, whether it is the software code or a copy of the software code.

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- (b) there are mixed views about the nature of the rights a customer obtains in an arrangement and whether it controls the economic resource resulting from those rights.
41. Using SaaS as a test case, the IASB could explore whether applying the updated definition of an intangible asset and the supporting concepts in the *Conceptual Framework* could help improve IAS 38 requirements and provide a better basis for entities' judgement, and therefore result in more useful information, for these and other intangible assets.
42. Paragraph 4.3 of the *Conceptual Framework* defines an asset as 'a present economic resource controlled by the entity as a result of past events'. Paragraph 4.4 of the *Conceptual Framework* goes on to say that 'an economic resource is a right that has the potential to produce economic benefits'. Paragraphs 4.6–4.25 of the *Conceptual Framework* explain the three aspects of the definition of an asset and an economic resource—right, potential to produce economic benefits and control. Paragraphs 4.48–4.55 of the *Conceptual Framework* provide concepts to apply in determining the unit of account.
43. We think that, based on the *Conceptual Framework*, the IASB could explore potential improvements to the requirements on identifying the economic resource in a transaction, in particular:
- (a) identifying the underlying item;
 - (b) determining the rights the entity obtains over the underlying item. For example, the IASB could consider:
 - (i) whether the customer is obtaining a right to use the underlying item, a right to receive access to the underlying item, a right to receive a right to use the underlying item, or another right(s);
 - (ii) how an entity could distinguish between those rights; and
 - (iii) whether configuration and customisation activities create additional rights that are distinct from rights over the initial underlying item; and

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- (c) determining whether the rights a customer receives should be treated as a single unit of account (that is, a single asset).
44. Improved guidance on identifying the economic resource, which is a fundamental concept underpinning IFRS Accounting Standards, could also be helpful for other types of intangible assets where some of the judgements around identifying the economic resource can be difficult—for example, stakeholders raised similar concerns about data resources and AI (see paragraphs 16 and 21 of Agenda Paper 17D for this meeting).
45. The IASB could also explore potential improvements to the requirements on whether the entity controls the economic resource. Paragraph 4.20 of the *Conceptual Framework* specifies that an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent others from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. The IASB could explore whether building on the *Conceptual Framework* could improve the guidance on the concept of control in IAS 38 to allow entities to consider how SaaS features—such as a customer’s ability (or lack thereof) to continue using the software without the supplier’s involvement and the customer’s ability to restrict others’ access in a private cloud—could be considered in the assessment of control.
46. Improving the guidance on the concept of control could be beneficial for other types of intangible assets. For example, the ability to duplicate or share the same item is a common characteristic of intellectual property and other intangible assets, so it can often be challenging for entities to demonstrate the ability to restrict others’ access to future economic benefits produced by such assets.

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47. In determining how to improve the guidance in IAS 38, the IASB would need to consider the economics of a SaaS arrangement and its main features. In particular, the IASB could consider:
- (a) whether the mode of access—on-premises versus the cloud—matters when determining whether a customer has an intangible asset, and particularly whether the customer’s rights differ between these two modes of access. Considering this question could help future-proof IAS 38 as new ways of accessing intangible assets emerge in an increasingly digitalised economy. For example, the IASB could explore:
 - (i) whether the mode of access changes the economic resource (see paragraph 43); and
 - (ii) whether the mode of access changes an entity’s assessment of whether it controls that economic resource (see paragraph 45).
 - (b) whether there are differences between a tangible asset and an intangible asset that might lead the IASB to develop different requirements for intangible assets—for example, if different or additional guidance is necessary because it is easy to replicate copies of an intangible asset or to share the same asset.
48. In exploring the concepts set out in paragraphs 43–46, the IASB could also consider whether it would be helpful to draw on:
- (a) the concepts relating to executory contracts in paragraphs 4.56–4.58 of the *Conceptual Framework*; and
 - (b) the concepts in IFRS 15, for example:
 - (i) whether a contract contains distinct rights (for example, in relation to configuration and customisation code) (paragraphs B53–B54 of IFRS 15). The conclusion could be helpful in identifying what rights an entity receives in any given arrangement and whether these rights can be recognised as a separate intangible asset.

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- (ii) when control of rights transfers from a supplier to a customer (paragraph B56 of IFRS 15).
 - (iii) whether the nature of the customer's right (use or access) depends on the supplier's ability to change the software (paragraphs B58–B62 of IFRS 15).
49. The exploration of rights obtained by the entity could also help clarify the interaction between IAS 38 and IFRS 16.¹

Question for IASB members

Question for IASB members

Do you have any questions or comments on the staff analysis presented in this paper?

¹ Paragraphs BC70–BC71 of the Basis for Conclusions on IFRS 16 *Leases* acknowledge that there is no conceptual basis for excluding leases of intangible assets from the scope of IFRS 16 for leases. However, the IASB concluded that a separate and comprehensive review of the accounting for intangible assets should be performed before requiring leases of intangible assets to be accounted for applying the requirements of IFRS 16.

Appendix A—Initial staff thoughts on principles and topics the IASB could explore further

A1. This Appendix contains an extract from the materials we presented to consultative groups. The extract summarises initial staff thoughts on principles and topics the IASB could explore further for the Software as a Service (SaaS) test case.

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?

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?**

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 recognise 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

Appendix B—Diagram representing a typical software as a service (SaaS) arrangement

