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Staff paper

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Project	**Intangible Assets**
Topic	**Potential changes to the definition of intangible asset and supporting requirements (SaaS test case)—implications**

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Purpose of this session

In October 2026, ASAF members were introduced to the core of the model the IASB is developing for customer accounting for IP licensing contracts based on the cloud computing test case, including contracts known as software as a service (SaaS) contracts. At its October 2026 meeting, the IASB discussed potential options for changing some aspects of the recognition criteria in IAS 38 *Intangible Assets* in exploring the agile software development test case.

The purpose of this session is:



to **further discuss the work stream** exploring potential changes to some aspects of the definition of an intangible asset, related guidance and recognition requirements developed based on test cases:

- this slide deck includes, as a reminder, an overview and details of the model for customer accounting for IP licensing contracts based on cloud computing arrangements; and
- Agenda Paper 3B covers options for improving IAS 38 recognition requirements based on agile software development.



to **seek ASAF members' views** on any unintended consequences of these potential changes, particularly on a broader set of intangible assets. To aid these discussions, we have included examples of how the model could be applied to some intangible assets.

Where we are in the project



Test cases and principles to explore chosen

Analysis of test cases to determine underlying causes of stakeholders' challenges and to develop potential principle-based improvements

The IASB discussed:

- the suggested model for customer accounting for IP licensing contracts based on the cloud computing test case—July and September 2026
- options for improving recognition requirements based on the agile software development test case—October 2026

Input from consultative groups on potential changes arising from the test cases and their implications for a broader set of intangible assets

The IASB to consider:

- feedback on potential changes and their implications for a broader set of intangible assets
- whether and how to integrate suggested improvements into IAS 38

Why the IASB is developing the model for IP licensing contracts

For cloud computing arrangements (including SaaS contracts)—where the customer does not acquire IP outright—stakeholders said **IAS 38 can be difficult to apply** when deciding whether a customer recognises an asset or expenses related costs—with many arguing that the accounting for some newer types of intangible assets **might not reflect the economics of the transaction**. These concerns were especially strong for upfront expensing of configuration and customisation costs.

Some stakeholders reported **diversity in accounting**, especially for configuration and customisation costs, and said information in the financial statements can be insufficient to understand the differences arising from this diversity.

Stakeholders highlighted questions about:

- **identifying the underlying item**, including whether the underlying item is the IP itself or a copy of the IP and what the unit of account is when a contract contains multiple deliverables.
- **the nature of the rights obtained by a customer** in a cloud computing arrangement, including whether the customer obtains an intangible asset, or enters into a service or a lease contract.
- **how the concept of control applies to the rights a customer obtains** in a cloud computing arrangement, particularly where multiple parties share rights to the same item and what the right to restrict others' access to benefits means in this context.

Providing principles for entities to apply in considering those questions could help improve consistency in application and usefulness of resulting information not just for SaaS contracts, but also for a broader population of IP licensing contracts, including newer types of IP such as AI-related applications and data.

Questions for ASAF members

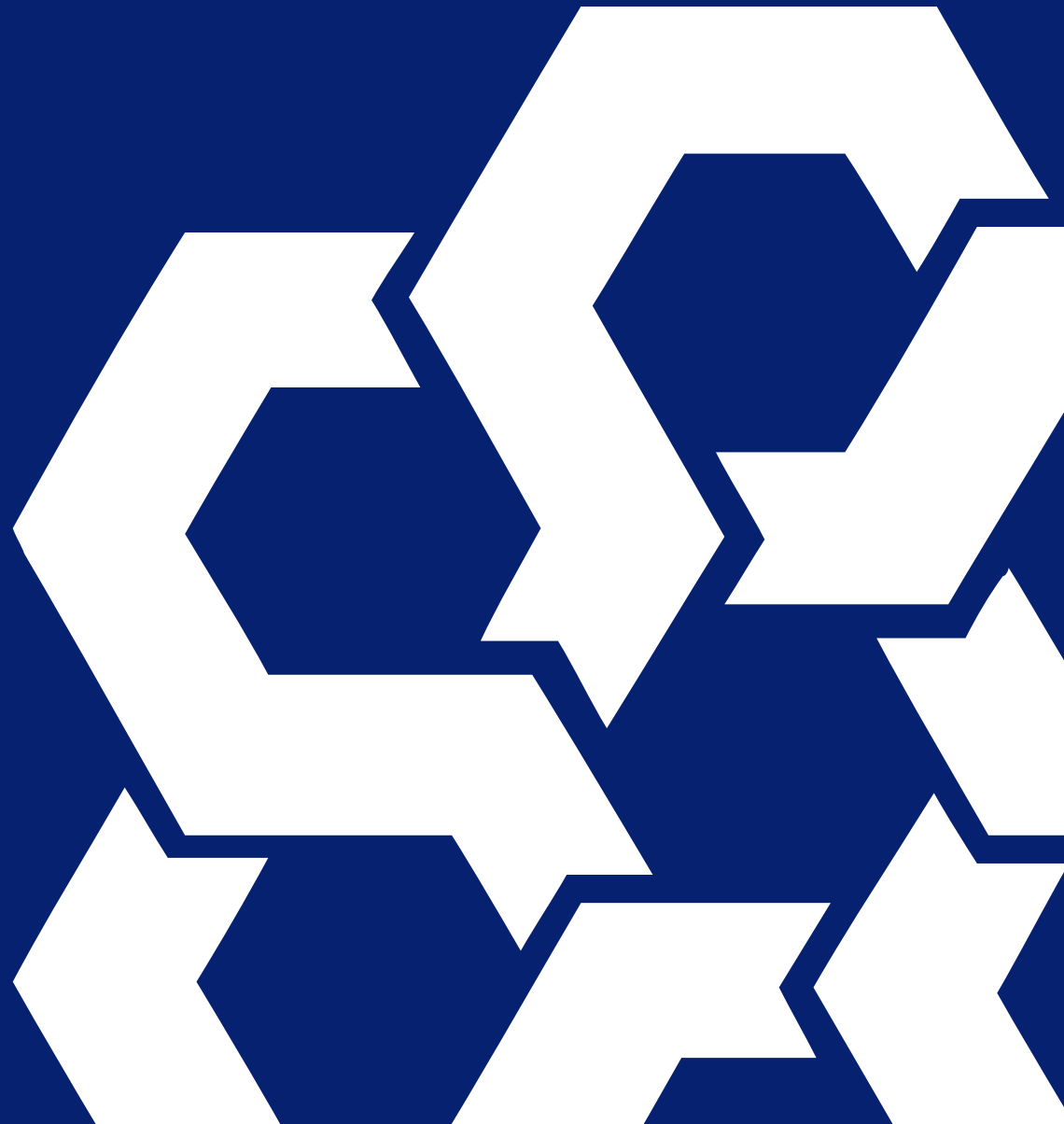
Slides 7–16 provide an overview of the model and its effects on the information reported by customers about their software licences. Slides 17–24 provide examples of how the model could apply to some other IP licensing contracts.[1]

1. What are your views on the applicability of the model to a broader range of IP licensing contracts, including contracts that relate to:
   a. traditional IP, such as broadcasting rights, published works or patents; and
   b. newer types of IP or new ways of accessing or using them, such as AI-related applications or data?
2. If you think that the application of the model could lead to unintended consequences in some cases, please describe those cases and the reasons for your concerns.

[1] The Agenda Papers for the July 2026 and September 2026 IASB meetings provide further information about the model the IASB is developing for customer accounting for IP licensing contracts. Appendix A provides more detailed information about our suggested model, and Appendix B provides relevant fact patterns used to develop that model.

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Customer accounting for IP licensing contracts—Overview of the model



Summary of our suggested model (1/3)

Our suggested model focuses on the analysis of **rights and obligations in a contract** (using concepts in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and IFRS 15 *Revenue from Contracts with Customers*). In developing the model, we used typical fact patterns set out in Appendix B. Further details of our rationale and the principles we used can be found in Appendix A (see slide references).

Discussed by the IASB in July 2026 and ASAF in October 2026

What is the underlying item? (slide 26)

The underlying item is the **IP itself**—the functionality and value of the IP is embodied in the IP itself, and the ability to copy at little to no cost and of many parties to access and utilise the IP at the same time are characteristics of the IP itself.

What rights over the underlying item does the customer obtain? (slides 27–28)

The supplier typically continues to hold the right to direct the use of the IP. A customer in an IP licensing contract **obtains and controls a right to access the supplier's IP** (not a right to receive a service). This is because the customer can access and utilise the software itself to generate its own economic benefits (in accordance with the terms of the licence). A right to access IP from the customer's perspective is a new concept.

Is the right to access IP an asset? (slide 29)

That right meets the definition of **an intangible asset**—it is an economic resource controlled by the customer that is identifiable, non-monetary and without physical substance.

Summary of our suggested model (2/3)

Discussed by the IASB in September 2026 and verbal update provided to ASAF in October 2026

What accounting treatment would provide the most useful information about the right to access IP? (slides 30–31)

If that right is **obtained at a point in time**—like a traditional software licence—it is **recognised as an intangible asset and amortised over its useful life**, as today.

If that right is **obtained over time**—like a SaaS-type arrangement—the customer obtains a series of short-lived intangible assets that are consumed as they are obtained. We think that the related cost is **best recognised as an operating expense** over the contract term. This is because each right exists only momentarily, is consumed during an entity's normal operating cycle and recognising and immediately amortising rights to access IP may not result in useful information for users.

We think that the cash flows associated with rights to access obtained over time are best characterised as **operating cash flows** because no intangible asset is recognised. In the future (as part of this work stream or as part of the broader disclosure work stream) the **IASB could consider whether specific disclosure requirements** for rights to access IP are needed.

Summary of our suggested model (3/3)

Discussed by the IASB in September 2026 and verbal update provided to ASAF in October 2026

How to account for advance payments (including configuration and customisation costs paid for in advance)? (slide 35)

We think an advance payment is best characterised as a **working capital asset** because it relates to the right to receive rights to access IP in the future. As and when the customer obtains the rights to access IP over time, the **relevant portion of this advance payment becomes a right to access IP** that is immediately consumed and recognised as an operating expense.

How to consider multiple deliverables in the contract (including configuration and customisation)? (slides 32–33 and slide 36)

A customer could **treat rights** related to these deliverables **as a single unit of account** if such treatment provides **useful information**. This would be the case if the rights are used together and not expected to expire in different patterns, the customer cannot benefit from those rights separately and the customer's primary objective is to obtain access to a combined output.

For example, we think that, in fact pattern 3, rights to access IP, rights relating to the supplier's infrastructure and rights over software code resulting from customisation activities would typically be treated as a single unit of account. Therefore, the **cost of configuration and customisation would form part of the cost of the series of intangible assets** that the customer would obtain and consume over the contract period and **would be recognised as operating expenses over the contract period**.

How to consider deliverables from multiple contracts? (slide 37)

To obtain the desired functionality of the software, a customer may **obtain access to IP and other deliverables (for example, configuration or customisation activities, or access to computing infrastructure) from various suppliers**. A customer could **treat rights** related to these deliverables **as a single unit of account** if such treatment provides **useful information**, for example if the customer seeks to obtain access to a combined output, the components of which come from different suppliers.

What the model means for financial reporting for software licences (1/5)

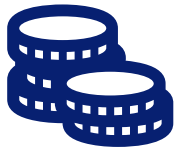
	Fact pattern 1—traditional software licence*	Fact pattern 2—SaaS arrangement*	Fact pattern 3—SaaS arrangement with configuration and customisation*
How the software is obtained	Downloaded and run on the customer's own servers.	Accessed through the cloud. The supplier hosts, maintains and updates the software and controls the underlying infrastructure.	As fact pattern 2, plus the supplier configures and customises the software before go-live.
Term and fees	Three years, 100 users. CU360,000 for the licence.	Three years, 100 users at CU100 per user per month (CU120,000 a year).	As fact pattern 2, plus CU60,000 of implementation fees: • configuration CU10,000; • customisation CU50,000.

* Appendix B provides further details of the fact patterns.

What the model means for financial reporting for software licences (2/5)

	Fact pattern 1—traditional software licence	Fact pattern 2—SaaS arrangement	Fact pattern 3—SaaS arrangement with configuration and customisation
Balance sheet 	An intangible asset is recognised at cost and amortised over its useful life. A declining asset balance is visible until the licence is fully amortised.	No intangible asset is recognised.	No intangible asset is recognised. A working capital asset is recognised in respect of the configuration and customisation activities and is gradually reduced as related operating expenses are recognised.
Income statement 	Amortisation of the intangible asset—presented as amortisation of intangible assets or allocated to the function the software supports.	An operating expense as the rights to access IP are obtained and consumed—within the function the software supports (eg cost of sales, IT or administrative expenses).	An operating expense as the rights to access IP are obtained and consumed—within the function the software supports (eg cost of sales, IT or administrative expenses). Included in this operating expense is the relevant portion of the working capital asset for customisation and configuration.

What the model means for financial reporting for software licences (3/5)

	Fact pattern 1—traditional software licence	Fact pattern 2—SaaS arrangement	Fact pattern 3—SaaS arrangement with configuration and customisation
Cash flow statement 	Spend is classified as investing cash flows because it is a cash payment for the acquisition of an intangible asset.	Spend is classified as operating cash flows because no intangible asset is recognised and such classification aligns with the classification in the income statement.	Spend is classified as operating cash flows because no intangible asset is recognised and such classification aligns with the classification in the income statement.
Profitability measures 	The amortisation charge sits below EBITDA, so operating profit before depreciation and amortisation is unaffected. The software asset is included in the asset base, which affects return on assets and return on capital employed.	The charge sits within EBITDA, so operating profit before depreciation and amortisation is affected. There is no software asset included in the asset base, which affects returns on assets and capital employed.	The charge sits within EBITDA, so operating profit before depreciation and amortisation is affected. Only a working capital asset is included in the asset base that affects returns on assets and capital employed.

The IASB could consider requiring **additional disclosure** on expenditure and on the nature, extent and timing of the entity's commitments associated with rights to access IP. The IASB will also **consider how the proposed model affects the accounting for a broader set of intangible assets**—for example, broadcasting rights, published works, patents and AI-related applications or data.

What the model means for financial reporting for software licences (4/5)

Extract from the balance sheet as of end of year 1

	Fact pattern 1	Fact pattern 2	Fact pattern 3
Non-current assets			
• Intangible asset	240,000	-	-
• Non-current portion of working capital asset	-	-	20,000
Current assets			
• Current portion of working capital asset	-	-	20,000

Extract from the income statement for year 1

	Fact pattern 1	Fact pattern 2	Fact pattern 3
Amortisation expense	120,000	-	-
Other operating expenses	-	120,000	140,000*

* Comprises CU120,000 in subscription fees as per fact pattern 2 + CU20,000 expense recognition for configuration and customisation costs previously capitalised into working capital.

What the model means for financial reporting for software licences (5/5)

Extract from the statement of cash flows for year 1 (using the indirect method)

	Fact pattern 1	Fact pattern 2	Fact pattern 3
Cash flows from operating activities			
Profit for the period	(120,000)	(120,000)	(140,000)
Adjustments for:			
- Amortisation	120,000	-	-
Changes in:			
- Working capital assets	-	-	20,000*
Net cash generated from operating activities	**-**	**(120,000)**	**(120,000)**
Cash flows from investing activities			
- Acquisition of intangible asset	(360,000)	-	-
Net cash generated from investing activities	**(360,000)**	-	-

* The year 0 payment of CU60,000 preceded the start of the SaaS contract. For that year, the statement of cash flows would have shown (CU60,000) within the cash flows from operating activities section upon recognition of working capital asset. Year 1 shows a reduction in the working capital asset recognised in respect of configuration and customisation costs as the operating expense is recognised.

Expected changes to accounting for SaaS arrangements

What are entities doing today?

- Although there is evidence of some diversity in practice, **most customers we spoke to said they accounted for SaaS arrangements as a service contract**, recognising expenditure related to SaaS arrangements as an **operating expense when incurred**. For some customers, large **upfront implementation costs have led to large one-off expenses in the income statement**, affecting EBITDA and other profitability measures.

What could change because of the proposed model?

- The effect of our suggested model on the financial statements is that **SaaS spend stays in operating expense and operating cash flow**, broadly as most preparers report it today—but as rights to access IP are seen as assets that are consumed as obtained, this provides a conceptual basis for spreading **configuration and customisation costs** over the term of the SaaS arrangement.

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Potential implications for a broader set of intangible assets



Potential implications for a broader set of intangible assets

In the October 2026 ASAF meeting, we said that we would seek ASAF members' advice on the applicability of the model to a broader set of intangible assets, including whether there are any unintended consequences, at this meeting.

To help in your discussion with stakeholders, we have prepared examples to illustrate how the model could apply to some other intangible assets, namely:

- broadcasting rights (slides 19–21); and
- a licence of a changing music catalogue (slide 22–23).

These examples reflect our initial thinking and assumptions and have not been tested nor discussed with the IASB.

We also considered whether it could be appropriate to apply our suggested model to the accounting for service contracts (slide 24).

We would welcome your advice on the applicability of the model to a broader set of intangible assets, such as, but not limited to, the examples above, including whether there are any unintended consequences of applying the model.

Broadcasting rights – superhero film (1/3)

Fact pattern

On 1 January 20X1, a film producer signs contracts granting the following rights to a completed superhero film in one territory:

- Cinema operator: initial screening from 1 March to 30 April 20X1.
- Pay-TV operator: broadcast rights from 1 January to 30 June 20X2 only (six months).
- Free-to-air TV operator: broadcast rights from 1 January to 31 December 20X3.
- Subscription streaming service: broadcast rights from 1 January 20X4 to 31 December 20X6.

This example focuses on customer accounting by the Pay-TV operator.

The film opens in cinemas on 1 March 20X1. On that date, the producer delivers a complete digital copy to the Pay-TV operator for technical preparation. The operator may broadcast the film only during its six-month licence period. The film will not change, and the producer has no further marketing, delivery or hosting obligations.

Broadcasting rights – superhero film (2/3)

Possible interpretations under current requirements

We have heard that there are two possible interpretations of how current accounting requirements apply:

View 1: Before the broadcasting window opens, the contract remains executory, assuming no advance payment. The customer recognises the broadcasting rights as current content assets (a working capital asset) when the window opens and expenses their cost as cost of goods sold as it consumes them.

View 2: The contractual right is an identifiable economic resource without physical substance. Under this interpretation, the customer could recognise an intangible asset at contract inception, subject to the recognition requirements. The customer would then amortise the intangible assets as the rights to broadcast the film are consumed.

Broadcasting rights – superhero film (3/3)

What are our preliminary thoughts on how our suggested model applies?

We think that the customer (Pay-TV operator) might conclude that the underlying item is the IP related to the completed film and that the IP is static. The supplier retains the right to direct the use of the IP. The customer obtains a right to access the film at a point in time when its broadcasting window opens on 1 January 20X2.

We think the customer can only control that right when its broadcasting window is open, despite the digital copy being delivered prior to the window opening. Earlier receipt of the digital copy permits technical preparation but does not permit broadcasting (generation of economic benefits).

On that basis, one possible interpretation is that the customer recognises an intangible asset on 1 January 20X2 and amortises it over the six-month licence period ending 30 June 20X2.

However, similar to the reasons set out on slide 30, recognising and amortising a *current* intangible asset that is consumed during an entity's normal operating cycle may not result in useful information. Therefore, we think an alternative accounting treatment could be to recognise the right to access IP as an expense (eg cost of goods) on 1 January 20X2.

Licence of a changing music catalogue (1/2)

Fact pattern

A streaming-platform operator obtains a two-year, non-exclusive licence to stream a record label's available recordings. The licence covers the catalogue as it changes throughout the term. Each week a digital key is delivered that updates the catalogue by adding new music and deleting withdrawn recordings. The customer obtains access to the catalogue digitally through a cloud platform provided by the supplier. The label retains the underlying intellectual property to the recordings. Royalties depend on the number of downloads of the record label's recordings by the streaming-platform operator's end users, payable monthly in arrears.

Possible accounting under current requirements

Based on our conversations with stakeholders we expect that the customer would generally recognise recurring royalties in cost of sales as incurred.

Licence of a changing music catalogue (2/2)

What are our preliminary thoughts on how our suggested model applies?

We think that the customer could conclude that the underlying items are:

- the IP related to the music catalogue, which is dynamic because it continually evolves and changes over time.
- the cloud platform—for example, servers, computer processing power and data storage—to the extent necessary for the customer to access and utilise the music catalogue.

The customer could further conclude that it obtains:

- a series of rights to access the music catalogue; and
- depending on the terms of the contract, a right to access the cloud platform or a right to receive a service in relation to the cloud platform.

These rights could be treated as a single unit of account if such treatment provides useful information—the rights are used together and are not expected to expire in different patterns, the customer cannot benefit from those rights separately and the customer's primary objective is to obtain access to the music catalogue via the cloud. Because the supplier hosts the music catalogue continuously on its cloud platform, the customer obtains the rights treated as a unit account over time. As the customer could conclude that the right to access the music catalogue is the dominant component of the unit of account, for the reasons set out on slide 30, we think that the customer could recognise the expenditure associated with its rights to access the music catalogue as cost of sales when those rights are obtained and consumed, similar to how they are accounted for today.

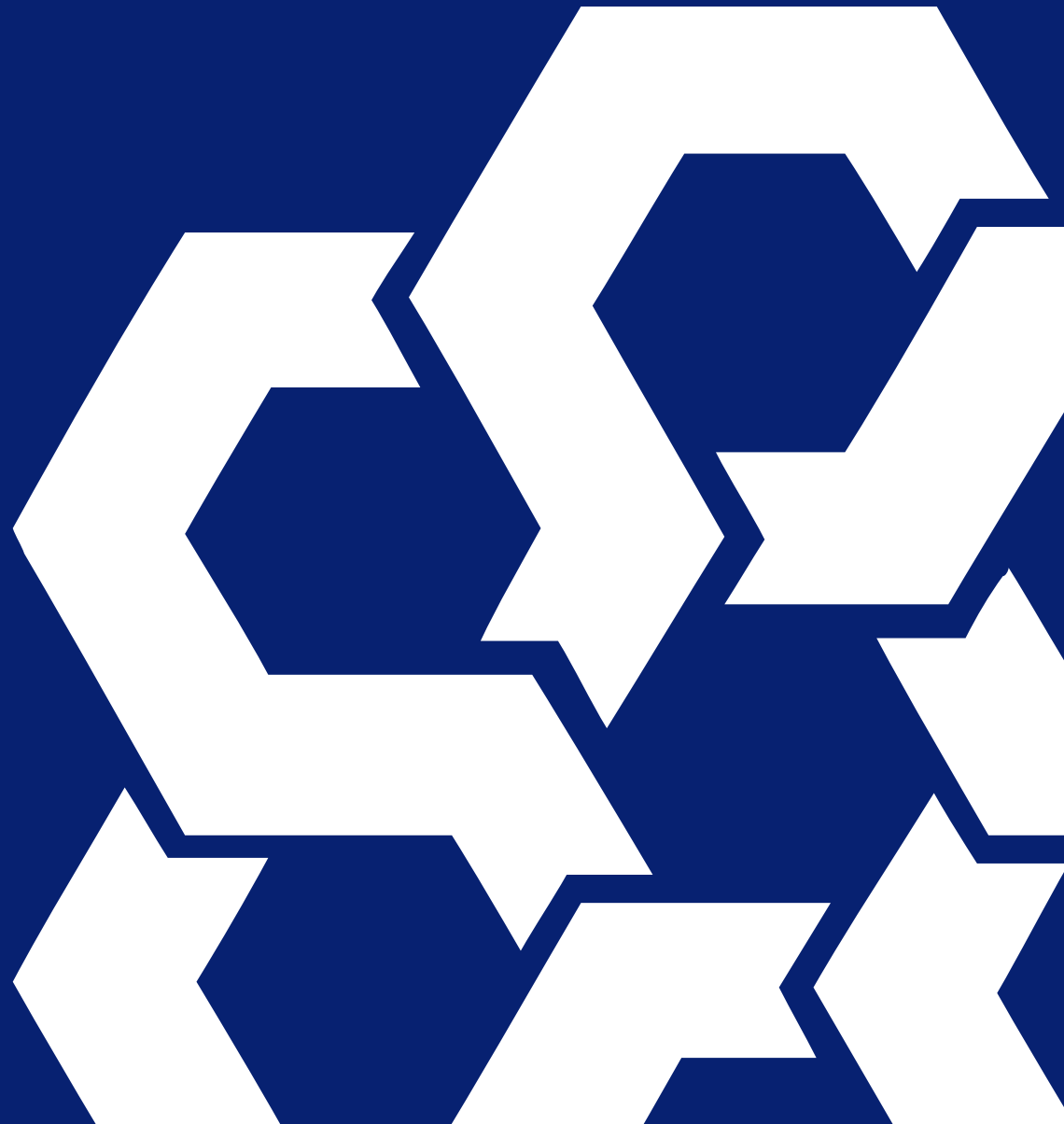
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Accounting for service contracts

- We also considered whether it could be appropriate to apply our suggested model to the accounting for service contracts and to rights to receive a service – namely, whether we can conclude that the customer receives and consumes an asset as the supplier performs a service (paragraph 4.8 of the *Conceptual Framework*). However, extending the model in this way could have **unintended consequences** across many types of service arrangements – for example, any expanded disclosure requirements could apply to service contracts, and the suggested model may provide a conceptual basis for recognising upfront costs associated with service contracts as assets.
- The IASB has not **heard significant stakeholder concerns** about the current accounting for service contracts, which generally results in services being expensed as received. Consequently, we think any amendments to IAS 38 should avoid creating requirements to recognise additional assets or provide extensive new disclosures for service arrangements. Possible approaches include:
  - **limiting any new disclosure requirements** to contracts that provide a right to access intellectual property.
  - **explicitly excluding rights to receive services** from the scope of IAS 38.
  - **amending the definition of an intangible asset in IAS 38** to only capture **rights over an identified non-monetary underlying item**. This could help achieve the objectives of our workstream to update the definition of an intangible asset and further clarify the distinction between a service contract and an intangible asset. A few IASB members expressed support for this approach at the September 2026 meeting.

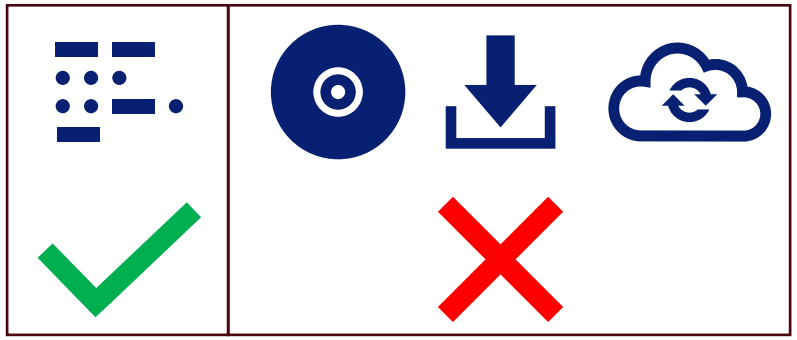
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Appendix A—Customer accounting for IP licensing contracts—Detailed explanations



1. What is the underlying item?

Is it IP or the copy of IP?



We think it is **the IP itself** because:

- **functionality and value** of the IP is embodied in the **IP itself**, not in its mode of access (physical copy, downloaded copy or cloud)
- **ability to copy** at little to no cost and of **many parties to access and utilise** the IP at the same time are characteristics of the **IP itself** rather than a distinct underlying item in its own right

What is the nature of IP?

- Is the supplier required or expected to undertake **activities that significantly change the form or functionality of the IP** (e.g. updates)?
- Is the customer **directly exposed to any positive or negative effects** of the supplier's activities?
- Do the activities result in no transfer of a deliverable to the customer as those activities occur?

IFRS 15.B58

Yes → The nature of the IP is **dynamic**

No → The nature of the IP is **static**

2. What rights over the underlying item does the customer obtain? (1/2)

The customer then identifies what rights it obtains over the underlying item (the IP)

Rights over an underlying item

Right to direct the use of IP

Held by the owner or lessee of IP. The holder can direct the use of the IP—deciding how the IP is used to produce economic benefits. It can decide, for example:

- to utilise the IP to provide goods or services
- to grant rights to access to other parties
- to sell the IP.

Only one party (or consortium) can hold the right to direct the use of the IP. Rights to direct the use can be established by legal means or by acquiring or creating know-how not in the public domain.

Example: Rights to direct the use of payroll processing software held by the developer of that software.

Rights to access IP

Granted by the holder of a right to direct the use (supplier) to another party (customer)—usually via a contract (often called a licence).

The customer can access the IP to utilise that IP for purposes specified in the licence. Rights to access can be granted to many customers.

Example: Rights to access payroll processing software held by a customer under a cloud computing arrangement.

No rights over an underlying item

Rights to receive a service

Obtained by a customer when a supplier undertakes to utilise its own IP to do something for the customer.

The customer might interact with the IP on a limited basis (for example, to provide inputs) but has no decision-making rights over the IP, and no rights to utilise the IP itself.

The customer obtains the output of the supplier's utilisation of the IP, not access to the IP.

Example: Rights held by a customer to receive payroll processing services from a supplier. The customer might interact with payroll processing software (eg to input employee information) but has no right to utilise the software itself.

2. What rights over the underlying item does the customer obtain? (2/2)

In fact patterns 1–3 (i.e. for both a traditional software licence and for a SaaS arrangement), we think that, in respect of the IP element of the contract:

- the **supplier retains the right to direct the use** of the IP (software);
- the **customer obtains a right to access** the IP; and
- the **customer does not obtain a right to receive a service** because the supplier is not utilising the software to do something for the customer. Instead, the customer utilises its right to access to generate future economic benefits.

A right to access IP is a new concept in customer accounting for intangible-related rights. Therefore, on slides 29–31, we focused on this element of the contract and considered what accounting would provide the most useful information about it.

Terminology: IFRS 15 distinguishes between a right to use (at a point in time) and a right to access (over time) for IP licensing contracts. We see both of these rights as a right to access (obtained either at a point in time or over time) because the customer has the right to access the IP under the terms of a contract or a licensing agreement, whereas the supplier retains the right to direct the use of the IP.

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3. Is the right to access IP an asset?

- **An asset** is a present economic resource controlled by the entity as a result of past events.
- **An economic resource** is a right that has the potential to produce economic benefits.

CF4.6–4.25

Considered in isolation, we think **the right to access IP is an asset** because:

- the right to access IP **has the potential to produce economic benefits** and therefore the customer has an economic resource.
- the customer controls the economic resource. A **customer controls its right to access** because it can:
  - obtain economic benefits from accessing the software in accordance with the contract—utilising the software in its operations to generate revenue or control costs.
  - decide when and how to utilise its right to access in accordance with the contract and prevent others from utilising its rights to access via usernames and passwords. Although other entities might also have rights to access the same software, those rights arise from their own contracts, and each customer controls only its own right to access the software.

CF4.6–4.25

! The customer determines whether it has control of the right over the underlying item, and not the underlying item itself. Although the underlying item has been determined to be the IP, the customer is not assessing whether they control the IP itself but rather assesses whether they control the right to access that IP

The right to access IP asset meets the definition of an **intangible asset** because it is an **identifiable**, **non-monetary** asset without **physical substance**.

IAS 38.8

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4. What accounting treatment would provide the most useful information about the right to access IP? (1/2)

Depends on the nature of the right to access IP and the pattern of delivery to the customer (see slide 26)

Static right to access IP— right to access IP obtained at a point in time	**Well-established accounting** for traditional software IP licences—recognised as an intangible asset and subsequently amortised over its useful life.
Dynamic right to access IP— series of rights to access IP obtained over time	**Traditionally viewed as a service**. Recognising each intangible asset as it is obtained and then immediately amortising it in full may not be the most appropriate accounting.

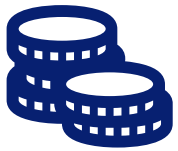
We think rights to access IP obtained over time are a **separate type of intangible asset** and that expenses associated with them should be recognised as **operating expenses when they are obtained and consumed**:

The pattern of consumption differs from other intangible assets—each right exists momentarily

Rights to access IP obtained over time are **current assets** (consumed during an entity's normal operating cycle)

Recognising and immediately amortising rights to access IP may **not result in useful information**—users did not favour increased capitalisation and were concerned about the effects on profitability measures.

4. What accounting treatment would provide the most useful information about the right to access IP? (2/2)



Cash payments for rights to access obtained over time may be best classified as **operating cash flows in the statement of cash flows:**

- existing requirements in IAS 7 *Statement of Cash Flows* state that, if no asset is recognised, cash flows arising cannot be investing.
- classifying these cash flows as operating also aligns with the expenditure for rights to access IP obtained over time being treated as operating expenses.



In the future (as part of this work stream or as part of the broader disclosure work stream) the IASB could consider whether specific disclosures requirements for rights to access IP are needed. Based on user feedback, useful information about rights to access IP obtained over time could include:

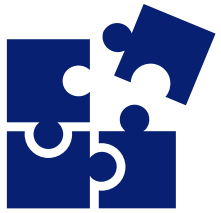
- **separately disclosing (disaggregating) expenditure** related to rights to access IP from other expenditure. Implementing the disaggregation requirements in IFRS 18 might require disclosure of some of this information.
- **disclosure of the nature, extent and timing of the entity's commitments** associated with rights to access IP obtained over time (for example, long-term SaaS contracts)—balanced with a preparer's need to maintain **commercial sensitivity**.

By providing a better basis for preparers' judgements and for improving disclosure requirements, our model could deliver more **clarity for preparers and more consistent information for users**.

5. How to consider multiple deliverables in a contract (1/2)

In an IP licensing contract, a customer could obtain **a right to access IP** and additional **rights**. For example, in a SaaS contract a customer may obtain:

- a right to access the supplier's IP; and
- other rights—for example, depending on the terms of the contract, rights to access the supplier's infrastructure, rights related to customisation activities or rights to receive other services.



The customer would need to determine whether to treat these rights as a single unit of account—a right, or group of rights to which recognition criteria and measurement concepts are applied. Our suggested model draws on the principles in the *Conceptual Framework* and IFRS 15 to help a customer determine the appropriate unit of account.

CF4.48–4.55
IFRS 15.22-30

The customer would consider whether treating a group of rights as a single unit of account would provide **useful information**—that is, provide more **relevant information and faithfully represent the substance of the transaction**.

The **requirements on identifying distinct performance obligations** in paragraphs 22–30 of IFRS 15, adapted for the customer's perspective, could be helpful in determining whether treating a group of rights as a single unit of account could provide useful information. These principles are illustrated on slide 41 as they are applied to fact pattern 2.

IFRS Accounting

5. How to consider multiple deliverables in a contract (2/2)

When a unit of account includes rights beyond the right to access IP, we think the IFRS 15 requirements on determining the nature of IP (that we drew on in slide 25) would not, on their own, provide an appropriate basis for determining the pattern of delivery.

In our view, principles similar to those in paragraph 35 of IFRS 15—in particular, the indicator that the customer **simultaneously receives and consumes the benefits** of the supplier's performance as the supplier performs—could help the customer conclude that it obtains control of the rights treated as a single unit of account **over time**.

> **!** It follows that a SaaS arrangement with a static underlying IP would have an over time pattern of delivery: because the supplier hosts the IP continuously, the rights of access are delivered to the customer over time rather than at a point in time.

The customer would then consider whether the **right to access the IP is the primary or dominant component** of the unit of account, and the other rights in that unit of account are linked to the delivery of that right.

If so, **subsequent accounting would be based on the accounting for the right to access IP**, which is delivered over time. The customer would therefore apply the suggestions for accounting for a right to access IP obtained over time set out on slide 29.

IFRS Accounting

6. How to apply the model to common variations of SaaS contracts

6a. Advance payments

- SaaS contracts often require or offer customers to **pay in advance for subscription or usage-based fees**.
- We think that this payment is best characterised as an advanced payment for future rights to access IP—**a working capital asset**, because it does not relate to the right to access IP but to the right to receive those rights to access in the future. This advance payment is analogous to a contract asset or contract liability under IFRS 15, which reflects the state of performance under a contract rather than the promised good or service.
- As and when the customer obtains the rights to access IP over time, the **relevant portion of this advance payment** becomes a right to access IP that is immediately consumed and **recognised as an operating expense** under our model.



IFRS Accounting

6b. Configuration and customisation

Upon entering a SaaS contract, many customers **incur configuration and customisation costs** to enable the software to meet the customer's specifications. These activities typically take place and are paid for prior to the customer's utilisation of the software.

Applying our suggested model to a SaaS contract including configuration and customisation activities:

- the customer would first need to **identify the underlying item**(s) (slide 26) and the **rights it obtains over the underlying item** (slides 27–28).
- the customer would then determine the **unit of account** (slide 32).
- if the customer obtains a group of rights treated as a single unit of account that includes rights to access IP (as configured) and customisation IP over time (see slide 33), this group of rights are a **series of intangible assets obtained over time**.

  → The **cost of those assets**—**including** the costs of the **configuration and customisation** activities—would be allocated to the assets as they are **obtained and consumed** during the contract period and **recognised as operating expenses.**

IFRS Accounting

6c. Multiple contracts

To obtain the desired functionality of the software, a customer may **obtain access to IP and other deliverables (for example, configuration or customisation activities, or access to computing infrastructure) from various suppliers**



An entity might acquire different component parts of a single tangible asset from different suppliers. If these component parts are necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, treating the rights over these components as a single unit of account could provide useful information.



We think a similar principle could apply to IP licencing contracts – rights obtained from different suppliers should form part of the unit of account containing the right to access IP if doing so would:

- **provide more relevant information** (for example, the rights are used together and are not expected to expire in different patterns).
- **faithfully represent the substance of the transaction** (for example, because the customer's objective is to obtain a combined output to which these rights are inputs).

Appendix B—Fact patterns explored in developing the model

IFRS Accounting

Fact pattern 1—Software downloaded and run on customer's own infrastructure

A customer contracts to pay for a licence to utilise a supplier's software for a three-year period from 1 January 20X7 to 31 December 20X9.

The licence allows the customer to allocate 100 end users for the duration of the licence.

The customer installs and runs the software on its own servers and all the customer's data associated with the software is stored on those servers.

The customer pays the supplier CU360,000 for the software licence.

The supplier retains the intellectual property rights over the software and grants the customer only the contractual right to utilise the software during the licence period.

Application of suggested model to fact pattern 1

The customer might conclude that the **underlying item** is:

The supplier's IP—the software, which is static in nature as the supplier is not expected to undertake any further activities that significantly change the form or functionality of the software to which the customer has access.

The **right** the customer obtains in this contract would be:

A **right to access the supplier's IP** obtained at a point in time.

Recognised as an intangible asset and subsequently amortised over its useful life

IFRS Accounting

Fact pattern 2—Software obtained via a SaaS arrangement

A customer contracts to pay for access to a supplier's software via the cloud for a three-year period from 1 January 20X7 to 31 December 20X9. The contract permits access for 100 users at CU100 per user per month. The SaaS arrangement renews automatically for successive 12-month terms unless terminated with 30 days' written notice.

The supplier provides only cloud-based software delivery activities, and the software is not available for digital download or via a physical copy such as a compact disc.

The customer accesses the software through a web browser and application interface and does not manage or control the underlying infrastructure (networks, servers or storage), operating system or software code. For the software to run as intended, the customer's data associated with the software will be stored on a public cloud on the supplier's infrastructure. At the end of the arrangement, the customer will lose access to the software but retain ownership of, and the ability to extract, its data.

The software runs on cloud infrastructure managed and controlled by the supplier. The supplier performs regular maintenance and updates to the software and cloud infrastructure. The supplier retains the intellectual property rights over the software code and merely grants the customer access to the software during the term of the arrangement.

Application of suggested model to fact pattern 2

The customer might conclude that the **underlying items** are:

The supplier's IP—the software—in the form in which it exists at any given moment, as maintained and updated by the supplier (the nature of this IP is dynamic)

The supplier's infrastructure—for example, servers, computer processing power and data storage—to the extent necessary for the customer to access and utilise the software as intended.

The **rights** the customer obtains in this contract would be:

A **right to access the supplier's IP** (the software in the form in which it exists at any given moment)

Depending on the terms of the contract, a right to access the **supplier's infrastructure** or a right to receive a service in relation to the supplier's infrastructure

Would be treated **as a single unit of account** because:

- it could provide **more relevant information**—the customer obtains and can benefit from these rights only during the period in which it has access to the IP, and the **rights are not expected to expire in different patterns**.
- the **customer cannot benefit from either deliverable separately**. The supplier provides access to the software only through the cloud and the deliverables relating to the infrastructure are not available as a separate product.
- the customer's objective is to obtain a combined output—a functioning software in the form in which it exists at any given moment. The supplier **integrates software code and infrastructure** so the deliverables are **highly interdependent and highly interrelated**. Treating them as a single unit of account would **faithfully represent the substance of the transaction**.

The group of rights is obtained over time
→ related costs are recognised as operating expense as rights are obtained and consumed

IFRS Accounting

Fact pattern 3—Configuration and customisation costs

Assume the same facts as in fact pattern 2 but, in addition, the supplier agrees to provide configuration and customisation activities for deployment of the software. The work is expected to begin on 31 March 20X6 and take nine months, so that the software is ready for go-live on 1 January 20X7. Total fees for these services are expected to be CU60,000 and are billable on completion, comprising:

- configuration services (fixed fee): CU10,000—work to set up and deploy the standard software, including changing the default settings of the standard software to function in a particular way—for example, setting various ‘flags’ or ‘switches’ within the software or defining certain values or parameters to implement a particular set-up of the software’s existing functionality.
- customisation services: CU50,000—work to modify the supplier’s existing software code or writing new code to change or create additional functionality in accordance with the customer’s requests.

The supplier retains the IP rights to the software and to any configuration, customisation code and integration components developed under the contract.

Application of suggested model to fact pattern 3

The **rights** the customer obtains in this contract would be:

1. A **right to access the supplier's IP** (the software in the form in which it exists at any given moment) as configured, maintained and updated by the supplier

2. Depending on the terms of the contract, a right to access the **supplier's infrastructure** or a right to receive a service in relation to the supplier's infrastructure

3. A **right to access the additional IP** (software code resulting from customisation activities)

Rights 1–3 would be treated **as a single unit of account** because:

- it may provide **more relevant information** because the customer obtains these rights and can benefit from them only during the period in which it has access to the IP and the **rights are not expected to expire in different patterns**.
- the **customer cannot benefit from either deliverable separately.** The supplier does not provide access to the software other than through the cloud and the customer does not obtain the rights in relation to the supplier's infrastructure or customisation code as separate products.
- the customer's objective is to obtain a combined output—a functioning software in the form in which it exists at any given moment—and the supplier **integrates software code, customisation code and infrastructure** so that the software is in the condition necessary for it to be capable of operating in the manner intended by the customer. The rights to access software code and the rights relating to the supplier's infrastructure are therefore highly **interdependent and highly interrelated**—treating them as a single unit of account would **faithfully represent the substance of the transaction**.

Based on the criteria on slide 32, the group of rights is obtained over time → related costs are recognised as operating expense as rights are obtained and consumed. The advance payment for configuration and customisation costs would be accounted for as per slide 35.

IFRS Accounting

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