IFRS® Accounting

Staff paper

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Global Preparers Forum

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Project	**Intangible Assets**
Topic	**Project update and definition of intangible asset and supporting requirements (SaaS test case)**
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Purpose of this session

The purpose of this session is:



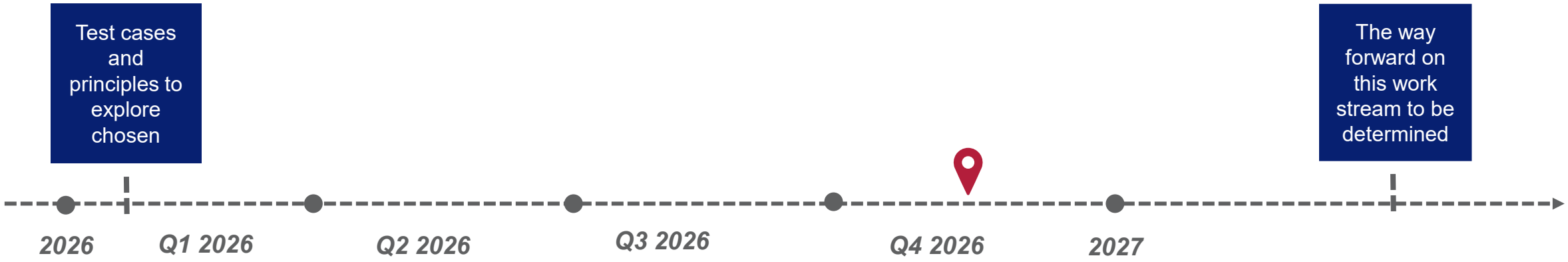
to **provide an update on the project**, including the IASB's suggestions for potential changes to some aspects of the definition of an intangible asset, related guidance and recognition requirements developed based on test cases:

- this slide deck covers suggestions for customer accounting for intellectual property (IP) licensing contracts based on cloud computing arrangements
- Agenda Paper 2B covers options for improving IAS 38 *Intangible Assets* recognition requirements based on agile software development



to **seek GPF members' views** on those potential changes and their implications for a broader population of intangible assets

How we plan to use your input



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
- discussed 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 range of intangible assets

The IASB to consider:

- feedback on potential changes and their implications for a broader range 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 software as a service (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 GPF members

In July and September 2026, the IASB discussed a model it is developing for customer accounting for IP licensing contracts, using a cloud-based software delivery contract in a SaaS arrangement as a test case. Slides 11–20 provide an overview of the model and its effects on the information an entity would provide, Appendix A provides more detailed information about our suggested model and Appendix B illustrates how a model would be applied in typical fact patterns.

Model for customer accounting for IP licensing contracts

1. Do you have any questions or comments on the model the IASB is developing for customer accounting for IP licensing contracts, as set out on slides 11–20?

   In thinking about your response to question 1, is the suggested model, particularly the distinction between a right to direct the use of IP, a right to access IP and a right to receive a service in respect of IP understandable and operational in practice (slide 23)? Would the resulting accounting (a) significantly change from how SaaS arrangements are accounted for today and (b) reflect the economics of the transaction?

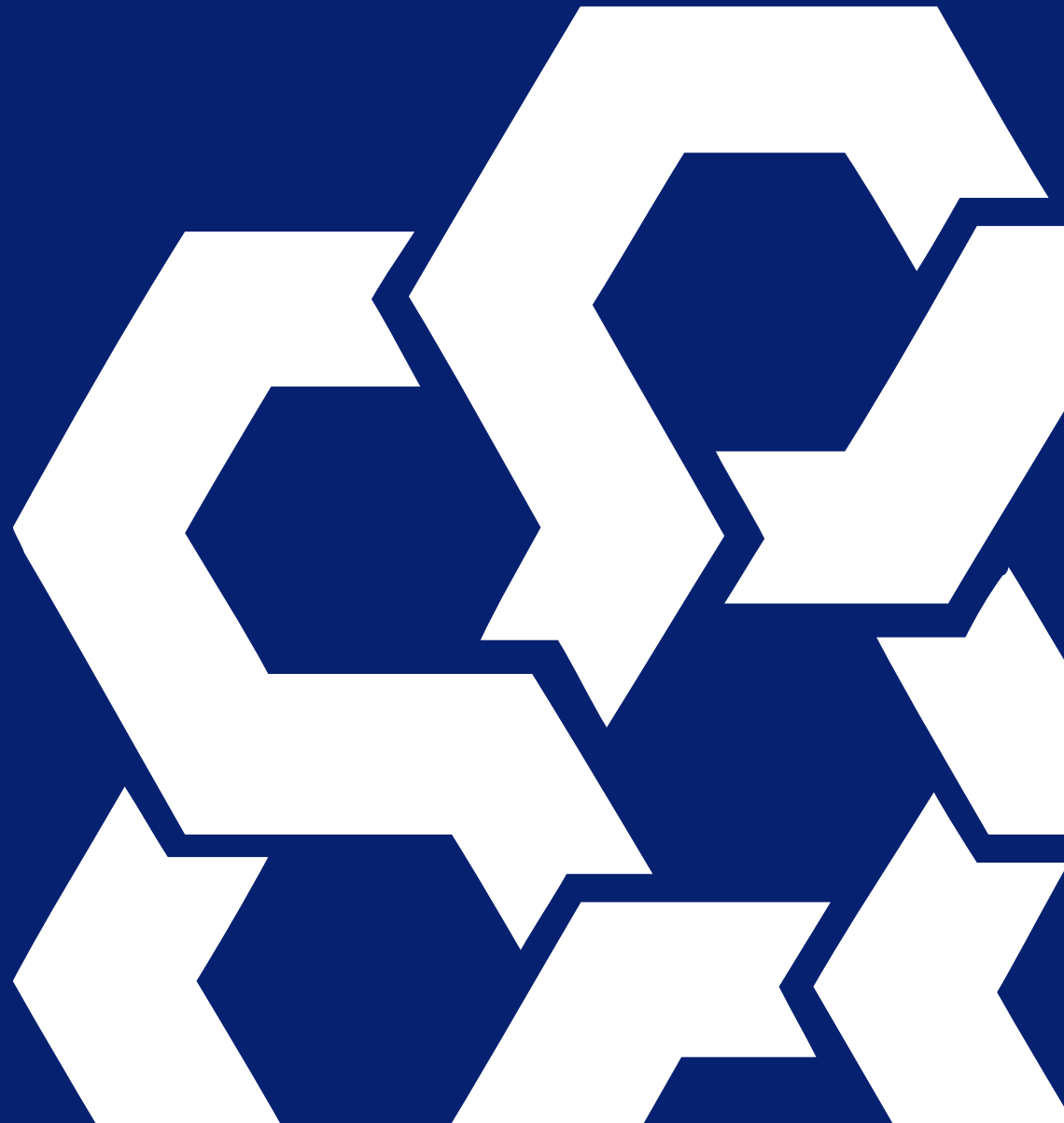
2. Do you have any initial reactions about the implications of the model for a broader range of IP licensing contracts, including contracts that relate to:

   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?

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Project update



May 2025 IASB decisions

Objectives

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

Approach

Starting a comprehensive review in a targeted way

Regular reflection points to assess additional evidence

Topics the project will explore

In progress

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

Later streams (subject to change)

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

- ? Broader intangible items — *TBC*

Exploring user information needs

Cross-cutting stream—would contribute to all topics

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

Main findings

- Users primarily treat intangible activities as drivers of future cash flows and economic performance, rather than seek to value individual recognised or unrecognised intangible assets
- Identified **areas of improvement** included:
  - linking spend on intangible activities to outcomes
  - linking information about intangible activities from various sources to amounts in the financial statements
  - comparability across entities
  - insufficient information about recognised intangible assets

Decision on whether and, if so, how the findings change the project direction is expected in Q4 2026

Potential changes to aspects of definition and recognition

Good entry point—explores fundamental aspects of IAS 38 and could inform other aspects of the project

- explore potential changes to IAS 38 to improve some of the requirements in the Standard and its applicability to newer types of intangibles assets and new ways of using them
- ensure that the requirements are grounded in the most up to date thinking

Approach

- Based on **test cases** (cloud computing arrangements and agile software development):
  - intended to make the work more manageable—used to **identify principles and topics** that may need improvement and to develop potential solutions
  - **not intended to solve specific application issues** related to selected newer types of intangible assets
- Any potential solutions will be tested on a broader range of intangible assets to avoid unintended consequences

The IASB intends to determine the way forward on this work stream in early 2027.

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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).

What is the underlying item? (slide 22)

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 23–24)

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 25)

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)

What accounting treatment would provide the most useful information about the right to access IP? (slides 26–27)

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.

How to account for advance payments (including configuration and customisation costs paid for in advance) (slide 31)

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.

Summary of our suggested model (3/3)

How to consider multiple deliverables in the contract (including configuration and customisation)? (slides 28–29 and slide 32)?

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 multiple contracts (slide 33)?

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 the information you report (1/5)

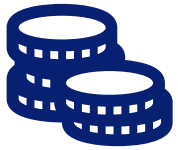
	Fact pattern 1—traditional software licence*	Fact pattern 2—SaaS arrangement*	Fact pattern 3—SaaS arrangement with configuration and customisation*
How the software is obtained	Downloaded and run on the customer's own servers.	Accessed through the cloud. The supplier hosts, maintains and updates the 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 the information you report (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 the information you report (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 range of intangible assets**—for example, broadcasting rights, published works, patents and AI-related applications or data.

What the model means for the information you report (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 the information you report (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.

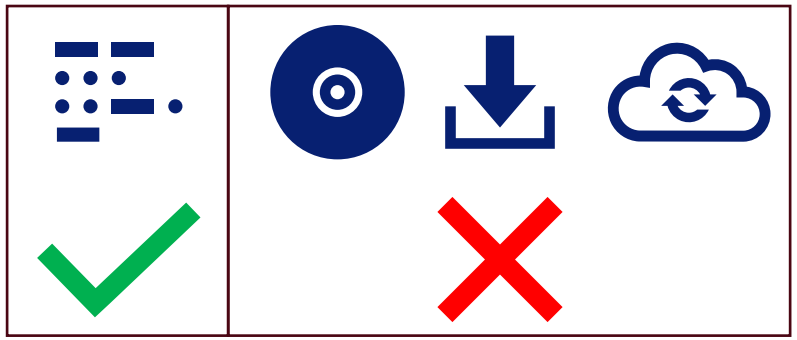
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Appendix A—Customer accounting for IP licensing contracts—Detailed explanations



1. What is the underlying item?

The customer first identifies the underlying item which it is obtaining rights over



We think in an IP licensing contract, **the IP itself** (and not a copy of the IP) would be at least one of the underlying items to which the customer obtains rights. This is 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

IP can be either dynamic or static in nature

IP is dynamic if:

- the supplier is expected to **significantly change the form or functionality of the IP** to which the customer has access (for example, if the supplier is expected to update the software to which the customer has access); and
- the customer is **directly affected by those activities** (such as improved functionality from updates or decreased functionality from withdrawn features).

IFRS 15.B58

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 25–27, 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.

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.

CF4.3-4.4

The right to access IP is an asset	It has the **potential to produce economic benefits**, so it is an economic resource. The customer **controls that resource** because, within the terms of the contract, it can use the software to generate economic benefits, decide when and how to use it, and prevent others from using its access.	*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 is an intangible asset	It is identifiable, non-monetary and has no physical substance.	*IAS 38.8*

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

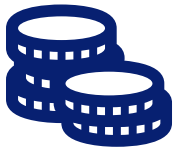
The most appropriate accounting for the right to access IP would depend on pattern of delivery to the customer

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** because no intangible asset is recognised and such classification aligns with the classification in the income statement.

- The practical consequence is that, as entities move from on-premise licences to SaaS arrangements, expenditure an entity may consider capital in nature is reported within operating cash flows, potentially affecting the calculation of free cash flows and other metrics.



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. Based on user feedback, useful information about rights to access IP obtained over time could include:

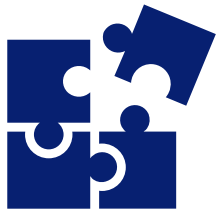
- **separately disclosing (disaggregating) expenditure** related to rights to access IP from other expenditure. Implementing the disaggregation requirements in IFRS 18 might require disclosure of some of this information.
- **disclosure of the nature, extent and timing of the entity's commitments** associated 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 other **rights**. For example, in a SaaS contract a customer may obtain:

- a right to access the supplier's IP; and
- other rights—for example, 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 for recognition and measurement purposes.

The purpose of combining rights into a single unit of account is to **provide useful information**—information that is **relevant** and that **faithfully represents** the substance of the IP licensing contract. For example, more useful information may result from combining the rights if:

- they **are used together** and are **not expected to expire in different patterns**
- the customer **cannot benefit from those rights separately**
- the customer's **primary objective is to obtain access to a combined output** (functioning software) and the deliverables are highly interdependent and highly interrelated. Fact pattern 2 demonstrates this on slide 38.

CF4.48–4.55
IFRS 15.22-30

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 16) 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.

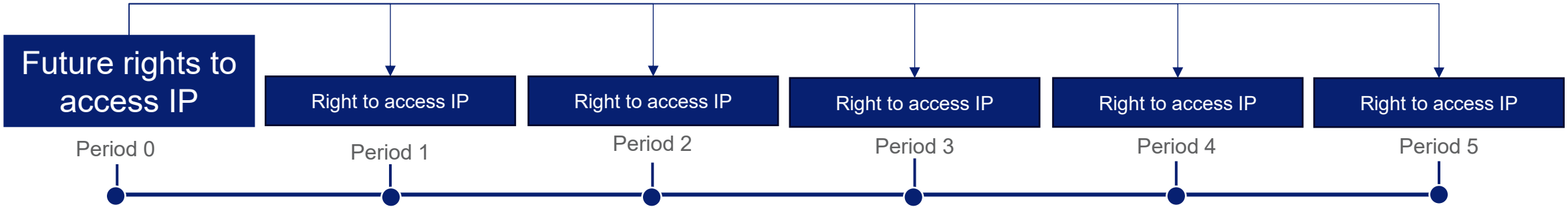
If so, **subsequent accounting would be based on the accounting for the right to access IP**, which is delivered over time. The customer would therefore apply the suggestions for accounting for a right to access IP obtained over time set out on slide 26.

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.



6b. Configuration and customisation

Upon entering into 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 22) and the **rights it obtains over the underlying item** (slides 23–24).
- the customer would then determine the **unit of account** (slide 28).
- if the customer's identified **unit of account includes configuration and customisation** (see slide 29), the cost of configuration and customisation would **form part of the cost of a series of intangible assets** that the customer would obtain and consume over the contract period. Therefore, that cost could be **recognised as operating expenses over the contract period**.

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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.

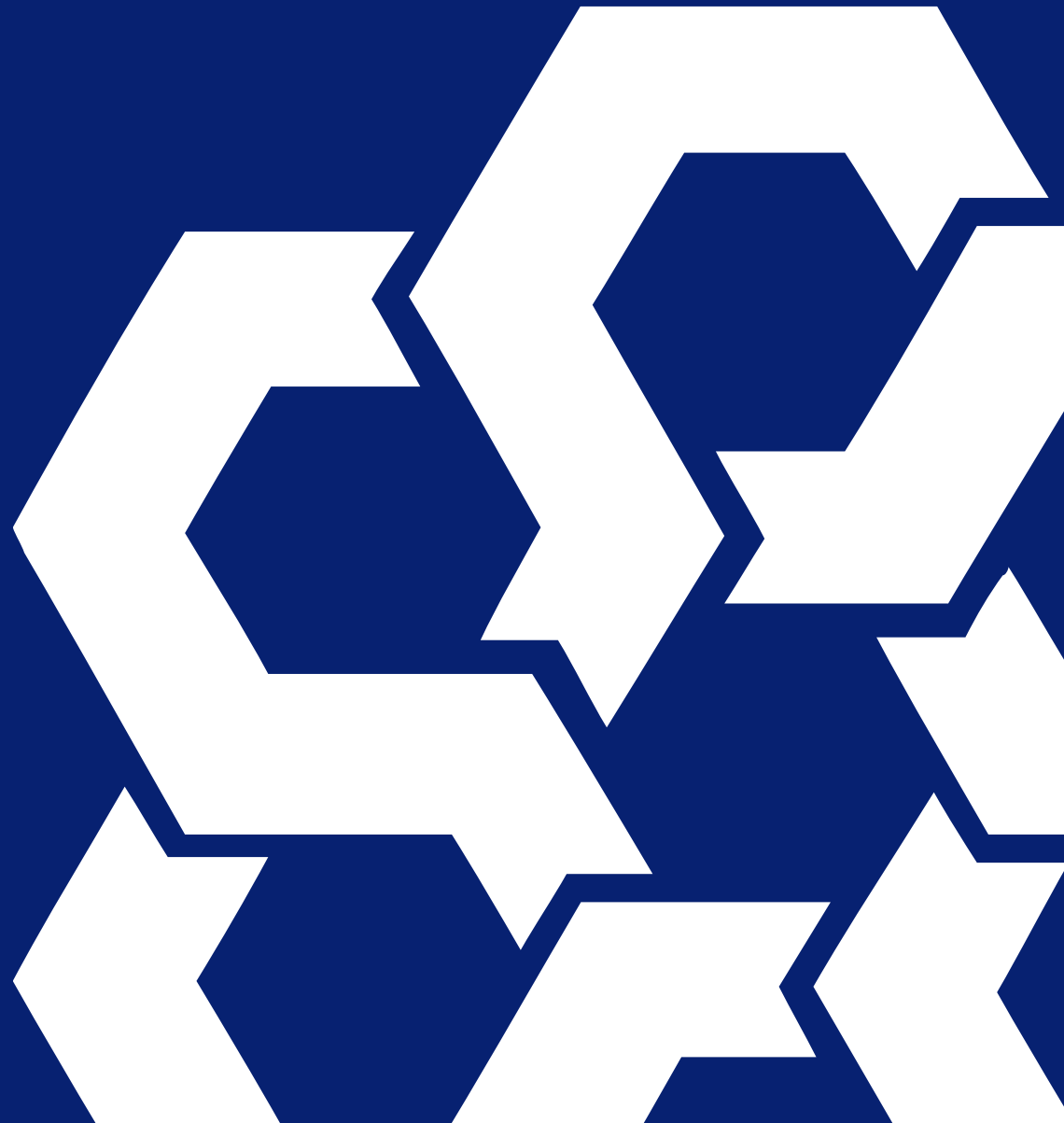


We think a similar principle could apply to IP licencing contracts – rights obtained from different suppliers should form part of the unit of account containing the right to access IP if doing so would:

- **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).

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Appendix B—Fact patterns explored in developing the model



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

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

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 29, 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 31.

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