Staff paper

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Project	**Intangible Assets**
Topic	**Definition of intangible asset and supporting requirements (SaaS test case—developing the model further)**
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Purpose of the paper

1. In July 2026, the International Accounting Standards Board (IASB) discussed possible changes to some aspects of the definition of an intangible asset and the supporting requirements. The discussion focused on a model the IASB is developing for customer accounting for intellectual property (IP) licensing contracts, using a cloud-based software delivery contract in a 'software as a service' (SaaS) arrangement as a test case. At that point, the model was developed using basic fact patterns (fact patterns 1 and 2 in the Appendix).

2. This paper continues to develop the model and:

   (a) considers what accounting treatment would provide the most useful information about a right to access IP;

   (b) sets out our thinking on determining the unit of account and whether control of a group of rights treated as a unit of account and containing a right to access IP is obtained at a point in time or over time; and

   (c) considers how the model applies to common variations of the basic fact patterns for SaaS arrangements (fact patterns 3–5 in the Appendix).

3. This paper asks IASB members for their questions and comments on these developments to the model and on our next steps. It does not ask the IASB to make any decisions.

Structure of the paper

4. This paper includes:

   (a) a recap of the IASB's previous discussions (paragraph 5);

   (b) our suggestions for:

      (i) accounting for a right to access IP (paragraphs 6–16);

      (ii) considering multiple deliverables in an IP licensing contract, including determining the unit of account and when the customer obtains rights in an IP licensing contract (paragraphs 17–33);

      (iii) accounting for common variations of a SaaS contract (paragraphs 34–58), including advance payments (paragraphs 35–40), configuration and customisation activities (paragraphs 41–52) and contracts with multiple suppliers (paragraphs 53–58); and

      (iv) other considerations (paragraphs 59–61);

   (c) a summary of further developments to the model (paragraph 62);

   (d) next steps (paragraphs 63–65);

   (e) questions for the IASB (following paragraph 65); and

   (f) fact patterns explored in this paper (Appendix).

Recap of the IASB's previous discussions

5. In July 2026, the IASB discussed a model it is developing for customer accounting for IP licensing contracts using the SaaS test case. Our model included suggestions for:

(a) identifying the item over which the supplier and customer each have rights (the underlying item). In an IP licensing contract, we suggested that IP would be either the only or one of the underlying items to which the customer obtains rights.

(b) identifying the rights obtained by the customer in respect of the IP, including whether a customer obtains a right to access IP or a right to receive a service (see figure 1).

(c) determining whether a right to access IP represents an asset and, if so, what type of asset.

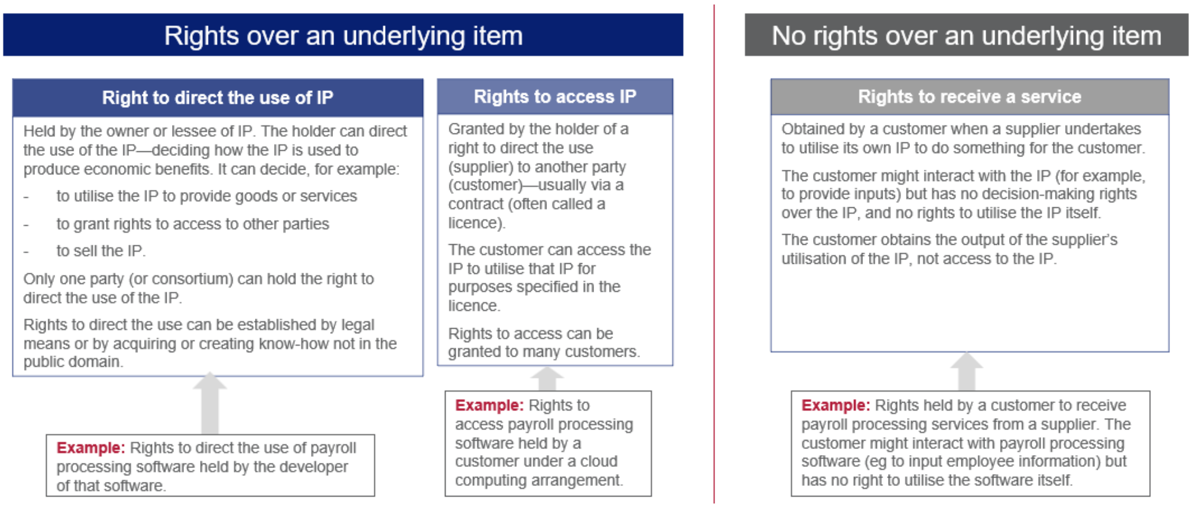

Figure 1: Rights in an IP licensing contract

Accounting for a right to access IP

6. In July 2026, we concluded that a right to access IP is an asset because:

(a) it has the potential to produce economic benefits, so the customer has an economic resource; and

(b) the customer controls the economic resource.

7. We also concluded that:

(a) if the right to access IP is obtained at a point in time (for example, at the start of the licence period), such an asset meets the current definition of an intangible asset in IAS 38 *Intangible Assets* because it is an identifiable (through a contract), non-monetary asset without physical substance. Therefore, a right to access IP obtained at a point in time is recognised as an intangible asset and subsequently measured and amortised over its useful life in accordance with the requirements of IAS 38.

(b) on the basis that rights of the same type should be classified as the same type of asset, a right to access IP obtained over time and consumed immediately also meets the definition of an intangible asset in IAS 38. However, we still needed to determine what accounting treatment would best represent the legal and economic substance of these assets and provide the most useful information to users of financial statements (users).

8. Because the accounting for a right to access IP obtained at a point in time is already well established, in this section we consider the accounting for rights to access IP obtained over time, including:

(a) whether rights to access IP obtained over time should be recognised as an asset in the balance sheet or as an expense in the income statement; and

(b) what presentation of, and disclosure of information about, rights to access IP would provide useful information to users.

Recognition of rights to access IP obtained over time as an asset or an expense

9. Conceptually, rights to access IP obtained over time are a series of intangible assets. The customer obtains each right to access IP during the term of an IP licensing contract and consumes it immediately as the supplier provides access. One possible accounting outcome would therefore be to recognise each intangible asset as it is obtained and then immediately amortise it in full. However, we think that this is not the most appropriate accounting treatment for the reasons set out in paragraphs 10–13.

10. We think that rights to access IP obtained over time have different characteristics to other intangible assets, particularly with regards to their pattern of consumption. A right to access IP obtained at a point in time, like most intangible assets, is a non-current asset that is expected to be consumed over a period longer than the normal operating cycle of the entity. Presenting this asset as an intangible asset and recognising its consumption as amortisation over the period of consumption faithfully represents the nature of the asset and the associated expense. However, although a contract from which rights to access IP obtained over time arise may have a term of more than one year, each right to access IP obtained over time exists only momentarily—it is obtained and immediately consumed. Amortisation—which is the systematic allocation of the amortisable amount of an intangible asset over its useful life—is not the most appropriate classification of the expense associated with the consumption of rights to access IP obtained over time because those assets do not individually have a useful life.

11. We also think these assets are current assets under paragraph 99(a) of IFRS 18 *Presentation and Disclosure in Financial Statements*, because the customer obtains and consumes them in the course of its normal operating cycle (in this case, instantaneously). IFRS Accounting Standards that are primarily intended for the accounting for non-current assets include precedents for simplified accounting treatments for current or short-lived assets. For example:

    (a) the definition of property, plant and equipment in paragraph 6 of IAS 16 *Property, Plant and Equipment* only includes tangible items expected to be used for more than one accounting period. IAS 16 therefore does not apply to tangible items expected to be used for less than one accounting period; we assume that expenditure on those items would instead be recognised as an operating expense.

    (b) a lessee may elect not to apply the recognition requirements in paragraphs 22–49 of IFRS 16 *Leases* to short-term leases (paragraph 5 of IFRS 16). Instead, the lessee recognises the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis (paragraph 6 of IFRS 16). In paragraph BC87 of the Basis for Conclusions on IFRS 16, the IASB concluded that the benefits of requiring lessees to apply all requirements in IFRS 16 to short-term leases would not outweigh the associated costs.

12. Finally, recognising as an asset and immediately amortising rights to access IP obtained over time may not result in useful information. Users we spoke to generally did not favour increased capitalisation of intangible assets. Some were concerned about the effects on profitability measures such as EBITDA. Most users who commented were less interested in assigning a standalone value to these items and more interested in understanding the scale and nature of related spending, whether that spending relates to the current period or is expected to generate economic benefits over a longer term and how that spending links to outcomes and future cash flows.

13. Therefore, we think that rights to access IP obtained over time are a separate type of intangible asset, because they are obtained and then consumed immediately. We also think that a more faithful representation of expenditure associated with these assets could be provided by entities immediately recognising them as operating expenses when they are obtained and consumed. This accounting treatment could better reflect the differing characteristics of these assets and provide a more cost-effective way of providing information about them.

Presentation and disclosure

14. Paragraph 16 of IAS 7 *Statement of Cash Flows* states that only expenditures that result in a recognised asset in the balance sheet are eligible for classification as investing activities. Paragraph 16(a) of IAS 7 goes on to require entities to present cash payments to acquire intangibles in the investing category in the statement of cash flows. Therefore, cash payments to acquire a right to access IP obtained at a point time (which is recognised as an intangible asset on the balance sheet) would be classified as investing cash flows. However, based on the existing requirements we think that if expenditure associated with rights to access IP obtained over time is

classified as operating expenses (and not recognised as intangible assets on the balance sheet), the associated cash flows would be classified as operating cash flows. We will continue monitoring developments in the IASB's Statement of Cash Flows and Related Matters project to see whether they could affect future classification.

15. Because rights to access IP obtained over time have different characteristics to other intangible assets, it may also be helpful to consider whether specific disclosure requirements for these assets would be necessary, either as part of this work stream or explored further in the disclosures work stream. Based on user feedback, we think that useful information about these assets could include:

    (a) separately disclosing (disaggregating) expenditure related to rights to access IP from other expenditure. For example, an entity could separately report the amount of expenditure related to these rights to access IP and explain what it relates to or disaggregate that amount further if doing so would provide useful information and is feasible. We acknowledge that implementation of the disaggregation requirements in IFRS 18 might also trigger some of this information to be disclosed.

    (b) 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). Any such requirement would need to be balanced against preparers' need to maintain commercial sensitivity and therefore the information may need to be provided on an aggregated basis.

16. In developing such requirements, the IASB could expand on paragraph 128(b) of IAS 38, which encourages entities to disclose a brief description of significant intangible assets controlled by the entity but not recognised as assets because they do not meet the recognition criteria in IAS 38.

Considering multiple deliverables in an IP licensing contract

17. In July 2026, we focused on the IP element of an IP licensing contract. We have since considered the implications of a customer obtaining rights over other deliverables (such as access to other items—for example, infrastructure—or services). As a result, we think it would be helpful to consider:

    (a) how the customer would determine whether to treat several of those rights as a single unit of account (paragraphs 19–28); and

    (b) if so, how the customer would determine when it obtains those rights (paragraphs 29–33).

18. This work also led to some refinements to our July 2026 suggestions on identifying the underlying item.

Determining the unit of account

19. In July 2026, we focused on determining the underlying item relating to IP and the rights the customer obtains over that underlying item. That analysis helped us to differentiate the rights over the IP that may be received in a SaaS contract and focus on whether a customer's right to access IP could be an intangible asset.

20. In this section, we consider how a customer would account for rights over IP as well as rights over other deliverables in an IP licensing contract—that is whether the customer would treat those rights as a single unit of account.

21. Based on paragraph 4.48 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, the unit of account is the right, or group of rights, to which recognition criteria and measurement concepts are applied. In determining the unit of account in an IP licensing contract, we think that we could draw on:

    (a) the principles in paragraphs 4.48–4.55 of the *Conceptual Framework*. In particular, the customer could consider whether treating a group of rights as a single unit of account would provide useful information, that is:

(i) provide more relevant information. For example, treating a group of rights as a single unit of account may provide more relevant information if those rights cannot or are unlikely to expire in different patterns.

(ii) faithfully represent the substance of the transaction. For example, faithfully representing the substance of the transaction may require an entity to treat rights arising from different sources, such as multiple contracts, as a single unit of account (see paragraphs 53–58), or to separate rights from a single contract into separate units of account.

(b) the requirements on identifying distinct performance obligations in paragraphs 22–30 of IFRS 15 *Revenue from Contracts with Customers*, adapted for the customer's perspective and focused on whether:

(i) the customer can benefit from the right either on its own or together with other resources that are readily available to the customer.

(ii) the right the customer obtains is separately identifiable from other rights obtained in the transaction—in particular, whether the customer's objective is to obtain each right individually or obtain a combined item to which those rights are inputs. Factors that indicate that two or more rights obtained by the customer are not separately identifiable could include:

(1) the customer obtaining a combined output for which the customer has contracted;

(2) one or more of the deliverables over which the customer obtains rights significantly modifies or customises, or is significantly modified or customised by, one or more of the other deliverables promised in the transaction; and

(3) the deliverables over which the customer obtains rights are highly interdependent or highly interrelated.

22. In paragraphs 30–31 of July 2026 Agenda Paper 17, we suggested drawing on the IFRS 15 requirements on identifying distinct performance obligations in determining the underlying item in relation to IP in an IP licensing contract—which is the first step we suggested for analysing these contracts, that is then followed by determining the customer's rights over that underlying item. We now think that these requirements are more appropriate for determining the unit of account once the rights in a contract have been identified (and this would better mirror IFRS 15).

23. In July 2026, we explained our thinking that the underlying item in an IP licensing contract is IP itself, not the copy of IP. To better understand the precise nature of that IP (and therefore of the underlying item), we suggest considering the requirements on determining the nature of the promise related to IP in paragraph B58 of IFRS 15—these requirements could help the customer determine whether IP it is contracting for is 'static' or 'dynamic'. We think the nature of the IP the customer obtains rights over is dynamic if:

    (a) the contract requires, or the customer reasonably expects, that the supplier will undertake activities that significantly change the form or functionality of the IP;

    (b) the customer is directly exposed to any positive or negative effects of the supplier's activities in (a); and

    (c) the activities do not result in the transfer of a good or service to the customer as those activities occur.

24. Otherwise, the nature of the IP the customer obtains rights over is static.

Application to fact patterns

Fact pattern 1

25. Applying our updated thinking to fact pattern 1, the customer could conclude that the only underlying item is the supplier's IP—the software. The nature of this IP is static because there is no obligation or expectation that the supplier will undertake activities

that change the form or functionality of the software. The only right, and therefore the appropriate unit of account, is the right to access the supplier's software.

Fact pattern 2

26. Applying our updated thinking to fact pattern 2 and considering the deliverables in the contract, the customer could conclude that the underlying items are:

    (a) 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 because the supplier is expected to update the software (thus significantly changing the form or functionality of the IP) which could result in positive or negative effects on the customer (for example, improved functionality from updates or decreased functionality from withdrawn features).

    (b) the supplier's infrastructure—for example, servers, computing processing power and data storage, to the extent necessary for the customer to access and utilise the software as intended, as concluded in paragraph 34(b) of July 2026 Agenda Paper 17.

27. The rights the customer obtains in this contract would be:

    (a) a right to access the supplier's IP (the software in the form in which it exists at any given moment), as concluded in paragraph 54 of July 2026 Agenda Paper 17.

    (b) depending on the terms of the contract, a right to access the supplier's infrastructure or a right to receive a service in relation the supplier's infrastructure.[1] We think it is beyond the scope of this paper to conclude which right a customer obtains over the supplier's infrastructure because the focus of this paper is the accounting for a customer's right to access the supplier's IP.

[1] If the customer determines that it obtains a right to receive a service, the customer would be obtaining the output of the supplier utilising the infrastructure to provide access to IP to the customer, so the infrastructure would not be identified as an underlying item from the customer's perspective. However, we think that the outcome of the unit of account determination and the subsequent analysis would remain the same.

28. We think that the customer could treat the rights in paragraph 27 as a single unit of account because:

    (a) the customer can benefit from those rights only over the duration of the SaaS contract, and it is likely that the customer would account for these rights in the same manner (for example, expenditure resulting from each right is recognised in operating expenses as they are obtained and consumed). Treating these rights as a single unit of account may therefore provide more relevant information because the customer obtains these rights and can benefit from them only during the contract term and the rights are not expected to expire in different patterns.

    (b) the customer cannot benefit from either right 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 as a separate product.

    (c) 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 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 the 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.

Determining when the customer obtains rights in an IP licensing contract

29. When considering the pattern of delivery in July 2026, we focused solely on the right to access IP. We therefore drew on the specific requirements in paragraphs B58–B60 of IFRS 15 relating to licences of IP. As discussed in paragraph 23 of this paper the requirements in paragraph B58 of IFRS 15 would help the customer determine

whether IP it is obtaining rights over is dynamic (that is obtained over time) or static (that is obtained at a point in time).

30. However, the analysis in paragraph 21 shows that the unit of account may include not only rights over IP but also rights over another underlying item or rights to receive a service, which in turn could affect the timing of when the rights are obtained by the customer. In such cases, the principles in paragraphs B58–B60 of IFRS 15 would not, by themselves, provide an appropriate basis for assessing the pattern of delivery because they are specific to licences of IP. Drawing on paragraph B55 of IFRS 15, we therefore think that, when a unit of account includes rights over IP together with rights over another underlying item or rights to receive a service, a customer should instead apply principles similar to paragraph 35 of IFRS 15 (regardless of whether the IP is static or dynamic). In particular, we think that paragraph 35(a) of IFRS 15—that the customer simultaneously receives and consumes the benefits provided by the supplier's performance as the supplier performs—could be a helpful indicator for a customer in an IP licensing contract to determine that it obtains control of the rights treated as a single unit of account over time.

31. If the customer concludes that the group of rights treated as a single unit of account and containing a right to access IP is obtained over time, we think that the customer would account for the group of rights using the suggestions in paragraphs 9–16.

Application to fact patterns

32. Applying this thinking to fact pattern 1, the unit of account comprises only the right to access the supplier's software. The customer would therefore apply the criteria set out in paragraph 29. The customer could conclude that it obtains its right to access the software at a point in time because the supplier is not expected to undertake further activities that significantly change the form or functionality of the software or affect the customer's ability to obtain benefits from it.

33. Applying this thinking to fact pattern 2, the unit of account is the group of rights described in paragraph 28, so the customer would apply the criteria set out in

paragraph 30. The customer could conclude that it obtains the group of rights treated as a unit of account over time because it simultaneously obtains and consumes the benefits provided by the supplier's performance as the supplier performs. The supplier provides continuous access to the software, in the form in which it exists at any given time, through the supplier's infrastructure and in accordance with agreed service level and uptime commitments. This conclusion is consistent with our conclusion in paragraph 76 of the July 2026 Agenda Paper 17.

Common variations of a SaaS contract

34. Our analysis in July 2026 focused on two basic fact patterns (fact patterns 1 and 2 in the Appendix). In this section, we apply our suggested model to common variations of fact pattern 2 (fact patterns 3–5 in the Appendix) and consider how the questions raised by applying the model to these variations could develop the model further. These variations are not the only variations of a SaaS contract, but we selected them because they appear to be the most common not only for SaaS contracts but also for other IP licensing contracts—therefore developed principles could be relevant for a broader population of contracts. The common variations include situations in which:

   (a) a customer pays in advance for rights to access IP that it will obtain later, over the course of the licence (paragraphs 35–40);

   (b) a supplier provides configuration and customisation activities (paragraphs 41–52); and

   (c) a customer contracts with multiple suppliers to receive access to the IP (paragraphs 53–58).

Advance payments

35. SaaS contracts often require or offer customers to pay in advance for subscription or usage-based fees. For example, to receive a discount a customer may pay in advance

for several years or for a specified number of users. We have illustrated this variation in fact pattern 3 in the Appendix. This variation raises questions about:

(a) whether advance payments for the fees described above should be recognised as intangible assets or as another class of asset;

(b) if another class of asset, what class of asset; and

(c) the subsequent accounting for an asset arising from advance payments.

36. Applying paragraph 4.56 of the *Conceptual Framework*, a licence agreement is executory until either the customer or the supplier fulfils any of its obligations under the agreement. While the contract remains executory, each party has a combined right and obligation to exchange economic resources with the other party. The combined right and obligation constitutes a single asset for the customer (if the terms of the exchange are favourable to the customer) or a single liability for the customer (if the terms of the exchange are unfavourable to the customer).

37. To the extent that the customer pays for its right to access IP before receiving it, the customer's combined right and obligation to exchange economic resources changes into a right to receive the right to access IP. This right to receive is itself an asset (paragraph 4.58 of the *Conceptual Framework*). Therefore, once the customer prepays, the relevant asset is not the series of rights to access IP themselves, but the right to receive those rights in the future.

38. From the supplier's perspective, the supplier recognises a contract liability in accordance with paragraph 106 of IFRS 15, which is its obligation to provide the future series of rights to access IP for which consideration has already been received or is due. Paragraph BC341 of the Basis for Conclusions on IFRS 15 analogises contract assets and contract liabilities with working capital balances, such as deferred revenue.

39. Applying the same logic from the customer's perspective, the customer has not yet obtained control of the series of rights to access IP. We therefore think that the right to receive the rights to access IP is best characterised as a working capital type asset—an

advance payment for future rights to access IP. As and when the customer obtains the rights to access IP, the relevant portion of this advance payment becomes a right to access IP, an asset that is immediately consumed. As suggested in paragraphs 9–13, we think the customer should account for obtaining and consuming such assets as operating expenses.

Application to fact pattern

40. Applying our thinking to fact pattern 3, on 31 October 20X6 the customer recognises an advance payment (working capital) asset of CU384,000 representing a right to receive rights to access IP. As the rights to access IP are obtained and immediately consumed during the period from 1 January 20X7 to 31 December 20X7, the customer will derecognise the advance payment asset and recognise the obtained and consumed rights to access IP as operating expenses.

Configuration and customisation activities

41. Many preparers of financial statements were particularly concerned about the accounting for configuration and customisation costs in a SaaS contract. These preparers said that recognising a large expense when configuration and customisation activities take place does not reflect the economics of the activities. They argued that configuration and customisation activities enable the software to meet the customer's specifications and the customer often expects to generate future economic benefits from that software over several reporting periods. These activities typically take place and are paid for prior to the customer's utilisation of the software. We have illustrated this variation in fact pattern 4 of the Appendix. This variation raises questions over how configuration and customisation costs, as well as broader implementation costs incurred when entering into IP licensing contracts, are accounted for under our suggested model.

Determining the unit of account

42. We think first the customer would need to determine how configuration and customisation deliverables affect the rights the customer obtains and whether those rights would be combined in a single unit of account with other rights in the contract. To do so, the customer would apply the suggestions in paragraphs 19–24 of this paper.

Application to fact pattern

43. Applying the suggested model to fact pattern 4, the customer could conclude that it obtains:

(a) a right to access to the supplier's IP—the software—as maintained, updated and configured by the supplier. The nature of this IP is dynamic because the supplier is expected to update the software (thus significantly changing the form or functionality of the IP) which could result in positive or negative effects for the customer (for example, improved functionality from updates or decreased functionality from withdrawn features).

(b) either a right to access or a right to receive a service relating to 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.

(c) a right to access additional IP (software code) resulting from customisation activities. The right to direct the use of this IP remains with the supplier.

(d) a right to receive data migration services.

(e) a right to receive services in respect of training and go-live support.

44. We think that the first three rights should be treated as a single unit of account because:

(a) treating these rights as a single unit of account may provide more relevant information because the customer obtains these rights and can benefit from them only during the contract term and the rights are not expected to expire in different patterns.

(b) the customer cannot benefit from either of these rights 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 the right to access the customisation code as separate products.

(c) the customer's objective is not to obtain access to the customisation code or infrastructure for its own sake. Rather, the customer seeks to obtain a combined output—a functioning software in the form in which it exists at any given moment—and the supplier integrates the 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 the software code and customisation code and the rights relating to the infrastructure are therefore highly interdependent and highly interrelated. Treating them as a single unit of account would faithfully represent the substance of the transaction.

45. Consequently, the unit of account is a combination of the rights described in paragraphs 43(a)–43(c): a right to access the supplier's configured, maintained and updated IP (the software) in the form in which it exists at any given moment, together with the right to access the customisation IP and the rights relating to the supplier's infrastructure.

46. However, the right to receive data migration services and the right to receive services in respect of training and go-live support in paragraphs 43(d)–43(e) (rights to receive other services) are accounted for separately because they form separate units of account. This is because:

(a) the rights to receive other services are obtained and expire as those services are rendered (at the inception of the contract) and are not obtained and consumed over the course of the SaaS contract along with the group of rights containing the right to access IP. Treating the rights to receive other services as separate units of account may therefore provide more relevant information because the rights are expected to expire in a different pattern to the group of rights containing the right to access IP.

(b) the customer can benefit from the group of rights containing the right to access IP (treated as a single unit of account) on its own without the rights to receive other services. The configured, customised, maintained and updated software hosted on the supplier's infrastructure is the combined output the customer contracted for and it is already in the condition necessary for it to be capable of operating in the manner intended by the customer. The customer can begin accessing and utilising the IP even before it has completed data migration activities or trained its employees. It follows that rights to receive other services merely enable the customer to utilise its right to access IP more efficiently.

(c) the supplier does not provide a significant service of integrating the software code, customisation code and infrastructure with the other services, nor do these deliverables significantly modify or customise each other. The software code, customisation code and infrastructure remain the same whether or not the customer migrates its data to the software or trains its employees on how to use it. Treating the rights to receive other services as separate units of account would therefore faithfully represent the substance of the transaction.

Accounting for a group of rights containing a right to access IP (including configuration and customisation)

47. Having determined the unit of account, the customer would then need to consider the recognition and measurement for this group of rights (that includes configuration and customisation). If the customer obtains the group of rights over time (as in our fact pattern 2), these rights are a series of intangible assets obtained over time. The cost of those assets would include the cost of the configuration and customisation activities because configuration and customisation are included in the unit of account. Therefore, these costs are allocated to the assets as they are obtained and consumed

during the contract period. As explained in paragraphs 9–13, because configuration and customisation costs are a cost of intangible assets that are obtained and consumed over time, they should be recognised as operating expenses.

48. Applying the model for advance payments suggested in paragraphs 35–39, payment for configuration and customisation activities would not, when paid, create an intangible asset. Instead, we think that, before the related assets described in paragraph 47 are obtained, the customer has an asset representing an advance payment for part of the cost of future intangible assets—a working capital asset. As each intangible asset in paragraph 47 is obtained and then immediately consumed, the corresponding portion of the advanced payment forms part of the cost of that intangible asset and is recognised as an operating expense.

49. Some IP licensing contracts may have optional periods, or customers may intend to renew IP licensing contracts for which the configuration and customisation activity is relevant. Therefore, the series of intangible assets that the configuration and customisation costs relate to could be a larger population of assets than the series of intangible assets obtained during the non-cancellable portion of the SaaS contract. To determine how configuration and customisation costs that have been paid at the start of the contract are allocated to future intangible assets, we think that, drawing on paragraph 18 of IFRS 16, the IASB could require the customer to determine the term of an IP licensing contact as the non-cancellable period of the contract, together with both:

(a) periods covered by an option to extend the contract if the customer is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the contract if the customer is reasonably certain not to exercise that option.

50. Alternatively, the IASB could simply require the customer to allocate the configuration and customisation costs to the cost of the intangible assets obtained only in the non-cancellable period of the contract.

Application to fact pattern

51. Applying our thinking to fact pattern 4, at 31 December 20X6 the customer recognises an advance payment (working capital) asset of CU1,570,000 for future assets relating to configuration and customisation costs.

52. The advance payment of CU1,570,000 is allocated to the cost of the series of intangible assets obtained over the term of the SaaS arrangement, which is determined as the three-year period from 1 January 20X7 to 31 December 20X9 and, depending on the approach the IASB takes in paragraphs 49–50, any relevant optional periods. As each intangible asset is obtained and immediately consumed, the corresponding portion of the advance payment would be released and recognised as an operating expense.

Contracts with multiple suppliers

53. To obtain the desired functionality of the software, a customer may obtain deliverables (for example, configuration or customisation activities, or access to computing infrastructure) from various suppliers. This raises the question of whether separately contracting for these deliverables with multiple suppliers changes the way the rights over these deliverables are grouped into a unit of account and accounted for. We have illustrated such a variation in fact pattern 5, in which a customer enters into a SaaS contract with a supplier and a separate contract with a third party for configuration and customisation activities.

54. 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 (paragraph 16(a) of IAS 16), treating the rights over these components as a single unit of account could provide useful information—in particular, faithfully representing the substance of the transaction may require an entity to treat rights arising from different sources as a single unit of account (paragraphs 4.51(b) and 4.62 of the *Conceptual Framework*). We think a similar

principle could apply to IP licensing contracts. Rights obtained from different suppliers should form part of the unit of account containing the right to access IP if:

(a) treating these rights as a single unit of account may provide more relevant information because the customer obtains those rights and benefits from them during the same period and the rights are not expected to expire in different patterns (see paragraph 21(a)(i)).

(b) the customer cannot benefit from either right separately—deliverables those rights relate to need to be combined to bring the IP to the condition necessary for it to be capable of operating in the manner intended by the customer, and so capable of generating economic benefits (see paragraph 21(b)(i)).

(c) the rights the customer obtains are not separately identifiable from other rights obtained in the transaction—the customer's objective is not to obtain the deliverables in each contract for their own sake but rather to obtain the desired functionality of the IP as a whole, which can only be obtained through entering into contracts with multiple suppliers (see paragraph 21(b)(ii)). Treating these rights, even if from different sources, as a single unit of account would therefore faithfully represent the substance of the transaction (see paragraph 21(a)(ii)).

55. A contractual connection between the different suppliers—for example, the supplier grants a third party permission to access its infrastructure to configure and customise the IP—might be an indicator that the rights that the customer obtains from these suppliers could be combined into a single unit of account.

56. Some customer's rights in an IP licensing contract—such as rights to access additional software code or rights over computing capacity beyond that needed to bring the IP to the condition necessary for it to be capable of operating in the manner intended by the customer, for example extended data storage capacity—may provide benefits to the customer either on their own or together with other resources that are readily available to the customer. Therefore, it is likely useful information would be provided by treating those rights as separate units of account.

Application to fact pattern

57. Applying this thinking to fact pattern 5, the customer enters into both contracts to obtain the functionality of the IP (software). Therefore, the customer identifies the same unit of account as per paragraphs 43–45 because:

(a) treating these rights as a single unit of account may provide more relevant information because the customer obtains those rights and can benefit from them during the period it has access to the IP and the rights are not expected to expire in different patterns.

(b) the customer cannot benefit from any of these rights separately. The customer's original software is not in the condition necessary for it to be capable of operating in the manner intended by the customer and the customer cannot benefit from the customisation code without having access to the supplier's original software. 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 the right to access the customisation code as separate products.

(c) the customer's objective is to obtain a combined output—a software in the form in which it exists at any given moment—and the supplier and the third party integrate the 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 the software code and customisation code and the rights relating to the infrastructure are therefore highly interdependent and highly interrelated. Treating them as a single unit of account would faithfully represent the substance of the transaction, even though these rights arise from different sources.

58. Therefore, the customer applies the same accounting to this unit of account as set out in paragraphs 47–52.

Other considerations

59. A few IASB members asked whether our suggested model could also be applied to a right to receive a service—namely, whether the same logic regarding control of an asset can be applied to a right to receive a service, which is an economic resource that can generate economic benefits for the customer, and therefore whether the customer receives and immediately consumes an asset as a supplier performs a service (paragraph 4.8 of the *Conceptual Framework*). Applying the suggested model to service contracts could raise questions as to whether our suggested treatment of an advance payment and implementation costs, as well as any potential additional disclosure requirements, would also apply to a right to receive a service.

60. 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 that any amendments to IAS 38 should avoid additional requirements for service contracts, such as increased disclosure requirements. Possible approaches to achieve this include:

    (a) limiting any new requirements to contracts that provide a right to access IP;

    (b) explicitly excluding rights to receive services from the scope of IAS 38; or

    (c) amending the definition of an intangible asset in IAS 38 to only capture rights over an identified non-monetary underlying item.

61. We think that amending the definition of an intangible asset to capture only rights over an identified non-monetary underlying item could strengthen the definition of an intangible asset. Strengthening the definition is consistent with our work stream exploring whether to update the definition of an intangible asset and the supporting requirements to make them easier to apply, particularly to newer types of intangible assets. Strengthening the definition in this manner could also help clarify the distinction between a service contract and an intangible asset, as requested by some stakeholders.

Summary of further developments to the model

62. In summary, we think that:

(a) a right to access IP obtained over time and consumed immediately is a type of intangible asset. However, it differs from other types of intangible asset (those delivered at a point in time and consumed gradually over a period). The most useful information about this asset would be provided by entities recognising the cost as an operating expense when the rights are obtained and consumed (paragraphs 9–16).

(b) rights over IP as well as rights over other deliverables could be combined into a single unit of account if doing so would provide more relevant information (for example, because the rights are used together and are not expected to expire in different patterns) and 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) (paragraphs 17–33).

(c) an advance payment for a right to access IP obtained over time is best characterised as an advance payment for future rights to access IP—a working capital asset. As and when the customer obtains the rights to access IP, the relevant portion of this advance payment becomes a right to access IP asset that is immediately consumed. A customer would account for obtaining and consuming such assets as operating expenses (paragraphs 35–40).

(d) 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, 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 (see paragraphs 41–52).

(e) a customer combines rights obtained from multiple suppliers when identifying the unit of account(s) in an IP licencing arrangement if doing so would provide more relevant information (for example, because the rights are used together and are not expected to expire in different patterns) and 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) (paragraphs 53–58).

Next steps

63. We are planning to consider:

    (a) whether and how to integrate suggested improvements into IAS 38; and

    (b) what the implications of these suggested improvements would be for a wider range of intangible assets, including other newer types of intangible assets and more traditional intangible assets.

64. In doing so, we will seek views from consultative groups and other relevant parties on our suggestions for the model and any potential unintended consequences. We expect to ask the IASB to make decisions on the improvements to IAS 38 resulting from the SaaS test case in early 2027.

65. We also expect the IASB to discuss our initial thinking on the agile software development test case in Q4 2026. This test case will also be discussed with our consultative groups and other relevant parties.

Questions for the IASB

Questions for the IASB
1. Do you have any questions or comments on further developments to our suggested model as set out in paragraphs 6–61 and summarised in paragraph 62?
2. Do you have any questions or comments on our suggested next steps in paragraphs 63–65?

Appendix—Fact patterns

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

A1. 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 250 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 CU1,440,000 for the software licence. The supplier retains the IP rights over the software and grants the customer only the contractual right to utilise the software during the licence period.

Fact pattern 2—Software obtained via a SaaS arrangement

A2. 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 250 users at CU160 per user per month. The SaaS arrangement renews automatically for successive 12-month terms unless terminated within 30 days' written notice. The supplier offers only cloud-based software delivery activities and the software is not available for digital download or via a physical copy such as a compact disk.

A3. 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.

A4. 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 IP rights over the software and merely grants the customer access to the software during the term of the arrangement.

Fact pattern 3—Customer pays in advance for subscription fees

A5. Assume the same facts as in fact pattern 2. In addition, the agreement is finalised on 31 October 20X6, and on this date the customer prepays CU384,000 for the subscription fees for the year ending 31 December 20X7. This represents a 20% discount on the monthly subscription fees of CU40,000 a month.

Fact pattern 4—Configuration and customisation costs

A6. 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 CU1,820,000 and are billable on completion, comprising:

(a) configuration services (fixed fee): CU420,000—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.

(b) customisation services: CU1,150,000—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.

(c) data migration services: CU160,000.

(d) training and go-live support: CU90,000.

A7. The supplier retains the IP rights to the software and to any configuration, customisation code and integration components developed under the contract.

Fact pattern 5—Third party performs configuration and customisation activities

A8. Assume the same facts as in fact pattern 4, except that the customer enters into two legally separate contracts to obtain access to the supplier's software which is modified to the customer's specification. First, the customer enters into a three-year SaaS contract with the supplier for access to the supplier's software, identical to fact pattern 2. Secondly, the customer enters into a separate contract with a third-party systems integrator to perform configuration and customisation activities. The supplier has approved the systems integrator to perform implementation activities within the supplier's infrastructure (cloud environment), but the supplier is not a party to the implementation contract and is not responsible for the systems integrator's work.

A9. The systems integrator's activities are expected to begin on 31 March 20X6 and take nine months, so that the software is ready for go-live on 1 January 20X7. The customer pays the systems integrator CU1,570,000 on completion.

A10. The systems integrator is granted temporary access to the supplier's development environment solely to perform the implementation activities. The supplier retains IP rights in the standard software, the cloud environment and any supplier tools used by the systems integrator. The systems integrator owns the generic implementation methodology, templates and pre-existing code it uses in performing the services and assigns IP rights in any customisation code or implementation components it develops to the supplier. Any customer-specific configuration settings, mapping tables, reports and interfaces developed during the project may be used by the customer only while it has access to the supplier's SaaS platform and cannot be run independently of that platform.

A11. After go-live, the supplier is responsible for operating the software, hosting the customer's data, maintaining the software and releasing updates. The systems integrator provides only limited post-implementation support for 60 days after go-live to resolve defects arising from the implementation activities. The customer cannot take possession of the software code or host the configured and customised software on its own infrastructure. If the SaaS contract is terminated, the customer retains ownership of its data and may extract that data in a standard format, but it loses the ability to use the customer-specific configuration, reports and interfaces unless it enters into a new arrangement with the supplier.