



The Association of  
Accountants and  
Financial Professionals  
in Business

April 30, 2018

Ms. Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2018-230**, Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements (a consensus of the FASB Emerging Issues Task Force)*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board’s (Board) Exposure Draft (ED) of the Proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements (a consensus of the FASB Emerging Issues Task Force)*.

The IMA is a global association representing over 100,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world’s largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the Board’s effort to address the accounting for implementation costs incurred in association with a cloud computing arrangement. We believe that the ED appropriately acknowledges the changing landscape of software delivery and consumption by allowing for the capitalization of implementation costs in a simple and consistent manner.

With that said, we would like to share our comments on each of the following Questions for Respondents included in the ED.

**Question 1:** *Should eligible implementation costs of a hosting arrangement that is a service contract be capitalized using the guidance on internal-use software, recognized in profit or loss over the term of the hosting arrangement as defined in this proposed Update, and presented in the same line item in the statement of income as the fee associated with the hosting arrangement? If not, what accounting is more appropriate and why?*



We support capitalizing implementation costs incurred in association with a hosting arrangement that is a service contract using the existing guidance on internal-use software.

We also support recognizing the capitalized costs in the income statement over the term of the arrangement. Further, we agree with the determination of the term of the hosting arrangement as proposed. For the avoidance of doubt, we understand “reasonably certain” as used here, and within Accounting Standards Codification (ASC) Topic 842, to have the same meaning as “reasonably assured” under ASC Topic 840. We recommend this be explicitly stated in any final standard.

Additionally, we support the conclusion that the amortization of the implementation costs should be presented in the same income statement line item as the fees associated with the hosting arrangement itself.

A minority of our members believe the term of the hosting arrangement should be the “best estimate” of the period of use of the customer and that the factors proposed in paragraph 350-40-35-12 should be included in the proposed list in paragraph 350-40-35-14 rather than stated separately.

**Question 2:** *This proposed Update includes an amendment to the definition of hosting arrangement in the Master Glossary. Do you agree with the amendment, and do you have any other concerns with the definition, as amended?*

We support the amendments to the definition. However, we believe the definition should be amended further as follows: “...rather, the software application resides on hardware that is controlled by the vendor or a third party’s or a third party’s hardware.” We are aware of certain regulatory restrictions that require the vendor’s hardware to reside at the hostee’s site while the vendor provides the same services under a hosting arrangement where the vendor’s hardware is not at the hostee’s site. In such cases, we believe the ED’s amended definition of a hosting arrangement would unintentionally limit the application of the proposed guidance and therefore we propose the above edits. We believe the edits to the definition are necessary to address arrangements that will not qualify as leases under ASC Topic 842. If the arrangement qualifies as a lease, we assume it would be covered under the existing guidance on internal-use software. However, if the arrangement does not qualify as a lease, we believe it would be subject to the proposed ASU.

**Question 3:** *Is additional guidance needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement?*

No, we believe that companies will adopt appropriate policies based on materiality where necessary to address minor hosting arrangements.

**Question 4:** *Can the guidance for determining the project stage (that is, preliminary project stage, application development stage, or post-implementation stage) in Subtopic 350-40 be consistently applied to a hosting arrangement? Why or why not?*

Yes, the implementation costs incurred for cloud computing arrangements are sufficiently similar in nature, and follow a similar process, to that of internal-use software and as such, the existing guidance can be applied without difficulty.



We note that ASC 350-40-30-4 requires price allocation between various elements based on “objective evidence of fair value” and we suggest that the Board amend the language to be consistent with ASC Topic 606’s and ASC Topic 842’s “best estimate” threshold for determining stand-alone selling price.

Additionally, we encourage the Board to consider a separate project to revisit the costs that are eligible for capitalization per the existing guidance in ASC 350-40. For example, data conversion costs can be significant and necessary to enable the full capabilities of the hosting arrangement solution yet are not capitalized. Further, such a project would consider changes made to the software development process since 1998 when the current guidance was determined.

***Question 5:*** *Should an entity apply an impairment model to implementation costs of a hosting arrangement that is a service contract that is different from the impairment model included in Subtopic 350-40? Why or why not?*

We agree that the existing impairment model included in ASC 350-40 appropriately addresses the impairment of implementation costs associated with hosting arrangements.

***Question 6:*** *Do you agree with the disclosures included in the proposed amendments? If not, what additional disclosures do you recommend, or what disclosures should be removed and why?*

We do not agree with the amended disclosures included in the ED. We believe the existing disclosure requirements in ASC 350-40, which refer to “existing authoritative literature,” are sufficient to cover the addition of hosting arrangements that are service contracts to the scope of this Subtopic. In our opinion, there are no concerns with the level of disclosure made today on in-scope transactions.

In the event that the Board does not support our recommendation, we would like to express our strong disagreement with the requirement to disclose implementation costs that have been expensed rather than capitalized as proposed in ASC 350-40-50-2 as we do not believe it provides meaningful information to financial statement users. Additionally, it may be practically difficult to identify such costs because oftentimes costs incurred in the preliminary assessment phase or the post-implementation phase (e.g., maintenance and trainings) are not tracked as part of existing processes. To require reporting entities to track that information for disclosure purposes only will mean the development of processes and controls that are not necessary today. We do not believe the information provided through the proposed disclosure justifies the costs reporting entities will incur to provide that information.

***Question 7:*** *Should the disclosures included in the proposed amendments be applied to internal-use software and hosting arrangements that include a software license? Why or why not?*

We are supportive of aligning the disclosure requirements for all transactions within the scope of ASC 350-40 (i.e., internal-use software, hosting arrangements that include a software license, and hosting arrangements that are service contracts).

However, consistent with our response to Question 6, we are not supportive of the amended disclosures as currently included in the ED and we recommend maintaining the existing disclosure language in ASC 350-40.



**Question 8:** *Should an entity be permitted to elect prospective transition or retrospective transition? If not, please explain what transition method should be required and why. If an entity elects prospective transition, should the entity apply the transition requirements to each hosting arrangement, each module or component within a hosting arrangement, or costs of the hosting arrangement?*

In general, we are supportive of providing flexibility with regard to transition methods as it allows entities to make elections based on particular costs and benefits in their facts and circumstances.

However, we feel strongly that the prospective transition method should allow entities to capitalize implementation costs incurred after the date of adoption for all projects not yet placed in production at the date of adoption. We note that such a revision would align with the original prospective transition method prescribed in SOP 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and it would alleviate the need to further define the unit of account in the ED. In our opinion, to define the unit of account at the arrangement, module, or component level would delay the desired effects of the proposed amendments when a prospective transition method is selected. There are lengthy timelines for some implementations and any arrangements, modules, or components that are in progress at the date of adoption would not be eligible for capitalization if the Board specifies a unit of account other than each dollar of cost incurred.

**Question 9:** *Should an entity be required to provide the transition disclosures specified in the proposed amendments? If not, please explain what transition disclosures should be required and why.*

We do not have any concerns with the transition disclosures as proposed.

**Question 10:** *How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Do entities other than public business entities need additional time to apply the proposed amendments? Why or why not?*

In our opinion, companies with relevant activity generally have processes in place that would enable the gathering of necessary data and as such, we do not expect that a significant amount of time would be necessary to implement the amendments. The transition method will also inform the amount of time needed. For example, if the transition is retrospective, it is expected to be much more time consuming to identify implementation costs that were previously expensed that would now be subject to capitalization.

We strongly support the ability to early adopt and we have no reason to believe that non-public entities would require additional time to adopt.

**Question 11:** *Should the proposed amendments be more broadly applied to similar transactions beyond hosting arrangements or be limited to transactions based on the scope of the proposed amendments? If more broadly applied, what transactions are similar to those included in the scope of the proposed amendments?*

We agree with the fundamental concept of capitalizing costs that provide a future benefit. However, we believe that this proposed amendment should be limited to in-scope transactions. Any consideration of broader application should be considered under a separate project.



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### Other Considerations

We also note that other views were discussed within the Committee. The view that companies should be required to recognize an asset and a liability for the payments they are obligated to make under the terms of a hosting arrangement that is a service contract is supported by some Committee members although the view was considered and ultimately rejected by the Emerging Issues Task Force. Those members' view is not supported by analogy to ASC Topic 842, but rather by the guidance on accounting for software licenses by a licensee. The Board decided that the future payments the licensee is obligated to make represent a liability and required the recognition of a liability for the present value of those payments. It would appear the same conclusion should apply to future payments made under a hosting arrangement, particularly if the guidance on capitalizing other costs incurred in connection with internal-use software is to be applied to hosting arrangements. This view would also produce a fully consistent model of the accounting for the development, implementation, and use of software regardless of the form of delivery.

In reviewing the basis for conclusions, certain Committee members do not agree with the reference to cost deferral guidance in ASC 340-40 in paragraph BC8 as it only applies to costs incurred to obtain a contract with a customer if the costs are recoverable based on estimates of revenues to be earned under the contract. That guidance permits deferral of costs only to the extent the reporting entity will generate revenues sufficient to recover the costs, which does not seem to be relevant to the deferral of costs associated with a hosting arrangement under which the customer will not be generating revenues.

Thank you for the opportunity to respond. We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder". The signature is written in a cursive, flowing style.

Nancy J. Schroeder, CPA  
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Institute of Management Accountants  
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