



The Association of  
Accountants and  
Financial Professionals  
in Business

November 18, 2014

Mr. Russell Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2014-230, Exposure Draft (ED) of Proposed Accounting Standards Update (ASU) – *Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*

Dear Mr. Golden:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board’s (FASB) Exposure Draft of Proposed ASU – *Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (the ED).

The IMA is a global association representing more than 70,000 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) under the Advocacy section.

We have noted in many comment letters to the FASB our concern about the complexity of financial reporting requirements and, in a letter to you dated May 27, 2014, we expressed our support of the Board’s Simplification Initiative. We are pleased to see the Initiative result in this proposed ASU.

We support the objective of the FASB in its initiative to issue explicit guidance with respect to accounting for cloud computing arrangements and improve areas of generally accepted accounting principles for which cost and complexity can be reduced. We support the alignment of accounting for customer’s fees paid in cloud computing arrangements with the model used by vendors of such software arrangements, whereby cloud computing arrangements which do not convey a software license to the customer are accounted for as service contracts. We also believe the ED is consistent with the ASC 606, *Revenue from Contracts with Customers*. The proposal enhances consistency and should reduce diversity in practice with respect to accounting for cloud computing arrangements.

However, we note that the ED does not explicitly address the accounting treatment for the buyer’s implementation costs relating to cloud computing arrangements. We believe the FASB should consider issuing explicit guidance with respect to the accounting treatment of such implementation costs, as these costs can be significant and the lack of explicit guidance for up-front costs currently results in diversity in practice. Specifically, we understand that some companies capitalize and amortize implementation costs as internal-use software under ASC 350-40, while some expense such costs as incurred in a



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manner similar to a service arrangement. Other companies expense certain cloud computing software implementation costs as business process reengineering and IT transformation costs, as defined in ASC 720-45.

Implementation costs relating to cloud computing arrangements often consist of configuration and program changes to the buyer's internal software systems, as well as to the cloud computing software, which allow the buyer's existing software systems to properly interact with the cloud computing software. Such implementation activities may be considered similar to activities incurred during an application development stage of internal use software, as defined in ASC section 350-40, and often require significant efforts and costs.

The lack of explicit guidance in the ED may be interpreted by some to imply that implementation costs should be accounted for in a manner consistent with the cloud computing arrangement. Specifically, where the arrangement contains a license, implementation costs may be capitalized, and where the arrangement is accounted for as a service contract, implementation costs may be expensed.

Some believe that accounting for implementation costs as an upfront expense may not reflect the economics of many arrangements, primarily when significant implementation costs are incurred by the buyer of the cloud computing arrangement prior to the start of the hosting period. They believe that capitalizing the software implementation costs and amortizing the corresponding asset – essentially an enhancement to the buyer's platform to facilitate the cloud arrangement – over its useful life better reflects the economics of the transaction as expenses are recorded in a manner that reflects the consumption of the economic benefit from the software development costs, and therefore is more helpful to readers of financial statements in the analysis of assets and expenses. Further, some believe that capitalized implementation costs meet the general definition of an asset under Statement of Financial Accounting Concepts No. 6 as such costs are cash outflows that will provide future economic benefit that can be controlled by the buyer in the cloud computing arrangement. Control is evidenced by the fact that implementation work may be performed by a third party which is separate from the vendor selling the cloud computing arrangement, and may be retained by the purchaser even in the event the cloud computing arrangement is terminated (as it is a modification to a buyer's internal systems). The lives of such assets would be established based on the expected period of benefit considering the renewability and cancellation provisions of the cloud computing contract and monitored for impairment, similar to other assets.

In summary, we support the proposal in the ED and suggest in light of the above described diversity in treatment that the Board explicitly address the buyer's implementation costs relating to cloud computing arrangements as a separate project.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "N. Schroeder", is written over a light blue horizontal line.

Nancy J. Schroeder, CPA  
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Institute of Management Accountants  
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