

MINUTES



MEMORANDUM

To: Board Members
From: EITF 17-A Project Team
Subject: Minutes of the February 7, 2018 Board Meeting: EITF Ratification
Date: February 12, 2018
cc: Tosches

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Board ratification of the consensus-for-exposure reached on EITF Issue No. 17-A, "Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract."

Basis for Discussion: EITF Ratification Memorandum No. 1

Length of Discussion: 1:15 PM to 1:40 PM

Attendance:

Board members present: Golden, Kroeker, Botosan, Hunt, Monk, Schroeder, and Siegel

Board members absent: None

Staff in charge of topic: Bond, Faineteau

Other staff at Board table: Cospers, Schomburger, Stansel

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss the potential issuance of one proposed Accounting Standards Update addressing EITF Issue No. 17-A, “Customer’s Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract.”

Tentative Board Decisions:

Ratification of an EITF consensus-for-exposure. The Board ratified the consensus-for-exposure reached at the January 18, 2018 EITF meeting on Issue 17-A. The Board directed the staff to draft a proposed Accounting Standards Update reflecting the consensus-for-exposure for vote by written ballot.

Issue No. 17-A, “Customer’s Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract”

At its January 18, 2018 EITF meeting, the Task Force reached a consensus-for-exposure that would require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 on internal-use software to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. The accounting for the service element of a hosting arrangement that is a service contract would not be affected by this consensus-for-exposure. The amortization period of the capitalized implementation costs of a hosting arrangement that is a service contract would include periods covered by renewal options that are reasonably certain to be exercised. In addition, the Task Force decided that an entity would present the expense related to the capitalized implementation costs of a hosting arrangement that is a service contract in the same line item in the statement of income as the fees associated with the hosting arrangement. The Task Force decided not to propose guidance related to scope of the proposed amendments; however, the Task Force did decide to amend the definition of the term *hosting arrangement* to remove the reference to *licensing*. The Task Force decided to remain silent on whether an entity may apply the proposed guidance by analogy to other transactions or activities. The Task Force also decided against defining the term *implementation costs* in the Master Glossary of the Accounting Standards Codification.

The Task Force also reached a consensus-for-exposure to require an entity (customer) in a hosting arrangement that is a service contract to provide certain qualitative and quantitative disclosures. Those disclosures also would extend to implementation costs incurred for internal-use software.

For transition, the Task Force reached a consensus-for-exposure that would provide an entity with an option to apply the guidance either retrospectively or prospectively. The transition disclosures would depend on the transition approach an entity selects.

(Vote: 5-2)

The Board decided to expose the proposed Update for public comment for a period of 60 days.

(Comment Period Vote: 7-0)

General Announcements: None.