

April 25, 2018

Technical Director  
File Reference No. 2018-230  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Submitted via email to [director@fasb.org](mailto:director@fasb.org)

**Re: Proposed Accounting Standards Update: Intangibles – Goodwill and Other - Internal-Use Software (Subtopic 350-40)**

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the proposed Exposure Draft (ED), *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*, issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism and advocating members’ interests. The VSCPA membership consists of more than 13,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge that the Board has issued the ED in an effort to improve the effectiveness of disclosures in the notes to financial statements. The VSCPA appreciates the work the Board has undertaken on this effort and the opportunity to respond to the ED.

The VSCPA offers the following comments related to the “Questions for Respondents” section of 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?**

Yes. We agree that eligible implementation costs of a hosting arrangement that is a service contract should 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. This treatment is consistent with the treatment of capitalized leases and a pragmatic approach to informing users of financial statements.

**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 amendment to the definition. Using the phrasing “accessing and using” instead of “licensing of” is more appropriate in situations where software is being accessed and used off-site by a customer rather than downloaded on-site.

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

We would prefer to see a minor hosting exception based on the dollar amount of the implementation costs and/or a time period, such as 12 months or less.

**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?**

Considering the changing environment of software development, it would be difficult to utilize the guidance for determining the project stage. We agree that it would be a worthwhile venture to commence a research project to clarify better the practice of software development and its evolution.

**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?**

No. We believe that applying impairment models should be consistent to avoid confusion. Because capitalization occurs similarly in both situations, it would be proper to treat impairment similarly.

**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 agree with the disclosures included in the proposed amendments.

**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?**

Yes. The disclosures included in the proposed amendments should be applied to internal-use software and hosting arrangements that include a software license. We believe that financial statement users will benefit more from having that information disclosed.

**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?**

We believe that entities should be permitted to elect prospective transition or retrospective transition. However, electing retrospective transition for entities sometimes may be difficult depending on the records retention of that entity, so entities should be able to elect in a prospective manner if they so choose. If an entity does elect prospective treatment, it should apply transition requirements to each hosting arrangement. Applying only to modules or components would potentially cause confusion in the financial statements for users and should be avoided.

**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.**

Yes. We believe that requiring an entity to provide the transition disclosures specified in the proposed amendments is appropriate.

**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?**

Given the limited scope of the proposed amendment, we believe that requiring public companies to adopt in the fiscal years beginning after Dec. 31, 2018 would be sufficient. Private companies could receive a one-year extension for compliance.

**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 would like more specific information regarding the types of situations where this would apply before deciding whether to support the application of the proposed amendments in a broader manner.

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Again, the VSCPA appreciates the opportunity to respond to this ED. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Charles M. Valadez, CPA, CITP, CGMA  
Chair

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