



April 27, 2018

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

Re: 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 Technical Director:

ScanSource, Inc. appreciates the opportunity to comment on 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* (the “ASU”). We agree with the direction of the ASU and we have some concerns and therefore ask that the FASB make further amendments to the guidance.

1. **Question:** *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?*

Response: 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 the proposed ASU.

However, we do not agree that these costs should be presented in the same line item in the statement of income as the fee associated with the hosting arrangement. This differs from the accounting applied by licensees of on-premise software who would typically recognize a

software-related intangible asset and the subsequent cost as amortization expense. Although EBITDA-based measures constitute non-GAAP information, they are nonetheless used by investors for a variety of purposes, including in their assessment of business valuation. We believe that accounting guidance resulting in a more consistent presentation of software costs, regardless of whether the arrangement is on-premise or cloud based, would reduce the complexity for users of financial statements by increasing comparability between economically similar transactions. Therefore, the amortization of capitalized costs of implementing a cloud computing arrangement should be consistently recognized as amortization expense over the term of the hosting arrangement.

2. **Question:** *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?*

Response: We agree with the amendment to the definition of hosting arrangement in the Master Glossary.

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

Response: We do not believe that additional guidance for arrangements that include a minor hosting arrangement is necessary.

4. **Question:** *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?*

Response: We believe the guidance for determining the project stage in Subtopic 350-40 can be consistently applied to a hosting arrangement because we believe the steps required to implement a hosting arrangement are similar to those required to implement internal-use software. Additionally, this consistency will offer a more simple application of the guidance.

5. **Question:** *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?*

Response: We believe the guidance in Subtopic 350-40 outlines a sufficient impairment model for applying to implementation costs of a hosting arrangement because, as previously mentioned, there can be little difference between implementation costs for on-premise software versus hosted software.

6. **Question:** *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?*

Response: We do not agree that the disclosures required by 350-40-50-2b and 350-40-50-2c of the in the proposed amendments are necessary. The proposed amendment calls for disclosure of significant judgments and assumptions that an entity makes in applying the guidance on implementation costs. In our experience in applying the guidance in ASC 350-40, there are no instances in which significant judgments and assumptions were necessary. The proposed amendment also includes a requirement to disclose a qualitative and quantitative description of the implementation costs that were expensed and costs that were capitalized during the period. In our opinion, this proposed requirement does not provide additional value to the users of the financial statements. In our opinion, both the current guidance outlined in Subtopic 350-40-50-1 and the SEC guidelines for a public company are sufficient.

7. **Question:** *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?*

Response: If the disclosures in the proposed amendments are finalized, we believe that they should apply to all transactions within the scope of Subtopic 350-40 to maintain consistency between the information provided for internal-use software and hosting arrangements.

8. **Question:** *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?*

Response: We agree that allowing an entity to adopt the proposed update on either a prospective or retrospective basis is appropriate. If an entity elects prospective transition, the entity should apply the transition requirements to each hosting arrangement that is entered into, renewed, or materially modified after the effective date of the Update.

9. **Question:** *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.*

Response: We believe that the transition disclosures specified in the proposed amendments should be necessary for transitions that have a significant impact on the financial statements. However, given the lack of previous guidance on accounting for implementation costs of hosting arrangements, there may be a diversity in practice in accounting for these costs prior to the amendments. Some entities may have already concluded that accounting for implementation costs of hosting arrangements in a similar manner to on-premise internal use software costs to be appropriate given the similarities in the economics of these transactions. Therefore, for many entities, application of the updated guidance may not have a material impact on the financial statements and detailed disclosures regarding transition may not be necessary or offer value to the users of the financial statements.

10. **Question:** *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?*

Response: We do not anticipate that it would take a significant amount of time and effort to implement the proposed amendments for both public and private entities, but we believe the amount of time needed would depend on the level of disclosures required by the amendment. If the amendment is finalized as it is currently written, we believe it could take entities three to twelve months to implement the proposed amendments depending on adoption method used and the number of transactions to which the amendments would apply. Early adoption should be permitted.

11. **Question:** *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?*

Response: We believe the proposed amendments should be limited to transactions outlined in the current amendment as written.

We thank you for the opportunity to provide our comments on the proposed ASU and would be pleased to discuss them further at your convenience.

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Sincerely,

A handwritten signature in blue ink, appearing to read "Gerald Lyons", is positioned above the printed name.

Gerald Lyons
Executive Vice President and Chief Financial Officer