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April 26, 2018

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

File Reference No. 2018-230

Dear Ms. Cospers:

RSM US LLP appreciates the opportunity to comment on 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* (the “proposed Update”). Overall, we support the Board’s efforts to address the treatment of a customer’s accounting for these implementation costs given the existing diversity in practice. We believe the proposed Update will significantly reduce this diversity in practice. Provided below for your consideration are our responses to the “Questions for Respondents” on which specific comment was requested, along with comments and suggestions on other matters in the proposed Update.

Responses to Questions for Respondents

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 agree that the eligible implementation costs should be capitalized using the guidance on internal-use software in Subtopic 350-40 and recognized in the same line item in the income statement as the related hosting arrangement fee over the term of the hosting arrangement. We believe this will reduce the diversity in practice that exists today and is a practical approach to addressing this issue.

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 agree with the amended definition of *hosting arrangement* in the proposed Update as hosting arrangements typically do not include a software license that meets the criteria in ASC 350-40-15-4A. As a result, we believe replacing “the licensing of software products” with “accessing and using software products” in the definition is appropriate.

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 don’t believe any additional guidance is necessary to address whether the amendments in the proposed Update apply to arrangements with minor hosting.

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

We are not aware of significant practice issues today in determining the project stage in Subtopic 350-40 for software obtained for internal use. Because we think the circumstances will be similar to that for hosting arrangements, we believe the guidance can be consistently applied.

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 believe applying the impairment model in Subtopic 350-40 to implementation costs of a hosting arrangement that is a service contract is a reasonable approach. We would expect these costs would be grouped with other assets and tested at a higher level (asset group) under Subtopic 350-40. While this could potentially result in delayed impairment of the implementation costs as compared to a test with the implementation costs as the unit of account, this is consistent with results that could occur when testing impairment of other assets grouped together as an asset group and not tested for impairment individually. This potential impairment delay would be mitigated to an extent by the requirement to periodically reassess the period over which the costs are amortized.

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 Update other than the proposal to quantitatively disclose the implementation costs that were expensed during the period as noted within ASC 350-40-50-2(c). We don't believe a quantitative disclosure of implementation costs relating to cloud computing arrangements that were expensed during the period (i.e., not capitalized) would provide decision-useful information to users of financial statements. Further, we believe this requirement may be onerous for preparers as they may not currently track these particular expenses separately from all other information-technology-related expenses.

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?*

Other than as noted in our response to Question 6, we believe the disclosures included in the proposed amendments should also be applied to internal-use software and hosting arrangements that include a software license.

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 an entity should be permitted to elect either prospective or retrospective transition based on their particular facts and circumstances. We would not recommend requiring a retrospective approach as some entities may not have the required records necessary to determine when their project implementation moved from one stage to another.

In regard to adopting the proposed Update on a prospective basis, we believe entities should be given the option to apply the transition requirement to either each hosting arrangement, each module or component within a hosting arrangement or costs of the hosting arrangement, with required disclosure of the option selected. However this election should be limited in cases in which the

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functionality of a module or component is entirely dependent on the completion of other modules or components as discussed in ASC 350-40-35-15 in the proposed Update.

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 agree that an entity should be required to provide the transition disclosure requirements specified in the proposed Update

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?*

We believe the amount of time necessary to implement the proposed Update will not be significant if entities are permitted to elect either a prospective or retrospective adoption, as included in the proposed ASU. However, if the proposed ASU is modified to require retrospective adoption, the time necessary to implement will vary depending on an entity's particular facts and circumstances. For those entities with limited hosting arrangements, we expect the proposed Update would require little time to implement regardless of the transition requirement. For those entities with numerous significant hosting arrangements, it could potentially take some time to gather all information necessary to analyze and implement the proposed Update if adoption was required on a retrospective basis, particularly relating to the evaluation of internal costs for capitalization.

We believe early adoption should be permitted as many entities may be prepared to adopt on an expedited basis, and the proposed Update would be an improvement to financial reporting. We also think entities other than public business entities should be given an additional year to adopt the proposed Update consistent with other ASUs that have been issued in the recent past.

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 believe the proposed amendments should be limited to the scope included in the proposed Update, especially given the Alternative Views expressed in the proposed Update and the expected time it would take to complete a broader project. However, we would encourage the Board to perform further research to determine whether a separate broader scope project to address these types of costs in other transactions is warranted.

Other Comments and Suggestions

Overview and Background (proposed ASC 350-10-05-3d)

For consistency with the remainder of the proposed Update, we suggest replacing "hosting arrangements obtained for internal use" with "hosting arrangements that are service contracts," such that proposed ASC 350-10-05-3d would read as follows:

"d. Internal-Use Software—Subtopic 350-40 provides guidance on the accounting for the cost of computer software that is developed or obtained for internal use and hosting arrangements that are service contracts."

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Determining the term of the hosting arrangement that is a service contract (proposed ASC 350-40-35-12)

The proposed Update notes that the term of a hosting arrangement is the period over which capitalized implementation costs should be amortized. When determining the term, an entity must consider whether there are periods covered by an option to extend an arrangement that an entity is reasonably certain to exercise or periods covered by an option to terminate an arrangement that an entity is reasonably certain not to exercise. To encourage consistency in application of this new guidance for determining the period of amortization, we believe the proposed Update should provide additional guidance on factors or indicators to consider when evaluating whether exercise or non-exercise of an option is “reasonably certain.”

Accounting treatment for the right to use the software embedded in the hosting arrangement

As noted in paragraph BC9 of the proposed Update, the Task Force considered and ultimately rejected an alternative that would have resulted in recognizing an asset for the right to use the software embedded in the hosting arrangement. The rejection of this alternative results in different accounting treatment for internal-use software as compared to the software embedded in hosting arrangements that are service contracts. While we agree with the conclusions reached, we believe the codification amendments in the proposed Update should explicitly address the accounting treatment for the software embedded in the hosting arrangement to note that the related fees should be expensed as the service is performed.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Brian H. Marshall at 203.905.5014.

Sincerely,

RSM US LLP

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