



April 27, 2018

Technical Director  
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Financial Accounting Standards Board  
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Technical Director:

Exelon Corporation (Exelon) appreciates the opportunity to comment on the Financial Accounting Standards Board's (the Board) Exposure Draft of the Proposed 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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*.

Exelon is a Fortune 100 energy company with the largest number of utility customers in the U.S. Exelon conducts business in 48 states, the District of Columbia and Canada and had 2017 revenue of \$33.5 billion. Exelon's six utilities deliver electricity and natural gas to approximately 9 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through its Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO and Pepco subsidiaries. Exelon is one of the largest competitive U.S. power generators, with more than 35,168 megawatts of nuclear, gas, wind, solar and hydroelectric generating capacity comprising one of the nation's cleanest and lowest-cost power generation fleets. The company's Constellation business unit provides energy products and services to approximately 2 million residential, public sector and business customers, including more than two-thirds of the Fortune 100.

Exelon supports the Board's objective of providing specific and clear guidance on the accounting for costs of implementation activities performed in cloud computing arrangements to address the current diversity in practice. We believe that the proposed ASU appropriately addresses the diversity in the accounting for implementation costs and provides appropriate recognition of the economic value generated when such costs are incurred. We have also identified two areas in which we believe the proposed ASU could be further improved to benefit both preparers and users of financial statements. Accordingly, we urge the Board to adopt this guidance as proposed except for the following two modifications:

- Exelon agrees that eligible implementation costs of a hosting arrangement that is a service contract should be capitalized using the guidance on internal-use software and amortization of such capitalized costs should be recognized in profit or loss over the term of the hosting arrangement as defined in this proposed update. However, we believe that the presentation of the amortization should be consistent with the presentation of the amortization of other intangible assets capitalized under this topic with the ability to classify such costs as amortization expense for consistency. In addition, we believe the amortization expense presentation would be consistent with the treatment of other cost deferral assets recognized under U.S. Generally Accepted Accounting Principles. For instance, the amortization of regulatory assets recognized under ASC 980 *Regulated Operations* is commonly presented in amortization expense rather than operating and maintenance expense, which is typically the line item where the costs would have been presented had they not been eligible for deferral as a regulatory asset.

As further support for the amortization expense presentation, it is possible that the costs of the cloud computing contract may include components not reported in the same line item. For instance, sales/local tax could be applicable to either a component of the implementation cost or to the fee

associated with hosting arrangement. In this case, it would be more appropriate to consolidate the presentation of all costs as amortization expense rather than bifurcating the individual components or reporting all costs within one component in future periods.

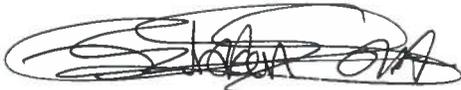
- We do not believe the additional disclosures required under the proposed ASU are consistent with the objective of the Board's disclosure framework project to provide more relevant disclosures that investors and other users will find useful. Generally, there would not be significant judgment in determining implementation costs incurred for internal-use software and cloud computing arrangements that are subject to capitalization given the current guidance on software capitalization in 350-40 is fairly prescriptive. In addition, the proposed disclosure requirements do not convey information about conditions that may affect entities' future cash flows nor do they necessarily provide information that will allow financial statement users to understand the impact of capitalized implementation costs on entities' future results of operations. For example, the proposed requirement to disclose costs expensed or capitalized in a particular period may not necessarily be predictive of costs that will be expensed or capitalized in the future. Therefore, we recommend removing the proposed disclosure requirements in any final standard.

If the Board were to require the additional disclosures as proposed in a final standard, Exelon does not believe the requirements should apply to internal use software capitalized under subtopic 350-40. Software capitalized under 350-40 may not be as comparable by component to hosting services, and therefore may cause confusion and inconsistencies in disclosure. For instance, internal use software may include development of the application itself, which although representing an upfront cost, is not necessarily comparable to implementation costs incurred in a hosting service. Application of this disclosure to previously capitalized internal use software could be misleading to the reader as they compare to amounts disclosed for hosted solutions, and result in its application being counterproductive to the goals and objectives of this proposed guidance in addressing the diversity in practice.

Finally, Exelon also strongly encourages the Board to consider a future project to identify an accounting model that would accommodate recognition of the economic value of hosting arrangements themselves as assets. The technological and product-delivery aspects of cloud computing arrangements continue to advance and provide incremental value to companies that are on par with the benefits of similar systems and solutions that are purchased rather than contracted. Certain arrangements that serve the same purpose and have the same underlying economic value can currently receive different accounting treatment based solely on whether or not the product meets the definition of a service contract. Therefore, we again encourage the Board to consider a future project related to the recognition of the economic value of hosting arrangements as assets.

We appreciate your consideration of these comments. If you have questions or would like to discuss this matter further, please contact me at 312-394-8183 (or [fabian.souza@exeloncorp.com](mailto:fabian.souza@exeloncorp.com)) or Alexander P. Scarpelli, Director of Accounting Policy and External Financial Reporting at 630-437-2252 (or [alexander.scarpelli@exeloncorp.com](mailto:alexander.scarpelli@exeloncorp.com)).

Respectfully submitted,



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