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Via Email to director@fasb.org

Re: File Reference No. 2018-230

Dear Ms. Cospers:

Grant Thornton 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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements* (a consensus of the FASB Emerging Issues Task Force). We support the Board’s objective to provide guidance to account for implementation costs incurred in a cloud-computing arrangement that does not include a software license. We believe that the proposed guidance will not only eliminate diversity in practice in this area, but will also allow entities to reflect the economics of their transactions in the financial statements.

Our responses to the questions for respondents are as follows.

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 eligible implementation costs of a hosting arrangement should be capitalized using the guidance on internal-use software. We also agree that the capitalized cost should be amortized over the term of the hosting arrangement and should be presented in the same line item in the statement of income as the fee associated with the hosting arrangement. Further, we agree that the economics of a transaction in which an entity obtains a license to software and the economics of a transaction in which it obtains access to software through a hosting arrangement are the same, and that the costs incurred to obtain a license, to develop internal-use software, and to implement a hosting arrangement therefore should be accounted for in the same manner.

We acknowledge that the proposed guidance does not align the accounting for the unpaid license fee and unpaid hosting fee. The current guidance in ASC 350-40-25-17 requires the unpaid license fee to be recognized as a liability upon the acquisition of a license, whereas the unpaid hosting fee will be recognized as an expense when incurred. We do not believe, however, that this difference should stop the Board from finalizing the proposed guidance. We recommend that the Board separately consider providing guidance on the types of service arrangements that result in an entity recognizing a liability for an unpaid fee.

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 a hosting arrangement and have no other concerns with this definition.

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 do not believe that additional guidance is needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement.

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 believe that the FASB should reconsider, as part of this project, whether the approach to identify capitalizable costs in ASC 350-40 should be based on the project stage. The methods of developing internal use-software have evolved since the guidance in ASC 350-40 was issued. Currently, many companies employ agile software development whereby multiple project stages are undertaken simultaneously. Accordingly, projects may reach a certain stage and, due to various developmental issues, return back to a previous stage, which creates complexities in applying the guidance in Subtopic 350-40. As a result, we believe that the guidance to determine which costs should be capitalized and which should be expensed should be based on the type of activity rather than on a project's stage, similar to how the guidance in ASC 720-45, *Other expenses: Business and Technology Reengineering* is based on type of activity rather than a project's stage.

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 do not believe that an impairment model that is different from the impairment model included in Subtopic 350-40 should be applied to implementation costs of a hosting arrangement. We feel that the impairment model included in ASC 360-10-35, *Property, Plant, and Equipment* is an appropriate impairment model for intangible assets, including capitalized implementation costs of a hosting arrangement that is a service contract.

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?

Although we agree with the disclosures included in the proposed amendments for a hosting arrangement that is a service contract, we ask the Board to consider amending the disclosure requirement to provide a qualitative and quantitative description of the amortization period, as shown below. We believe that any “significant” judgment and assumption used to determine the amortization period would already be provided in accordance with the disclosure requirement in ASC 350-40-50-2(b).

~~A qualitative and quantitative description of the period over which the implementation costs are recognized as an expense in the income statement.~~

We ask the Board to clarify how some of the proposed disclosures should be provided for internal-use software and software licenses. For example, how should an entity disclose the terms and conditions of software developed for internal-use since there are generally no terms and conditions for internal-use software. On the other hand, if an entity acquires a software license, what are the terms and conditions that should be disclosed?

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?

We agree that the disclosures included in the guidance should be applied to internal-use software, hosting arrangements that include a software license, and hosting arrangements that are service contracts.

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 agree that an entity should be permitted to elect either prospective transition or retrospective transition. Even though allowing multiple transition approaches may result in non-comparability, we believe it is preferable to allow entities to choose a transition approach that is cost effective. This choice will allow entities that have information available to apply the guidance retrospectively to appropriately reflect the economics behind the implementation costs in their financial statements, and also allow entities that do not have readily available information to apply the guidance on a retrospective basis to apply the guidance prospectively.

If an entity elects prospective transition, we believe that the guidance should be applied to each hosting arrangement instead of each module or component within a hosting arrangement. In our view, the unit of account, rather than each module or component in the contract, should be the “contract,” and the same accounting should apply to all the components of the contract.

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 entities should provide transition disclosures upon adoption of the guidance as specified in the proposed amendments. The guidance should clarify, however, which quantitative disclosures should be provided if an entity elects to adopt the guidance on a retrospective basis, by either referring to the quantitative disclosure requirements in ASC 250-10-50-1(b), *Accounting Changes and Error Corrections* and ASC 250-10-50-3 or explicitly stating in paragraph ASC 350-40-65-3 which quantitative guidance should be disclosed.

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 that early adoption of the guidance should be permitted, since it will allow both public business entities and private companies that have the necessary information readily available to adopt the guidance. We also believe that the effective date of the final guidance for private companies should be one year after the effective date for public business entities, consistent with the Private Company Decision Making Framework (PCDMF). We agree with the discussion in the PCDMF that states a later effective date will allow private entities to rely on the implementation experience of public business entities and give them time to evaluate the effects of the new guidance on their financial statements.

With regard to the time required to implement the proposed amendments, we defer to preparer respondents to provide feedback.

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 that the proposed amendments should be limited to transactions within the scope of the proposed amendments. However, we recommend that the Board consider addressing the broader issue of accounting for costs incurred to obtain service contracts in a separate project. If a separate project is added to the Board's agenda, one issue to consider would be accounting for costs incurred in a lease arrangement that includes both lease and non-lease elements.

Additional drafting suggestions

Consistent terminology with ASC 606

We suggest that the guidance in ASC 350-40-30-4 that requires entities to allocate the cost among individual components of a contract based on the objective evidence of fair value should be made consistent with the guidance in ASC 606, *Revenue from Contracts with Customer* which requires allocation based on stand-alone selling price of various components of a contract. Although the notion of *objective evidence of fair value* is consistent with the guidance in ASC 985-605, *Software: Revenue Recognition* (which includes implementation guidance to apply this notion), the guidance in ASC 985-605 is superseded by the revenue guidance in ASC 606. Therefore, we believe making the allocation objective consistent with the guidance in ASC 606 will not only align the allocation objective, but will also provide entities with relevant application guidance, which otherwise would not be available.

Other

We suggest that the Board consider the following edit to the guidance in paragraph ASC 350-40-45-1:

An entity shall present the amortization of implementation costs described in paragraph 350-40-35-11 in the same line item in the statement of income as the expense for fees for the associated **hosting arrangement**.

We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, 312 602 8084, rahul.gupta@us.gt.com, or Lynne Triplett, Partner, 312 602 8060, lynne.triplett@us.gt.com.

/s/ Grant Thornton LLP