

April 30, 2018

Jeffrey D. Mechanick
Assistant Director-Nonpublic Entities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2018-230

Dear Mr. Mechanick,

Independent Sector and TechSoup appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU) on cloud computing implementation costs. Together we represent the interests of millions of charitable and philanthropic organizations, and we support common sense rules and regulations that better position the social sector to carry out its critically important work in communities across the globe. This is precisely how we classify the changes described in the proposed ASU.

We believe 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, and presented in the same line item in the income statement as the fee associated with the hosting arrangement. The proposed ASU brings alignment to the treatment of implementation costs for cloud computing arrangements (CCAs) with the treatment of implementation costs for other internal use software, and removes the distinction between the treatment of implementation costs for CCAs with and without licensing arrangements. The implication is that nonprofits will be able to spread out implementation costs across the expected life of the CCA, with a portion hitting their income statement each year rather than a large operating expense in the year of implementation. However, because the amortization must be shown on the same line as the fees on the income statement, the costs will not stand out on the income statement as being a non-cash expense. Likewise, hosting fees would still be considered operating expenses for CCAs without a licensing component.

If adopted, the proposal would provide consistency, and consequently, result in more meaningful information being made available to the users of nonprofit financial statements. Current treatment makes it difficult for users to fully understand nonprofit operations. For some organizations, large implementation costs will appear on income statements in a single year. On the other hand, for some organizations the language in CCAs, or technical differences in the delivery or type of service but not the organization's use of a service, cause costs to be allocated over a period of years. The proposed ASU aligns all types of software, ensuring that the total costs are spread across the estimated life of the system.

Furthermore, we believe current rules have hindered technology adoption by nonprofits and caused organizations to under-invest in essential infrastructure, because implementation costs in many cases would be considered part of an organization's "overhead expenses." Despite deep flaws with such an approach, foundations and individual donors sometimes use rigid overhead thresholds to artificially rank organizational effectiveness. Consequently, organizations could be left to choose between investment in technology infrastructure and minimizing their overhead rate. And in instances where funders place strict limits on the percentage of grant funds that can be used to pay for "overhead," nonprofits essentially have those decisions about technology strategy made for them. Technology is an increasingly important part of how the social sector delivers impact, and organizations without requisite capacity can simply be inefficient, or in the worst cases, put donors, funders, and communities at risk. We believe that from an accounting standpoint it makes sense to treat organizational investment in technology in a manner consistent with its strategic importance.

We appreciate the opportunity to provide input on this important matter, and respectfully recommend that the Proposed Accounting Standards Update on cloud computing implementation costs be adopted.

Sincerely,
Independent Sector
TechSoup