



Timothy Golden
SVP, Controller
Global Finance

2018-230
Comment Letter No. 39
Capital One Financial Corp
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April 30, 2018

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

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

File Reference No. 2018-230

Dear Chairman Golden:

Capital One Financial Corporation (“Capital One”) is a diversified financial services company with over \$300 billion in assets that offers a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. We appreciate the opportunity to provide comments on the Exposure Draft, *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*. Increasingly, software providers are shifting towards hosting arrangements and we applaud the Board in its efforts to ensure consistency by preparers in the application of GAAP for this activity. Furthermore, we are supportive of the Board’s efforts to match the expense recognition of implementation costs with the benefits that they relate to.

Scope of the Exposure Draft

In the proposed update, the Master Glossary is amended to define a Hosting Arrangement as follows:

In connection with accessing and using software products, an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor’s or a third party’s hardware; and the customer accesses and uses the software on an as-needed basis over the internet or via a dedicated line.

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With the proliferation of cloud-computing in the marketplace, hosting arrangements have increased both in number and complexity. In many cases, cloud computing arrangements include not only the access to vendor-developed software, but also to vendor servers, both as a means for secure data storage, but also as a location to host internally-developed software. Furthermore, it is common for contractual arrangements between an institution and vendor to encompass multiple arrangements within the same contract. An institution will incur the same implementation costs addressed by the exposure draft whether it is for access to software, access to hardware or for internally-developed software to be hosted on a third-party's server. We encourage the Board to consider broadening the definition of Hosting Arrangement so that these similar activities are accounted for in a consistent manner.

Identification of Project Stage

In today's complex cloud computing arrangements, work is often executed in an Agile framework, whereby delivery is made once a minimum viable product is completed, rather than in the traditional Waterfall framework, whereby implementation work is fully complete prior to software deployment. As such, the current Internal-Use Software standard is not aligned with the manner in which implementing cloud computing arrangements is often conducted in the market place. We ask the FASB to consider a broader project to address the current accounting model in ASC 350-40 to better align with development activities.

Amortization Period

We disagree with the requirements provided in the Exposure Draft for subsequent measurement to amortize the "Implementation Costs of a Hosting Arrangement That Is a Service Contract" over the term of the associated arrangement, and believe that amortizing those costs over their useful life is a more faithful representation of the investment made by institutions, more operationally feasible, and more aligned with the nature of cloud computing hosting arrangements. It is a common practice for the service model contracted by hosting arrangements to define product usage as the key driver of the contractual term, rather than pre-defined contractual maturity dates. Furthermore, given the continued growth and evolution in cloud computing based hosting arrangements, it is a common practice for frequent and significant renegotiations of these service contracts, which creates operational complexity in applying the requirements of paragraph 35-12: "the noncancelable term of the hosting arrangement plus...(a) Periods covered by an option to extend the hosting arrangement if the entity (customer) is reasonably certain to exercise that option."

Disclosures

If the final ASU maintains the requirement to amortize the "Implementation Costs of a Hosting Arrangement That Is a Service Contract" over the term of the associated arrangement, we strongly recommend the Board to reconsider the requirement of paragraph 50-2 (d), specifically for a quantitative description of the period over which the implementation costs are recognized. We do not

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publicly disclose the contractual terms (including the non-cancelable period plus options to extend we expect to exercise) of our hosting arrangements as that would put our organization in a competitive disadvantage as it relates to negotiating future, similar arrangements. If the amortization period (and resultant disclosures) are reflective of the useful life of the asset, we would not object to the requirement and acknowledge that information would be beneficial to financial statement users.

Adoption and Transition

From an adoption date perspective, we note that banks are currently working to adopt a number of significant changes in accounting, including ASU's on Leasing, Credit Losses, and Accounting for Hedging Activities. Furthermore, as noted above, we encourage the Board to consider a project to better align the accounting model in ASC 350-40 with current software and hosting implementation activities. As a result, we believe the adoption of this ASU by public companies should occur in fiscal years beginning after December 15, 2019, with an option for a company to early adopt. From a transition perspective, we are supportive of allowing companies the option to elect the new guidelines on either a prospective or retrospective basis, as the costs to implement the guidance on a retrospective basis may in certain circumstances outweigh the benefits to financial statement users.

Sincerely,

/s/ Timothy Golden

Timothy Golden
Controller
Capital One Financial Corporation