

April 30, 2018

Financial Accounting Standards Board  
Technical Director, File Reference No 2018-230  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Via e-mail to: Director@fasb.org

**RE: EXPOSURE DRAFT MARCH 1, 2018 - PROPOSED ACCOUNTING STATEMENTS UPDATE –  
INTANGIBLES- GOODWILL AND OTHER - INTERNAL-USE SOFTWARE (SUBTOPIC 350-40) –  
CLOUD COMPUTING ARRANGEMENTS**

Ladies and Gentlemen:

The Accounting Principles and Auditing Procedures Committee (“Committee”) is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of members who are affiliated with public accounting firms of various sizes as well as members in both industry and academia. The majority of the members of the Committee primarily serve small and medium sized clients. The Committee has reviewed and discussed the above-mentioned Exposure Draft. The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the Organizations with which the Committee members are affiliated.

First the Committee thanks the FASB for the opportunity to comment on this Exposure Draft.

The Committee has reviewed the Exposure Draft as detailed above. The Committee is overall supportive of the work of the FASB.

The members of the Committee mainly are preparers, auditors and advisors to small and medium sized entities.

#### General Comments

Members of the Committee have expressed some concerns with the Exposure Draft. The main concerns the Committee has are with the amount of time and effort needed to implement the proposed Update and some of the disclosure requirements.

See the Committee answers below for greater clarity on the above.

## Response to Specific Questions

### 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?

**Response:** The Committee agrees that eligible implementation costs should be capitalized using the guidance of internal-use software. However, as these proposed changes, in essence, view the software portion of a hosting arrangement as that of traditional on premise internal-use software, we do not see a need to create separate presentation guidance.

### 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?

**Response:** The Committee agrees.

### Question 3

Is additional guidance needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement?

**Response:** No, The Committee believes the revised definition of a hosting arrangement sufficiently limits the scope of this guidance.

### Question 4

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

**Response:** Yes, The Committee believes the guidance for determining the project stage can be consistently applied to a hosting arrangement, as we do not believe there are presently significant differences in implementation approaches that would create confusion as to the project stage of a hosting arrangement.

### 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?

**Response:** No, The Committee believes the current impairment model is equally applicable to hosting arrangements.

### 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?

**Response:** The Committee does not believe the additional disclosures in 350-40-50-2 are necessary, nor does the Committee feel that the additional disclosures would add value to the users of the financial statements. The Committee contends that the existing disclosures required in Topics 235 and 275 along with Subtopics 360-10 and 730-10 should be considered sufficient for the intended purposes of the financial statement users.

### 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?

**Response:** The Committee does not believe the additional disclosures as proposed in 350-40-50-2 add value to financial statement users when applied to internal-use software and hosting arrangements that include a software license, and that the existing disclosures required in Topics 235 and 275 along with Subtopics 360-10 and 730-10 are sufficient.

However, the Committee does feel that the nature of hosted software arrangements are similar, whether or not a license is included, therefore the disclosure requirements should be the same no matter what the final resolution of this proposed Update is.

### 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?

**Response:** The Committee believes an entity should be permitted to elect either prospective or retrospective transition with prospective application applying to costs occurring after the effective date instead of limiting application to contracts entered into, renewed, or materially modified after

the effective date, as to alleviate potential timing issues involving contracts entered into prior to the effective date, where all, or a majority of the costs occur after the effective date, and retrospective application is either cost or resource prohibitive.

### 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.

**Response:** Yes, The Committee believes an entity should be required to provide the proposed transition disclosures.

### 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?

**Response:** The Committee believes the amount of time that would be necessary to implement the proposed amendments will vary significantly depending on the approaches available.

The time to implement will be considerably longer if retrospective application is required, and in turn, will be much less if the prospective application option remains, as retrospective application is expected to involve significantly more time to obtain and process the necessary information for application.

If the prospective application option remains available, the Committee believes the additional flexibility that early adoption would provide, could be very helpful to entities that would have a difficult time retrospectively applying these amendments.

The Committee sees no reason why early adoption should not be permitted.

As is consistent with recent pronouncements, the Committee recommends a one year delay of the effective date for non-public entities as appropriate.

### 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?

**Response:** No, The Committee believes further application beyond the scope identified in this proposed update would only cause to unnecessary delay this proposal and is better served as a

separate discussion and evaluation.

Thank you for allowing us the opportunity to comment on this exposure draft.

Very truly yours,



Philip B. Pacino, CPA, Chairman  
Accounting Principles and  
Auditing Procedures Committee  
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