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April 30, 2018

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

Delivered Electronically

RE: File Reference No. 2018-230, 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*

T-Mobile US, Inc. is pleased to have the opportunity to comment on the Financial Accounting Standard Board's exposure draft issued on March 1, 2018 related to 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* (the "proposed Update"). The proposed Update is of particular interest to us as we are a leading provider of wireless communication services and make substantial investments in software solutions on a recurring basis, including software purchased or developed for internal use and software hosted by third parties.

We support the general principle in the proposed Update that implementation costs for a software solution should be capitalized regardless of whether the software is purchased, internally developed or hosted. We believe the proposed Update achieves the primary goal of alignment amongst practitioners for capitalizing implementation costs incurred for a hosting arrangement that is a service contract.

We do not, however, agree with the distinction in the proposed Update for the classification of implementation costs in the income statement nor with the proposed disclosure requirements. Please see our responses to the specific questions below.

If you have any questions concerning our comments, please contact Dan Drobac at 425-383-4957 or Adam Nelsen at 425-383-5950.

Sincerely,   Sincerely,

Dan Drobac   Adam Nelsen
VP, Controller   Director, Accounting Policy
T-Mobile US, Inc.   T-Mobile US, Inc.

Feedback on 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?

We agree that eligible implementation costs of a hosting arrangement that is a service contract should be capitalized using the guidance on internal-use software and recognized in profit and loss over the term of the hosting arrangement.

We do not agree, however, with the proposed amendment to classify the expense in the same line item as the fee associated with the hosting arrangement. In our view, the existing guidance in paragraph 350-30-45-2[1] is appropriate for the classification of implementation costs associated with a hosting arrangement. From our perspective, the costs associated with both the implementation of internal-use software as well as hosting arrangements represent investments in software assets. We believe that a separate classification requirement for hosted software would add complexity and is not aligned with the principle that implementation costs should be treated similarly for internally developed software and hosted software arrangements. We also do not believe that distinguishing these costs is important to the users of our financial statements.

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 are supportive of amending the definition of a hosting arrangement in the Master Glossary; however, the proposed amendment is quite broad and could be applied to many outsourcing arrangements where an entity uses a vendor's software products.

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 additional guidance is needed to determine whether the amendments in the proposed Update apply to arrangements that include a minor hosting arrangement. The proposed Update was the result of a limited scope project to address the accounting for implementation costs in a cloud computing arrangement accounted for as a service contract, a growing and pervasive issue that needs immediate attention. The proposed Update achieves this objective.

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?

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[1] 350-30-45-2 The amortization expense and impairment losses for intangible assets shall be presented in income statement line items within continuing operations as deemed appropriate for each entity.

We believe the guidance for determining the project stage in Subtopic 350-40 can be consistently applied to a hosting arrangement as the activities performed to develop a hosting arrangement typically are the same or similar to the activities performed for internal-use software projects currently within the scope of ASC 350-40. However, we do think the Board should consider updating the guidance for changes in software development processes that have occurred over the last 20 years. For example, many software development projects use an "agile" development model with iterative cycles that include both design and development, rather than linear ("waterfall") project stages that progress from design to development.

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 believe that an entity should apply the same impairment model to implementation costs of a hosting arrangement that is a service contract as is used for other software development costs capitalized under Subtopic ASC 350-40. As both types of costs were capitalized under the same principles in Subtopic 350-40, we do not believe there is a conceptual basis to evaluate those costs differently when assessing for impairment.

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?

We have significant concerns with the proposed disclosure requirements. For example, paragraph 350-40-50-2(a) proposes a general description of the terms and conditions of the software acquired. It is unclear what is meant by "terms and conditions", for example, is this referring to contractual terms and conditions, and if so which elements? We think a more appropriate disclosure would be a general description of the nature of the software acquired.

With respect to paragraph 350-40-50-2(c), it is unclear what is meant by the "quantitative description of the implementation costs that were expensed." Is this referring to the subsequent recognition of implementation costs that were capitalized, or implementation costs that did not meet the criteria for capitalization? We would have significant concerns with disclosing implementation costs that were expensed as we believe the costs companies would incur to develop processes to identify and track such costs would be very significant and outweigh the benefits.

We highlight paragraph BC19 of the proposed Update in which the Task Force does not anticipate that entities would incur significant costs as a result of the amendments in the proposed Update. We disagree with this perspective and point out that there are significant costs to comply with the existing requirements in Topic 350 for internal-use software, and that expanding the capitalization guidance to hosted arrangements and to the non-capitalized expense elements will add incremental costs for each software project that meets the scope in the proposed Update. These costs include the tracking of internal and external labor, review of vendor agreements, documentation of project stages and software development activities, among many others.

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?

Subject to our comments in response to Question 6 above, we believe that any amendments to the disclosure requirements should be applied to both internal-use software and hosting arrangements that include a software license. We believe that financial statement users would benefit from consistency in disclosure about software arrangements, no matter whether the costs are related to software developed internally, hosting arrangements accounted for as a license, or hosting arrangements accounted for as a service contract.

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 are supportive of providing entities an accounting policy election to adopt the provisions of the proposed Update on a prospective or retrospective basis. If an entity is provided a choice of transition methods, we believe that the transition method selected should be applied consistently to all hosting arrangements within the scope of the proposed Update.

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.

An entity should be required to provide the transition disclosures specified in the proposed Update. We think that those disclosures will be helpful for a financial statement user's understanding of how the proposed Update affects the financial condition and results of operations of the adopting entity.

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?

Although the process for capitalizing implementation costs in hosted arrangements can leverage processes already in place for capitalizing internal-use software, the time and effort to identify arrangements within the scope of the proposed guidance, to identify and track internal and external costs in the application development stage, and to train personnel involved in software development projects will be significant. We suggest that public companies be required to adopt the new guidelines no earlier than in fiscal years beginning after December 15, 2019. This timeline, we believe, would have to be extended should the requirement to disclose implementation costs expensed related to these arrangements persist as the time and effort to implement new processes and systems to track the non-capitalizable portion of such costs would be very significant.

We also support the ability for an entity to early adopt the new guidelines.

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?

At this time, we do not support applying the principles in the proposed Update more broadly.