

April 30, 2018

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via e-mail – director@fasb.org

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*

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We support the efforts of the Financial Accounting Standards Board (“Board”) to provide additional guidance to entities on the accounting for implementation costs paid by a customer in a cloud computing arrangement that is accounted for as a service contract. From our experience, diversity in practice has developed related to this topic given the lack of explicit guidance. We believe the proposed guidance will provide greater consistency in the accounting for implementation costs paid by a customer in a hosting arrangement accounted for as a service contract.

Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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 1: Yes, 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. From our experience, there has been diversity in practice in how these implementation costs are treated given the lack of guidance on the topic. We believe that having a consistent model to account for implementation costs of cloud computing arrangements that are accounted for as a service contract and hosting arrangements that include a software license will improve the comparability of financial statements. While some may question whether these costs meet the definition of an asset, we believe capitalizing these costs is consistent with the treatment of upfront costs in other areas of GAAP. Specifically, we believe the guidance in Subtopic 340-40 on costs to obtain a contract is conceptually similar to the accounting for implementation costs in a hosting arrangement. The Task Force discussed this issue in detail in the Basis for Conclusions and we support the conclusion reached on this topic.

We also agree that the implementation costs of a hosting arrangement should be recognized in profit or loss over the term of the hosting arrangement and presented in the same line item as the fee associated with the hosting arrangement.

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 2: We agree with the proposed update to the definition of *hosting arrangement*. The current definition can result in confusion as it can be interpreted to only apply to hosting arrangements that include an internal-use software license.

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 3: We do not believe additional guidance is needed to clarify 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?

Response 4: Yes, we believe the guidance for determining project stage can be consistently applied to a hosting arrangement. In our experience, the project stage guidance in Subtopic 350-40 can be applied to hosting arrangements because the project and related billing information provided by hosting vendors is typically detailed and transparent enough for an entity to appropriately determine the project 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?

Response 5: We believe entities should apply the impairment model included in Subtopic 350-40 to hosting arrangements that are service contracts. Because the same model is being used to determine which costs are eligible to be capitalized, we believe entities should apply the same impairment model to all hosting arrangements to help improve the consistency of financial reporting related to these costs.

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 6: No, we do not believe the disclosures included in the proposed amendments should be required for any internal use software or hosting arrangement. The proposed disclosures go well beyond the requirements for internal use software or any other recognized tangible or intangible asset. In the absence of any information from financial statement users indicating that these types of disclosures are needed, we do not believe the benefits of providing such information exceeds the cost of preparing the disclosures.

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 7: As described in Response 6, we do not believe the disclosures in the proposed amendments should be required for any internal use software or hosting arrangement.

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 8: Yes, we believe entities should be permitted to elect either prospective or retrospective transition. If an entity elects prospective transition, we believe the transition requirements should be applied to each hosting arrangement entered into, renewed, or materially modified after the effective date.

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 9: Yes, we believe an entity should be required to provide the transition disclosures specified in the proposed amendments.

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 10: As entities would likely have information on the implementation costs readily available, we do not believe a significant amount of time would be needed to implement the new standard. We believe that early adoption should be permitted, and we do not believe that entities other than public business entities would need additional time to apply the proposed amendments.

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 11: We do not believe the proposed amendments should be applied more broadly. When deliberating, the Task Force was focused on the specifics of the accounting for cloud computing arrangements. We believe that additional research and outreach would be required in order to determine if there would be any unintended consequences of applying this guidance more broadly than the scope of the proposed amendments.

However, we would support the Board performing additional outreach to evaluate whether a project should be added to its agenda to address the accounting for other service contracts with significant implementation costs. In addition, we would be supportive of the Board performing outreach to determine if a broader project should be added to its agenda related to the accounting for service and other executory contracts. From our experience, accounting for executory contracts is often analogized to the existing operating lease guidance in Topic 840, which will be superseded when Topic 842 becomes effective. With the elimination of the operating lease

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guidance, there could be more diversity in practice in evaluating whether and when entities should recognize assets and liabilities related to executory contracts.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@platemoran.com or (248) 223-3745.

Very truly yours,

PLANTE & MORAN, PLLC