

April 30, 2018

Submitted via email: [director@fasb.org](mailto:director@fasb.org)  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. 2018-230

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to the Proposed Accounting Standards Update *Intangibles-Goodwill and Other-Internal-Use Software* (Subtopic 350-40). The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by MOCPA's Board of Directors to submit comments on matters of interest to the society's membership.

Our committee, which consists of preparers, auditors, and academics had mixed views on the Board's proposal. In general, we agree that it is useful to clarify the accounting regarding the costs related to hosting arrangements. However, some of our members believe that the accounting issue is more appropriately addressed in a larger project considering not only hosting arrangements, but the accounting for all executory and service contracts. In particular, concerns were raised about the statement in paragraph BC9 that "initial outreach with users indicated that they generally preferred that implementation costs to be expensed as incurred and that they also preferred software and related implementation costs of internal-use software to be expensed as incurred." Those that believe the project should be revised to consider other types of executory and service contracts, and further clarify the relationship of the capitalization of costs to the conceptual framework, believe this statement indicates that further outreach is necessary before issuing a final standard to evaluate why users generally prefer expensing and whether the proposed solution will adequately meet the needs of financial statements users.

Aside from the above concerns, we generally agree that the Board's proposals will create greater consistency in practice and are generally understandable, operable, and auditable. Our responses to the question posed by the Board include considerations that we believe would be beneficial for the Board to consider if they maintain the existing scope of the project.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about the following comments. Please direct questions to Mark Winiarski, TIG Chairman, at [MWiniarski@CBIZ.com](mailto:MWiniarski@CBIZ.com).

Sincerely,



Mark Winiarski, CPA  
TIG Chairman



Mike Scanlon, CPA  
TIG Member



Jeff Antrainer, CPA  
TIG Member

**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:** We support creating consistency in the accounting for eligible implementation costs of a cloud-computing arrangement (CCA) that is a service contract. We believe capitalization of costs for CCAs using the guidance on internal-use software is understandable and operable.

1. We believe that the expense recognition timing of implementation costs should be harmonized across *all* CCAs – as the nature and anticipated benefit period of implementation costs are generally the *same* for a CCA in which a license is transferred as they are for a CCA accounted for as a service (all other things being equal) – and that harmonization can only occur by subjecting all CCA implementation costs to the same capitalization model;
2. Within the existing scope of the project we consider the deferred recognition of such costs to better reflect the underlying economic considerations of whether to invest resources in the implementation of a long-term CCA, which economic considerations are generally the same for a given CCA, irrespective of whether the CCA is accounted for as transferring or not transferring a license;
3. We anticipate that using the same capitalization model as that prescribed for internal-use software under Subtopic 350-40 will ease the cost and complexity of adopting the proposed Update, if codified, as many companies generally already have existing policies, processes and controls in place to account for internal-use software transactions (including CCAs that transfer a software license for accounting purposes). However, as we note below, many smaller private companies do not have experience capitalizing software costs and thus we believe non-public business entities should be provided a longer adoption period; and
4. We expect that financial statement users would benefit from the codification of explicit guidance in this respect given the present diversity in practice in accounting for such costs and the pervasiveness of using CCAs across industries and reporting entities.

However, we are concerned with the guidance included in proposed paragraph 350-40-45-1 that the amortization of deferred CCA implementation costs (for CCAs that are a service) (the “DCA”) must be presented in the same line item in the income statement as the fees for the associated hosting arrangement. Our rationale for this concern is that the improvements in consistency that are gained by treating what the proposal considers to be economically similar transactions (implementation costs associated with a CCAs that are a service and implementation costs of CCAs that

are a license) are decreased by having different income statement presentations. While not explicitly addressed in the proposed Update, by virtue of the proposed codification of this guidance to Topic 350, we have inferred that the deferred implementation cost asset would be characterized as an *intangible asset*, no different from an internal-use software asset (including the cost of implementation activities added to such assets, as applicable). As a result, the DCA (and underlying cash outflows) would be classified in a reporting entity's (1) balance sheet in the same manner as an internal-use software asset and (2) cash flow statement as an investing activity outflow. Accordingly, given the uniform presentation of the DCA with other internal-use software intangible assets across the balance sheet and cash flow statement, we object to the divergent presentation of DCA amortization in the income statement from that of other intangible assets, and propose that the Board consider amending the proposed Update to instead allow for consistent presentation. Alternatively, if it is not the Board's intent that a DCA should be characterized as an intangible asset, we believe that the Board should further explain the nature of the asset and codify explicit guidance related to its appropriate presentation.

**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:** No, we do not have any concerns with the definition, as amended.

**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, we believe that the assessment is best addressed by an analysis of materiality performed for each entity. Therefore, we do not believe that additional guidance in this respect is necessary.

**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, we believe that the guidance for determining the project stage as presently codified to Subtopic 350-40 can be consistently applied to 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; we believe considerations in the existing impairment model (i.e., that presently codified to paragraphs 350-40-35-1 through 35-3) are the same considerations that would be applicable to a CCA does not transfer a software license to

the end user. We did not identify any additional impairment considerations applicable to a CCA that is a service contract.

**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:** We generally agree with the disclosure requirements. However, we believe that if the income statement presentation for implementation costs for a CCA that is a service contract is aligned with other CCA contracts then it would not be necessary to provide users with a qualitative and quantitative description of the implementation costs expensed during the period, because the economically similar transactions related to implementation costs for all CCAs would be comparable across companies and consistent over time.

**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:** We believe the disclosures should be consistent between internal-use software and hosting arrangements that include a software license. The nature of the transactions is similar; therefore we believe the reporting and disclosure requirements should be similar.

Some of our members very strongly oppose the proposed disclosure requirement with respect to a *quantitative* description of the implementation costs that were expensed and capitalized during the period. Rather, we encourage the Board to maintain the current disclosure guidance in Subtopic 350-40-50 for the following reasons:

1. ASC 350-40-50 does not currently contain specific disclosure requirements, and instead refers users to other relevant guidance in U.S. GAAP by analogy for disclosure purposes. We believe that the application of the analogous disclosure requirements referenced in Subtopic 350-40-50 (e.g., Topic 275, Subtopic 730-10, Topic 235 and Subtopic 360-10) already provides sufficient information.
2. The Proposed ASU will serve to *reduce* diversity in practice in accounting for CCA implementation costs. Accordingly, we believe the additional disclosures are not needed because they will not be necessary to analyze results across different reporting entities (whose accounting practices will now conform).
3. While we believe this accounting issue is pervasive in its *existence* across reporting entities, we question whether the issue is pervasive in its *significance* across reporting entities. That is, the introduction of explicit, standalone disclosure requirements in this area will largely serve to increase disclosure overload for many companies for whom standalone disclosure

would not be necessary to sufficiently provide a user with decision-useful information regarding an entity's current and historical operating performance, financial position or future cash flow generation potential.

4. This requirement would be challenging to operationalize because it would require companies to capture a subset of costs that most companies don't currently distinguish separately from other internal use software costs on a project.
5. We question the cost-benefit, relevance and consistency of requiring companies to disclose additional quantitative information as it relates to implementation costs that are expensed. For example, ASC 360-10-50 generally does *not* require companies to disclose the spending related to PP&E that is expensed (e.g., expenditures for assets that are below capitalization thresholds, repairs and maintenance costs, etc.).
6. There is generally no other sub-class of fixed assets that requires such specific disclosures for related set-up costs. Accordingly, we believe it would be inconsistent to establish specific disclosure requirements under ASC 350-40, and do not believe there is more inherent risk or subjectivity related to such costs compared to any other fixed asset set-up cost that would warrant additional, targeted disclosure.
7. We believe that information related to the disclosure requirements in the Proposed ASU is generally *not* used by management to operate the business, which is often a very strong indicator of information that is, or is not, decision-useful. Consequently, we believe that providing this type of information to users that is not used by management only adds to cost of disclosure preparation and complexity of disclosure analysis, while providing little benefit to users.

**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:** Yes, an entity should be permitted to elect prospective or retrospective transition. Although, in general we believe retrospective transition would provide for greater consistency, we noted that it may be cost prohibitive or impossible to identify and capitalize costs for implementation costs that have been incurred in prior periods for which there may have been no reasons to separately track. In addition, it may be impractical to properly classify costs into the appropriate project stage when the project stage has not been contemporaneously determined.

If an entity elects prospective transition, the entity should apply the transition requirements to each module or component. We believe this approach will provide the most meaningful results.

**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, we agree entities should be required to provide the transition disclosures specified in the proposed amendment.

**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:** For entities generally familiar with the guidance on internal-use software and with existing control structures that assess project stage and the capitalization of costs, the implementation of the proposed amendments will not require significant amounts of time. For this reason, we believe that an adoption date of approximately one year from the date of issuance would be appropriate for public companies. We believe smaller private companies may not have developed material internal-use software in the past and lack familiarity with the process of determining project stages or the evaluation of which costs are capitalizable and will require additional time to implement. For this reason, we believe entities other than public business entities should be provided at least one additional year for adoption to implement the necessary changes to accounting systems and reports.

We believe that early adoption should be permitted.

**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:** We believe it would be appropriate to conduct further research and outreach, in particular focusing on understanding financial statement user needs, to determine if the proposed accounting should be more broadly applied. Some of our members noted that because of apparent inconsistency with the concept of an asset as noted in the alternative views it is not clear if other service contracts may have similar “implementation costs” or whether the required payments in an executory contract are similar in nature to the capitalizable implementation costs. They noted these issues would be more appropriately addressed in a broader project.