

May 3, 2018

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

File Reference No. 2018-230

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *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*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

In general, the Committee is supportive of the Board’s proposed changes.

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 the 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 eligible implementation costs incurred in a cloud hosting arrangement that is a service contact should be capitalized using the guidance of internal-use software. We also agree these expenses should be recognized over the term of the hosting arrangement including periods covered by an option to extend the hosting arrangement and presented in the same line item in the statement of income as the fee associated with the hosting arrangement. However, when determining eligible implementation costs, we believe an entity shall also consider capitalization of future hosting payments and recognize the related liability for the future payments. Future payments in a hosting arrangement is similar to a software license by a licensee in which the licensee is required to recognize the related liability. Requiring capitalize and recognition of the related liability of future hosting payments would be consistent with other guidance.

Response:

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: We agree with the amendment to remove licensing from the definition of hosting arrangement in the Master Glossary; however, we believe the definition may be too restrictive and therefore may inappropriately exclude certain situations. It was noted in some circumstances the software application is located on the customer’s hardware and the customer has no control over the application. For example,

certain regulatory restrictions require the hardware to be physically located at the hostee's site while the host provides the same service under an arrangement where the hardware is located at the vendor's premises. We recommend the definition be further clarified to define control over the software application versus the physical location. The amendments to the definition are necessary to address hosting arrangements that are not within the scope of leases, ASC Topic 842. If the arrangement is not a lease, then the revisions to the definition would place it within the scope of the proposed ASU.

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: We believe the guidance of existing GAAP is sufficient to determine if an arrangement meets the definition of a hosting arrangement under this ASU.

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: We believe the guidance of existing GAAP under subtopic 350-40 is sufficient and 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: We believe an entity should apply the impairment model that is included in Subtopic 350-40 as this would also be appropriate for 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: We do not believe the additional disclosures provide any value add to the users of the financial statements. Existing disclosure requirements under topics 275 and 235, and Subtopics 730-10 and 360-10 are sufficient for a hosting arrangement.

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: No. We believe the board deferred changing the disclosure requirements for a future project. We believe changing the disclosure requirements for internal-use software under this ASU may mislead constituents as this ASU is for hosting arrangements and constituents may not have reviewed this ASU for changes to current GAAP in internal-use software.

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: We believe the transition guidance of legacy SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, should be applied. This transition model would allow for prospective transition, and entities would be able to capitalize costs incurred for all projects not yet placed into production at the date of adoption. This would also obviate the need to define the unit of account for each hosting arrangement at transition, an exercise that would needlessly delay implementation of the proposed ASU. Nonetheless, we do believe an entity should have the option of retrospective transition.

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: We believe the entity should be required to provide transition disclosures if there is an option for the entity to select a transition method. However, we do not believe costs incurred prior to point of capitalization need to be disclosed, as this would provide no benefit to the users.

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: We believe the time needed to implement would vary based on the requirements of either a retrospective or prospective application. We believe early adoption should be permitted as entities may be in midstream of long-term projects. Entities other than public shall have an additional year to apply the proposed amendments in order for those entities to have the requirement information available for adoption.

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 do not believe the proposed amendments should be more broadly applied. We believe the board should leave the scope to hosting arrangements as constituents may have been misled by the title of this ASU and did not review for other transactions it might be applied to.

The Committee also noted that the EITF rejected the view that entities should be required to recognize an asset and a liability for the payments that they are obligated to make for a hosting arrangement that is a Software as a Service contract. This view is based on the accounting guidance for software licenses by a licensee, not leasing under ASC 842. Under software licensee accounting, the Board decided that the entity's future payments represent a liability that should be recognized at the present value of the payments. We recommend that software licensee accounting model with recognition of a liability be applied to hosting arrangements, and support this if this accounting model is applied to the capitalization of costs for hosting arrangements.

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We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Brian Kot, CPA

Chair, Accounting Principles Committee

William Keirse, CPA

Vice Chair, Accounting Principles Committee

APPENDIX A
 ACCOUNTING PRINCIPLES COMMITTEE
 ORGANIZATION AND OPERATING PROCEDURES
 2018-2019

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA	Grant Thornton LLP
Matthew Denton, CPA	Sikich LLP
Ashlee Earl, CPA	Ernst & Young LLP
Jason Eaves, CPA	Crowe Horwath LLP
William Keirse, CPA (Vice Chair)	Ernst & Young LLP
Scott Lehman, CPA	Crowe Horwath LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Thomas Masterson, CPA	Wipfli LLP
Reid Mitchell, CPA	Wipfli LLP
Matthew Mitzen, CPA	Marcum LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Darshana Raigaga, CPA	BDO USA LLP

Medium: (more than 40 professionals)

Almira Goethe, CPA	CDH, PC
Danielle Martin, CPA	Porte Brown LLC
Iryna Prokhorov, CPA	Mueller & Company, LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA (Chair)	Cray Kaiser Ltd CPAs

Educators:

John Hepp, CPA	University of Illinois at Urbana-Champaign
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Industry:

Jason Crider, CPA	Molto Properties LLC
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Adam Karac, CPA	Consultant
Michael Maffei, CPA	GATX Corporation
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Reynolds Group Holdings
William Wang, CPA	MAT Holdings, Inc.
Daniel Wilfong, CPA	Sunset Transportation, Inc.

Staff Representative: Rafael Wiesenberg, CPA	Illinois CPA Society
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