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April 30, 2018

Susan M. Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2018-230

Dear Ms. Cosper:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the 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 (a consensus of the FASB Emerging Issues Task Force)*” (Proposed ASU). NACUBO’s comments on the Proposed ASU were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,000 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

### **Overall Comments on the Proposed ASU**

We appreciate the efforts that the Board and staff have taken to provide clarification around the accounting for implementation costs of cloud-computing arrangements. We agree with the premise that these costs are similar to those incurred to develop or obtain internal-use software, and thus Subtopic 350-40 should apply. For purposes of the implementation costs and economic benefits of these projects, the differentiation between

a hosting arrangement that contains a software license and one that is a service contract is a distinction without a difference.

We do not agree with the Board's conclusion that additional disclosures are necessary. There are currently no disclosures required for either internal-use software or cloud computing arrangements that include a software license and we are unaware of any requests for the types of information that the Board is proposing be disclosed. As such, we do not believe that the cost of providing the proposed disclosures would justify any benefit to readers of our financial statements.

***Question 1(a): 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; 1(b): 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 certain costs incurred in the implementation of a hosting arrangement should be capitalized and amortized over the term of the hosting arrangement, similar to the costs to implement internal-use software.

***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?***

The last phrase, referring to the connection of "over the internet or via a dedicated line," may become outdated. With the pace of technological change, we suggest striking that last line and ending the definition after the word "basis". The definition would read:

**Hosting Arrangement:** In connection with accessing and using software products, an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis.

***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. Organizations may consider the materiality of the hosting arrangement to the larger agreement for applying Subtopic 350-40.

***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?***

We believe the guidance in 350-40-25 can be consistently applied to hosting arrangements. It may be helpful to provide definitions in the master glossary for the "application development stage" and "post-implementation-operation stage", to assist in determining at what stage implementation costs can be capitalized.

***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?***

There is very little difference between a cloud-computing arrangement that includes a software license and one that is a service contract. Consequently, the impairment model in Subtopic 350-40 can be appropriately applied to both.

***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 do not believe that the proposed disclosures will provide decision-useful information for the readers of our financial statements. Most higher education institutions have implemented large ERP systems in recent years and no disclosures specific to those implementations were included in their financial statements. As previously noted, we are unaware of any stakeholders requesting the type of information that the Board is proposing be disclosed going forward. Furthermore, we fail to see why evolving techniques that support mission fulfilment require an explanation in the financial statements. Additional information on specific areas of disagreement are enumerated below.

***a. A general description of the terms and conditions of the software acquired or developed for internal use or the hosting arrangement***

This is often proprietary information between the vendor and customer. Disclosures of other vendor arrangements (such as outsourced custodial, dining, or parking services) are not required disclosures.

***b. The significant judgments and assumptions that an entity made in applying this Subtopic to implementation costs***

We believe that this would turn into a boiler-plate description of sub-topic 350-40; it should be sufficient that the financial statements are prepared in accordance with generally-accepted accounting principles. Many financial statement elements require judgments and assumptions, which are described in the summary of significant

accounting policies footnote. These transactions can be addressed in those disclosures as well.

***c. A qualitative and quantitative description of the implementation costs that were expensed and costs that were capitalized during the period***

The proposed requirement to quantify and disclose implementation expenses that are not capitalized will require detailed expense tracking. The costs to track those costs will far outweigh the benefits of that information. These disclosures are not required for similar transactions, such as construction projects, and should not be required for software implementations.

***d. A qualitative and quantitative description of the period over which the implementation costs are recognized as an expense in the income statement.***

Qualitative information about the period over which capitalized costs are amortized could be presented similarly to the listing of depreciable lives of capital assets.

***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?***

As noted in the response to the previous question, we do not believe that the proposed disclosures provide cost-effective, decision-useful information to the users of our financial statements. Therefore, we do not believe that they should be required for any arrangements within the scope of ASC 350-40.

***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.***

Yes, entities should be allowed to elect either prospective or retrospective application.

***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?***

The transition requirements should be applied to costs incurred to implement cloud-computing modules or components that represent new or significantly upgraded components of a hosting arrangement, consistent with the principle that costs incurred in one reporting period will significantly benefit operations in future periods.

***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.***

Yes.

***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?***

If the Board concludes that the proposed disclosures should not be required, then additional time is likely not needed. The costs that can be capitalized are likely already being tracked for project management and budget purposes. If, however, the requirement to disclose expenses that are not capitalized remains in the final update, then more time will be needed.

***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?***

The proposed amendments are appropriately limited to the transactions that were affected by the issuance of ASU 2015-05.

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We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to me at 202-861-2542 or [smenditto@nacubo.org](mailto:smenditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy