AUTODESK

September 21, 2021

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference No. 2021-004
RE: Agenda Consultation ITC

Dear Ms. Salo,

Autodesk, Inc. ("Autodesk", the "Company", "we", "us", or "our") appreciates the opportunity to provide comments on the Financial Accounting Standards Board's ("FASB") Invitation to Comment ("ITC"), *Agenda Consultation.* We support the Board for soliciting feedback about financial reporting issues that it should consider adding to its agenda.

The topics included in the ITC have merit for being added to the agenda; however, since the Board's resources are finite, priorities must be set. Therefore, we believe that only three of the proposed topics should be added to the Board's current agenda, which are (1) Intangible Assets, Including Software, (2) Recognition and Measurement of Government Grants for Business Entities, and (3) ESG-Related Transactions. The appendix contains our detailed responses to certain of the Agenda Consultation questions for respondents. We would be happy to share additional perspectives and suggestions with the Board and FASB staff on the matters discussed in our comment letter.

Overview of Autodesk, Inc.

Autodesk is a multinational company in the software industry that is changing how the world is designed and made. Our technology spans architecture, engineering, construction, product design, manufacturing, media, and entertainment, empowering innovators everywhere to solve challenges big and small. From greener buildings to smarter products to mesmerizing blockbusters, Autodesk software empowers innovators to design and make a better world for all. Our software provides customers with the right tools to work, the ability to think flexibly, and the power to transform what actually needs making. Over the past 4 decades, millions of people have trusted our technology to transform how their products are made. And in the process, we've transformed what can be made. Today our solutions span countless industries and empower innovators around the globe. Our software and services harness emerging technologies—such as additive manufacturing (3D printing), artificial intelligence, generative design, and robotics—that give companies and individuals the power to work more quickly, effectively, and sustainably throughout the entire project lifecycle.

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AUTODESK

We appreciate the opportunity to comment on the ITC and the Board's consideration of our comments. If you have any questions concerning our comment letter, please contact me at stephen.hope@autodesk.com.

Yours Truly,

Stephen Hope

Vice President, Chief Accounting Officer

Appendix
Autodesk, Inc.
Responses to Questions for Respondents

Overall Questions for Respondents

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC.

Autodesk, Inc. is a public company preparer that has been listed on the Nasdaq Global Select Market since 1985. Autodesk is a global leader in the development of design and make technology and recently underwent the transition from developing and selling perpetual licenses and on-premise products to subscriptions and cloud-enabled technologies.

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, including the following:

a. Why there is a pervasive need to change GAAP (for example, what is the reason for the change).
b. How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions).
c. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

We believe the following topics included in the ITC should be of a priority for the Board (details on why/how/urgency are included in the individual question responses for each topic):

- Intangible Assets, Including Software
- Recognition and Measurement of Government Grants for Business Entities
- ESG-Related Transactions

Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts? Please explain your rationale, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

We believe the Financial KPIs and Metrics topic should not be addressed by the Board (explanation details are included in the individual question responses for the topic).

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB's technical agenda (see Appendix A) would be helpful. Do you have any feedback on the FASB's technical agenda, including the following:

a. Which projects on the FASB's agenda should the Board prioritize completing? Please explain.
b. Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.
c. Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.

A. The Board should prioritize completing the following projects on the current agenda:
   i. Segment Reporting: Segment Reporting guidance is complex and subject to judgment by the preparer in applying the guidance when evaluating whether segments exist or not. It often leads to confusion within a company which can lead to complexities in maintaining compliance with the guidance. Clarity and-/-or refinement in the segment guidance could lead to both better compliance and more meaningful information reported for investors and other users.

ii. Identifiable Intangible Assets and Subsequent Accounting for Goodwill: As we understand from the tentative decisions reached by the Board, the intention is to move to an amortization model for goodwill, instead of the current impairment model. We believe the prioritization of completing this project is important given the potential significant impact for companies who may have material goodwill balances, particularly in the technology sector.

Chapter 2 – Emerging Areas in Financial Reporting

Question 11: Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?

We do not hold significant digital assets.

Question 13: Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.

Common ESG-related transactions that lack clarity in the accounting requirements include renewable energy credits (RECs) and carbon offsets. Some of the Big 4 accounting firms have indicated they believe these should be recorded as inventory or finite intangible assets when purchased, and amortized at the point of usage (e.g., when retired and applied against net zero goals) rather than over a period of time. However, this does not align with guidance in Topic 350-40 for finite intangible assets, which states such assets shall be amortized over their useful life. As there is no definitive guidance as to how to account for these transactions, there is a diversity in practice amongst companies who purchase these items. Some companies expense them at the time of purchase (no matter when retirement occurs) as the *intention* is to retire them, whilst others capitalize and subsequently amortize at the time of actual retirement (use). The lack of clear accounting guidance in this area leads to inconsistent accounting application amongst companies and incomparable financial reporting for these types of transactions.

Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.

Financial KPIs and metrics are used to provide information to investors and other users that are necessary for an understanding of the company that is consistent with management's view. Standardizing and codifying requirements for certain KPIs or metrics, even broadly used ones such as EBITDA and free cash flow ("FCF"), would create additional reporting burdens on preparers and introduce further complexity, as preparers may continue to report their individualized metrics as "Adjusted EBITDA / FCF" to maintain consistency with management's views. This would only serve to lessen the benefit of such metrics in the first place. We believe it is sufficient for companies to provide adequate disclosure of their financial KPIs and metric definitions.

If common financial KPIs or metrics were to be defined by the FASB, they should be industry specific. Standard KPIs and metrics across all companies would not provide useful information to investors and other users, given the broad industries these would span.

Question 15: If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?

Providing financial KPIs and-/-or metrics should be optional for each preparer, and their inclusion / exclusion driven by management's view of the business and specific needs of investors and other users.

<u>Question 16:</u> If the Board were to pursue a project on the recognition and measurement of government grants, should the FASB leverage an existing grant or contribution model (such as the models in IAS 20 or Subtopic 958-605) or develop a new model? If you prefer leveraging an existing model, which would be most appropriate and why? If the FASB were to develop a new model, what should the model be?

We would support the Board's efforts to reduce the significant diversity in practice that has resulted from the lack of guidance in U.S. GAAP on this topic, and the pursuit of a project evaluating the recognition and measurement of government grants. While we understand the FASB is expected to issue an ASU over the Disclosure by Business Entities about Government Assistance (estimated completion Q3 2021), we believe requiring disclosure without providing guidance on recognition and measurement impairs operability and will only lead to further diversity of practice among similarly situated companies. As a result of the forthcoming ASU, we believe this should be of a higher priority for the Board to address.

The FASB should leverage an existing model rather than developing a new model. If leveraging an existing model, Internal Accounting Standard *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20) would be preferrable. Many public business entities who receive non-income tax grants do so through international subsidiaries who are likely already applying IAS 20 to the accounting for such grants. Further, many entities are already applying the principles outlined in IAS 20 via analogy in the absence of US GAAP guidance. Leveraging IAS 20 would reduce the cost burden and process inefficiencies of implementing a new standard, as well as work towards convergence of US GAAP and International Financial Reporting Standards (IFRS).

<u>Question 17:</u> The FASB has encountered challenges in identifying a project scope that can be sufficiently described for government grants. If the Board were to pursue a project on the recognition and measurement of government grants, what types of government grants should be included within the scope and why (for example, narrow or broad scope)?

All government grants (may include, but not limited to, agreements taking shape in the form of loans, guarantees, leases, and grants), other than those provided by way of an income tax regime, should be included in the scope of the project. Grants administered through an income tax regime are already subject to Topic 740's comprehensive recognition, measurement, and disclosure requirements. However, income tax credits not under Topic 740 would require government grant guidance, such as government assistance in the form of an income tax credit that is not based on taxable income or that provides a means by which a credit can be received without regard to taxable income would generally be considered a government grant, e.g., a refundable research & development tax credit. As a result, we believe it would be appropriate for any guidance on government grants to explicitly exclude from its scope arrangements subject to Topic 740. This would also be consistent with IAS 20, which explicitly scopes out income taxes accounted for under IAS 12, *Income Taxes*.

<u>Question 18:</u> The FASB has encountered challenges in identifying a project scope that can be sufficiently described for intangible assets. If the Board were to pursue a project on intangible assets, what types of intangible assets should be included within the scope and why? Within that scope, should a project on intangible assets be primarily focused on improvements to recognition and measurement or to disclosure?

We believe the important area to address related to intangibles is capitalized software; please see the response to question 19.

<u>Question 19:</u> What challenges, if any, exist in applying the capitalization thresholds in Subtopics 350-40 and 985-20? What improvements, if any, could be made to the software capitalization guidance to overcome those challenges? Should there continue to be a capitalization threshold when accounting for

software depending on whether it is for internal use or whether it is to be sold, leased, or otherwise marketed? Please explain.

Autodesk believes that the existing guidance for software capitalization does not accurately reflect the reality of how software development occurs in practice today; addressing this should be of upmost priority. Prior to the software industry's transition from developing and selling perpetual licenses and on-premise products to subscriptions and cloud-enabled technologies, all software developed to be sold, leased, or marketed (i.e., revenue-generating) was accounted for under Topic 985-20. This resulted in consistent accounting treatment for all software to be sold, leased, or marketed. With the introduction of SaaS (software as a service) and cloud-based offerings that are hosted on a vendor's hardware and remotely accessed by customers, development costs for software that is to be sold, leased, or marketed, are now accounted for differently depending on the determination of control (Topic 985-20 if it is an on-premise, or Topic 350-40 if it is cloud-based) and the thresholds for capitalization vary significantly between the two Topics. This has led to undue complexity in accounting for revenue-generating software development costs, and reduced the comparability of financial statements between companies that develop on-premise versus cloud-based software technology.

We believe there are several challenges that have arisen because of the difference in accounting treatment (985-20 vs. 350-40) for revenue-generating software:

- Topic 985-20-25-1 states that "All costs incurred to establish the technological feasibility of a computer software product to be sold, leased, or otherwise marketed are research and development costs. Those costs shall be charged to expense when incurred as required by Subtopic 730-10." Once technological feasibility is established, the costs of producing product masters, including coding and testing, are generally capitalized until the product is available for general use. However, technological feasibility is often established shortly before the software product reaches the general availability stage, and as a result many software entities selling on-premise products do not have material costs capitalized under Topic 985-20.

  In comparison, Topic 350-40 does not include the concept of technological feasibility for capitalization. While all costs incurred during the preliminary project and postimplementation-operation stages are expensed as incurred (except for upgrades and enhancement costs), certain development costs incurred during the application development stage are capitalized based on the activity type. Thus, costs incurred for cloud-based software will typically meet the capitalization requirements earlier in the development cycle than costs incurred for on-premise software, despite the fact that these cloud-based software development costs are often still research and development-related – the same ones that would be expensed under Topic 985-20. This can also lead to capitalization of costs under Topic 350-40 for a project that may ultimately never be realized (e.g., software released to customers) as capitalization is required to start when research and development activities are still ongoing (before technological feasibility is reached), thus contradicting Topic 730-10 which explicitly states research and development costs shall be charged to expense when incurred.

  This leads to different accounting treatment despite the fact that the research and development process is the same regardless of whether the software is delivered via the cloud or on-premise. Activities and costs incurred during the application development stage under Topic 350-40 are similar or the same as those incurred pre-technological feasibility under 985-20; they are generally research and development activities and costs. The end result of the software under both Topics is revenue-generation. Further, typical company organizations have clear separation between development teams that perform work on revenue-generating software (both on-premise and cloud-based software) and development teams that perform work on non-revenue generating software and there is no co-mingling of costs amongst the two development teams internally (all revenue-generating software costs are incurred by one team, and all non-revenue generating software costs by the other).

- The divergence in capitalization treatment based on application of Topics 985-20 vs. 350-40 has led to incomparability in financial statements amongst software companies. Those companies primarily developing and providing on-premise licensed products, and thus subject to Topic 985-20, will reflect greater expenses in the current period, while those primarily developing and providing cloud-based products, and thus subject to Topic 350-40, will reflect greater capitalized assets and reduced expenses in the current period. While this is primarily a timing difference in expense recognition, as the capitalized assets will eventually amortize to expense, it creates incomparability in any given period amongst companies which are similarly engaged in software technology development.

- The treatment of upgrades and enhancements under Topic 350-40 leads to further variability in how companies account for costs incurred in the course of modifying existing software products. Topic 985-20 again applies the concept of technological feasibility to determine when costs to develop enhancements should be capitalized, which as described above, generally results in less cost capitalization. Topic 350-40 defines upgrades and enhancements as "modifications to enable the software to perform tasks that it was previously incapable of performing". As technology companies have transitioned to cloud-based offerings, they are constantly creating and releasing refinements, upgrades, and enhancements to customers; this is one of the defining benefits of cloud-based offerings (providing frequent releases to customers). However, this has resulted in greater frequency and larger volumes of upgrades and enhancement activities that need to be tracked and assessed for capitalization, creating much greater operational costs and burdens for management than under Topic 985-20. Further, activities and their associated costs are not always easily identifiable and separable between refinements to be expensed and upgrades and enhancements to be capitalized, creating even greater difficultly in applying the standard.

- This is further exacerbated by evolving trends in software development. Many software companies now develop software under the Agile methodology, rather than the traditional "Waterfall" method. Under the Waterfall method, developers would plan out the development in its entirety (including all features) before commencing work breaking down the activities into linear sequential phases where each phase depends on the deliverable of the previous phase and is noniterative and inflexible. Progress flows in largely one direction through the phases of requirement gathering and analysis, design, construction, testing, deployment, and maintenance. Development would be complete through all features before the product would be released to customers.

  Agile, however, focuses on iterative development where requirements and solutions evolve throughout the lifetime of the project. It advocates adaptive planning, evolutionary development, and continual improvement and it encourages flexible responses to changes in requirements, resource availability, and understanding of the problems to be solved. Developers today typically create a minimum viable product for release as soon as possible, and then continuously build upon that over time with subsequent features and releases. This development approach is applied to cloud-based products in the same manner as on-premise products, and creates difficulty and complexity in applying Topic 350-40 to cloud-based revenue-generating software as the development process is iterative and does not follow a linear path. Significant judgment can be required to determine when the application development stage commences, and which costs are required to be capitalized. It can often be difficult to identify the point when the preliminary project stage ends and the application development stage begins for revenue-generating software products as often, design activities occur simultaneously with development activities under Agile. Further, the operational costs associated with tracking each new feature subsequently planned for released and determining the appropriate accounting treatment creates a significant burden for management.

- Many entities sell hybrid-cloud solutions where on-premise licensed software is enhanced with cloud-based capabilities. The on-premise licensed software may be significantly integrated, interdependent, or interrelated with the cloud-based software. There is no guidance for companies to follow for such arrangements; this leaves companies to bear the burden of detailed tracking of software costs and assessing which costs need to be accounted for under Topic 985-20 versus 350-40 within an integrated research and development process, and inconsistent capitalization treatment amongst significantly integrated, interdependent, or interrelated software and services.

We believe the following improvements could be evaluated to address these challenges:

- Align the accounting for software development costs to be under one Topic for software that is intended to be revenue-generating (e.g., has research and development activities); we would be in favor of adopting the guidance under Topic 985-20 for all revenue-generating software development. A thorough understanding of software development processes typically used today should be key when evaluating and determining changes to the guidance.

- As suggested in the ITC, we would be in support of the Board considering a policy election to expense all revenue-generating software developments costs (including upgrade and enhancement costs) as incurred.

The divergence of accounting for software development costs between Topics 985-20 and 350-40 has created increased complexities and undue cost burdens for software companies, particularly with the increased scope of projects that are required to be accounted for and capitalized under Topic 350-40. Alignment of the guidance to have one standard for all revenue-generating software development projects would ease the compliance cost burden on companies and provide greater consistency and comparability for users of the financial statements. We believe this topic should be of an increased urgency to be addressed by the Board.

While we believe there should not be different capitalization thresholds / treatment amongst revenue-generating software development, we do believe it is reasonable to differ between revenue-generating software and non-revenue generating software (for example, the development and implementation of a new ERP system for an entity). Costs incurred for purchase and implementation of non-revenue generating software platforms do not typically consist of research and development costs. We would be in support of retaining the guidance in Topic 350-40 for accounting for costs of non-revenue generating software.

Chapter 3 – Reduction of Unnecessary Complexity in Current GAAP

Question 24: How helpful would it be in evaluating disclosure materiality if the materiality guidance in paragraph 105-10-05-06 that "the provisions of the Codification need not be applied to immaterial items" was repeated in the Disclosure Section of each Codification Subtopic? Please explain.

We do not believe this would be a worthwhile project for the FASB to pursue. Guidance in Topic 105-10-05-06 is clear in its statement, and that this statement applies to all disclosure topics. That being said, it would not be harmful for the statement to be repeated in the Disclosure Section of each Codification Subtopic if that is necessary for companies to understand immaterial items do not need to be disclosed.