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Via email to [director@fasb.org](mailto:director@fasb.org)

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

Re: 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* (File Reference No. 2018-230)

Dear Ms. Cospers:

We are pleased to provide comments on the Board's proposal to provide guidance to account for implementation costs incurred in a cloud computing arrangement that is a service contract.

We support the proposed amendments to provide more clarity about how to determine the accounting for these costs in arrangements that are increasingly common but not currently addressed in the Codification. However, we believe that the existing implementation guidance in ASC 350-40, which was developed twenty years ago, no longer accurately reflects some of the more common activities associated with the procurement and development of internal-use software and cloud-based solutions. Therefore, we believe the final amendments should be modified to more accurately reflect the current technology environment by including examples reflecting current practice. Our concerns, along with responses to the Board's specific questions, are provided in Appendix A to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673, Angela Newell at (214) 689-5669 or Ken Gee at (415) 490-3230.

Very truly yours,

BDO USA, LLP

## Appendix A

**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?**

We acknowledge that the proposed approach is a compromise which applies a capitalization model that is already used in similar circumstances to hosting arrangements, while applying a different model in presenting the related expenses. We agree that this is the most practical and expedient approach, and we generally support the proposed model. Please see our response to Question 4 below.

**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?**

We agree with the proposed amendment to the definition of "hosting arrangement" since we agree it is important to remove "licensing" from the definition.

**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 that significant additional guidance is needed in the proposed Update. However, we do believe that defining "minor hosting arrangement" would assist in determining whether one exists.

**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 understand that the process of implementing a hosting arrangement is often very similar to the process of implementing an acquired software license. As such, we believe that the guidance for determining the project stage in Subtopic 350-40 can be consistently applied to hosting arrangements. However, to aid entities in executing the model, we recommend that the Board include examples specific to a hosting arrangement within the standard (or at least in the basis for conclusions).

Having said that, we also note that the guidance in Subtopic 350-40 was provided by Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which was effective for fiscal years beginning after December 15, 1998. While this guidance was reflective of software development processes at that time, the industry has evolved substantially in the intervening twenty years. For instance, the guidance in Subtopic 350-40 relies on an outdated waterfall development approach based on a project stage that no longer reflects the process actually followed by most developers. Further, it does not readily lend itself to an entity's evaluation of the costs to develop and/or implement a software license or enter into a hosted arrangement. These factors underscore the importance of providing examples in the final ASU that reflect today's business environment.

Longer term, if the Board (or Task Force) becomes aware of significant operational challenges under the guidance in this project, we would support a new project to revisit the overall model for capitalizing internal-use software, including hosting arrangements.

**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?**

No, we believe that entities should apply the impairment model in Subtopic 350-40. We do not believe a new impairment model is necessary since the intent of the proposal leverages existing GAAP. Having selected Subtopic 350-40 for capitalization, we see no reason to look elsewhere for impairment guidance.

**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 agree with the disclosures included in the proposed amendments.

**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?**

Yes, we believe that all disclosures should be consistent.

**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?**

We agree that an entity should be permitted to elect its transition method. In addition to the prospective and retrospective approaches, we believe that a modified retrospective (i.e., cumulative catch) transition should be included as a third alternative.

However, we believe that if an entity elects prospective transition, the entity should apply the transition requirements to an entire hosting arrangement that is in the process of being implemented, as opposed to only those arrangements that commence after the effective date. We do not believe that it would be appropriate to only capitalize a portion of the eligible costs associated with that project simply because those costs are incurred subsequent to the effective date, while expensing costs in earlier periods. Therefore, we recommend that the Board include specific transition guidance related to in-process implementation projects.

**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.**

We agree with the proposed requirement that an entity should provide the specified transition disclosures included 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?**

It is our belief that both public business entities as well as all other entities should be given one year from the date of issuance along with early adoption permitted. However, we would not be opposed to providing an additional year for private companies.

**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?**

We believe the amendments included in this proposed Update should remain within the scope of the current project. However, we are not opposed to a separate Board project in the future regarding similar transactions. While we generally agree with the Board's conclusions indicated in paragraph 12 of the basis for conclusions to the proposed Update, we do believe that there are other arrangements that are similar, for which practitioners may desire to analogize to this guidance. For example, we note that outsourced payroll processing arrangements often result in implementation fees that are similar to the fees associated with a hosting arrangement, because the outsourced payroll processor is in essence implementing their software for that specific payroll customer. However, because the customer has not entered into a hosting arrangement, but rather a service arrangement, the costs incurred would not be within the scope of Subtopic 350-40, as amended. We have also noted other similar types of outsourced service arrangements that result in the service provider incurring costs to set up the customer in the provider's systems and charging an upfront fee, without the customer entering into a hosting arrangement. From the customer's perspective, the service provider's set up fee appears similar to the implementation fees contemplated in this proposal.