April 30, 2018

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


Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. (“PNC” or “we”) appreciates the opportunity to comment on this Proposed ASU which has been issued by the Financial Accounting Standards Board (“the Board”) to address issues raised by stakeholders regarding the accounting for implementation costs incurred by a customer in a cloud computing arrangement that is a service contract.

Overall, we support this Proposed ASU. Currently, there is diversity in practice in how a customer of a cloud computing arrangement that is a service contract accounts for the related implementation costs. The implementation costs associated with cloud computing arrangements can be significantly larger than the amount to be paid for the cloud computing services. The implementation costs are incurred by the customer to integrate a customer’s existing systems to the cloud provider’s solution and customize that solution to meet the customer’s needs. Accordingly, customers will obtain a future economic benefit from incurring these implementation costs which will be received throughout the period of the cloud computing service.

Although we support this Proposed ASU, we have the following feedback to enhance the guidance relating to cloud computing arrangements:

- We encourage the FASB to undertake a holistic project to review and update the existing guidance in Subtopic 350-40. We believe the guidance should be reconsidered in light of the current technology and software development environment. (Please see our response to question number four in Appendix A.)
- We believe that the disclosures included in the proposed amendments should only be applied to implementation costs of a hosting arrangement that is a service contract. (Please see our response to question number seven in Appendix A.)
- We suggest adding guidance to limit the scope of the amendments in this Proposed ASU to service contracts in which the hosting arrangement is more than minor. Please see our response to question number three in Appendix A.)
• We suggest including guidance in this Proposed ASU to illustrate the concept of multiple renewal options in assessing the amortization period of capitalized implementation costs. (Please see our response to question number three in Appendix A.)

Appendix A contains our detailed responses to the Questions for Respondents for this Proposed ASU.

We appreciate the opportunity to share our views with the Board. We welcome any questions or comments you may have on this letter. Please contact me (412.762.1622) with any questions about PNC’s comments.

Sincerely,

Ms. Lauren Belot
Director of Accounting Policy
The PNC Financial Services Group, Inc.

cc: Mr. John (JJ) Matthews
    Director of Finance Governance & SEC Reporting
    The PNC Financial Services Group, Inc.
Appendix A

Responses to Questions for Respondents

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?

Yes, we agree with the proposed accounting treatment of implementation costs of a hosting arrangement that is a service contract as defined in this Proposed ASU.

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?

Yes, we agree with the amended definition of a hosting arrangement and do not have any additional concerns.

Question 3: Is additional guidance needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement?

Yes, we believe additional guidance is necessary to determine whether the amendments in this Proposed ASU apply to arrangements that include a minor hosting arrangement. We frequently enter into service arrangements in which the vendor uses a hosted software solution to provide the services. Thus, it would be difficult to ascertain whether the amendments in this Proposed ASU should be applied to those contracts without additional guidance. We suggest adding guidance to limit the scope of the amendments in this Proposed ASU to service contracts in which the hosting arrangement is more than minor.

Additionally, we suggest including guidance in this Proposed ASU to include the concept of multiple renewal options in assessing the amortization period of capitalized implementation costs. For example, assume that an entity enters into a hosting arrangement that is accounted for as a service contract to use a hosted software solution offered by the vendor. The contract includes a one-year term that is renewable on a year-to-year basis indefinitely, upon mutual agreement between the customer and the vendor. The customer assesses the factors noted in ASC 350-40-35-14 and determines it is reasonably certain to exercise the renewal options for the next five years. Under the proposed guidance, it is unclear whether more than one renewal option should be considered when determining the useful life of the capitalized implementation costs. We suggest including the following guidance in this Proposed ASU:

- If multiple renewal options are included in the hosting arrangement, the entity (customer) should consider the factors noted in paragraph 350-40-35-14 in determining the number of renewal options to include in the term of the hosting arrangement.
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?

Yes, we believe there is no additional difficulty in applying the guidance in Subtopic 350-40 to hosting arrangements rather than other internal-use software. However, we believe the guidance in Subtopic 350-40 is outdated and difficult to apply to certain internal-use software projects, such as those that are performed using an agile approach.

Agile software development methods break product development work into small increments (sprints) that minimize the amount of upfront planning and design. Each sprint involves a cross-functional team working in all functions, including: planning, analysis, design, coding, unit testing, and acceptance testing simultaneously. The sprints are not completed in set phases as described by the guidance in Subtopic 350-40. A sprint might not add enough functionality to warrant a release with measurable value, and thus, multiple sprints might be required to release a software product. As such, it is often difficult to ascertain when an agile project has completed the preliminary project stage and is eligible for capitalization.

The guidance in Subtopic 350-40 is written assuming software projects are completed in linear, sequential stages (i.e. preliminary project, application development and postimplementation stages). We have begun using an agile approach for software development, which will be our primary model going forward.

Accurate and consistent accounting for capitalization of labor costs under an agile environment requires significant judgment and interpretation of existing, outdated software capitalization guidelines in Subtopic 350-40 that creates diversity in practice. We encourage the FASB to undertake a holistic project to review and update the existing guidance in Subtopic 350-40 to reflect the change in the current technology and software development environment and to allow for accounting that better reflects how these projects are currently executed.

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 an entity should apply the same impairment model to implementation costs of a hosting arrangement that is a service contract that is applied to other capitalized internal-use software.

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?

Yes, we agree with the disclosures in the proposed amendments except as noted below in our response to Question 7.

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?
We believe that the disclosures included in the proposed amendments should only be applied to implementation costs of a hosting arrangement that is a service contract. The implementation costs incurred related to internal-use software and hosting arrangements that include a software license have historically been capitalized in accordance with Subtopic 350-40, and a qualitative and quantitative description of these costs has not been information that is requested by financial statement users to date. We do not believe that providing users of the financial statements with a qualitative and quantitative description of implementation costs related to internal-use software and hosting arrangements that include a software license would be decision-useful information.

In addition, we believe there are operational challenges to obtaining this information. Specifically, we currently do not track labor costs related to internal-use software projects in enough detail to effectively and efficiently separate the implementation costs of internal-use software from the development of that software. The proposed disclosure requirements for internal-use software would require us to incur significant costs to bifurcate internal labor between software implementation and software development for a very limited benefit to users of our financial statements. Therefore, we believe the costs of the proposed disclosures for internal-use software and hosting arrangements that include a software license outweigh the benefits.

If the proposed disclosures will be required for all internal-use software, a definition of implementation costs should be included in the final standard to provide entities with guidance to determine which capitalized internal-use software costs should be disclosed. Under the existing guidance, implementation and software development costs for internal-use software are not viewed differently from an accounting perspective. Accordingly, no emphasis has been placed on defining the costs to implement the internal-use software, which will prove challenging under the proposed disclosure requirements.

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 believe an entity should be permitted to elect either prospective or retrospective transition. If an entity elects prospective transition, the new requirements should be applied to the implementation costs of hosting arrangements incurred as of the transition date. To clarify, if a hosting arrangement was entered into prior to the transition date but the implementation costs are not incurred until after the transition date, we believe the new requirements in this Proposed ASU should be applied to those costs. This Proposed ASU is focused on the accounting of the implementation costs and accordingly the transition should be defined by the implementation costs, not the hosting arrangement.

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, we believe an entity should be required to provide the transition disclosures specified in this Proposed ASU.

**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?

We believe that this Proposed ASU should be effective for public business entities in fiscal years beginning after December 15, 2018 with the option to early adopt the new requirements beginning with the quarter of 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?

We believe the proposed amendments should be limited to transactions based on the scope of this Proposed ASU.