

MINUTES



MEMORANDUM

To: Board Members
From: Cloud Computing Arrangements Team
Subject: Minutes of February 18, 2015, Board Meeting
Date: February 25, 2015
cc: Stacey Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

Basis for Discussion: FASB Memo No. 5—Comment Letter Summary and Redeliberations of Issues Identified

Length of Discussion: 1:45 p.m. to 2:05 p.m. EST

Attendance:

Board members present: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, and Smith

Board members absent: None

Staff in charge of topic: Walsh

Other staff at Board table: Muir and Doherty

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board redeliberated the August 2014 proposed FASB Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*, directing the staff to draft a final Accounting Standards Update for a vote by written ballot.

The Board’s technical plan calls for a final Accounting Standards Update to be issued in the second quarter of 2015.

Tentative Board Decisions:

Changes to the FASB Accounting Standards Codification®

The Board affirmed its proposal that customers in cloud computing arrangements would determine whether a contract is a software license or a service contract by applying the guidance that cloud service providers currently use to make that determination (that is, incorporate paragraphs 985-605-55-121 through 55-123 into Subtopic 350-40 of the Codification).

(Vote: 7-0)

In addition, the Board decided:

1. Not to expand the scope of the final Update to include the accounting for upfront costs incurred in cloud computing arrangements

(Vote: 7-0)

2. That additional guidance about the application of the criteria included in paragraphs 350-40-15-4A through 15-4B is not necessary

(Vote: 7-0)

3. To supersede paragraph 350-40-25-16 of the Codification as part of the final Update, meaning that customers will no longer analogize to the leases guidance in Topic 840 in determining the asset acquired in a software licensing arrangement; rather, customers will account for acquired software licenses in the same manner as the other acquired intangible assets.

(Vote: 7-0)

Transition, Effective Date, and Early Adoption

The Board affirmed its proposal to allow reporting entities to choose between a retrospective or prospective transition method. By prospective transition, the Board means an entity would apply the guidance in the final Update to all cloud computing arrangements entered into, or materially modified, after the effective date.

(Vote: 4-3)

The Board also affirmed the proposed effective date of the changes:

1. Public business entities would initially apply the change in annual periods, including interim periods within those annual periods, beginning after December 15, 2015.
2. All other entities would initially apply the change in the first annual period beginning after December 15, 2015, and interim periods thereafter.

(Vote: 6-1)

In addition, the Board affirmed its proposal to allow all entities the option to early adopt the changes.

(Vote: 6-1)

Transition Disclosures

The Board affirmed its proposal that an entity electing the prospective transition method should disclose, in the period of the change, the nature of and reason for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change.

In addition, the Board affirmed its proposal that an entity applying the retrospective transition method should provide quantitative disclosures about the effect of the change, such as those required by Topic 250, Accounting Changes and Error Corrections.

(Vote: 7-0)

General Announcements: The Board directed the staff to draft a final Accounting Standards Update for a vote by written ballot.