January 2, 2017

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: EITF Issue No. 17-A, *Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That is Considered a Service Contract*

Submitted via electronic mail to director@fasb.org

Dear Ms. Cosper,

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to provide feedback on the tentative decisions reached at the October 12, 2017 EITF meeting regarding EITF Issue No. 17-A, *Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That is Considered a Service Contract*.

FEI is a leading international organization representing approximately 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. CCR is a technical committee of FEI, and reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR member companies represent approximately $7.5 trillion in market capitalization and actively monitor the standard-setting activities of the FASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We are supportive of the EITF's efforts to address the accounting for implementation costs incurred in association with Cloud Computing Arrangements (CCAs). ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* lacks explicit guidance to address the accounting for implementation costs, resulting in diversity in practice in how these costs are treated. We are concerned that the tentative decisions reached are inconsistent with the economic substance of the arrangements and introduce a level of unnecessary complexity for these transactions.

Implementation costs incurred in association with, and throughout the term of CCAs, often require significant investments that represent future realizable benefits. We do not believe that the delivery method (cloud-based vs. on-premise) of the software solution should have an impact on the assessment of whether implementation costs are capitalizable. We are also concerned that the Task Force's tentative conclusion to align the accounting for CCAs with the accounting for software licenses will require the identification and valuation of a software element within a CCA that will ultimately drive even greater inconsistency in application among preparers. We propose that a simple and straightforward model be applied allowing for the capitalization of implementation costs that provide future benefits. We believe such a model best reflects the economics of these types of arrangements. Other areas of U.S. GAAP include guidance that may be applied to these types of costs, specifically the guidance in ASC 606 / 340-40 on capitalizing incremental costs of obtaining a contract. Companies can leverage ASC 606 / ASC 340-40 and/or other capitalization-related policies, processes, systems and controls for implementation costs of CCAs.

We have outlined specific concerns and alternative considerations in the following discussion.

Concerns with Current Proposal

The current proposal extends beyond addressing implementation costs incurred in association with CCAs and attempts to modify the accounting treatment of CCAs as a whole, which is a broader issue than the scope of the original EITF project. We do not have concerns about the underlying accounting treatment of CCAs. We are concerned specifically about the accounting treatment of implementation costs and the significant complexity and additional cost that would be involved in executing the proposal for this narrow and specific area of accounting. Specifically:

- CCA providers do not bifurcate software and hosting elements in their contracts in accordance with ASC 606. As proposed, requiring customers to identify and value software assets within these contracts would create a fundamental gap between a customer's accounting and a provider's accounting for the same transaction. Because CCA providers do not bifurcate the software and hosting, this information would not be available to customers. Each customer would be responsible for the bifurcation and valuation of each component, which we believe will lead to further inconsistencies in accounting for the same or similar transactions.
- Some CCAs are hybrid arrangements that may not be predominantly cloud-based and the proposal could lead to customers having to identify software elements in other service contracts that were not intended to be included within the scope of the EITF's project.
- It is unnecessary to prescribe a model to this narrow area of accounting by requiring subjective judgments and valuation estimates similar to lease accounting. CCAs are not economically similar to the sale of software licenses as the customer does not control the underlying software in a CCA.

Alternative Proposal

We recommend that the EITF's proposal focus on supporting the capitalization of a separate, standalone asset representing implementation costs incurred in association with a CCA.

We believe the guidance pertaining to contract costs within ASC 606 / ASC 340-40 appropriately supports the notion of capitalizing implementation costs incurred in association with a CCA. These costs represent a benefit (i.e., they will be recovered) over time as they support the ongoing use and output of the associated CCA and therefore support the customer's ability to benefit from the arrangement. Capitalization appropriately reflects the fundamental economics of the transaction as the costs are an investment that would not otherwise have been incurred.

We recommend the Board consider the initial scope of the issue in light of guidance provided under ASC 606/ ASC 340-40, without broadening the scope of the issue to amend the accounting for CCAs. In doing so, we believe the Board would acknowledge the evolving landscape of software solutions while still maintaining a consistent and simple economic approach.

Should you have any questions, we welcome the opportunity to discuss our comments further.

Sincerely,

Mick Homan

Mick Homan
Chairman
Committee on Corporate Reporting
Financial Executives International