

Summary of Issues for the January 18, 2018 EITF Meeting

AGENDA ITEM:	ADMINISTRATIVE MATTERS / SEC COMMENTS (if applicable) -Welcome -Announcements	PROPOSED TIME: 8:30-8:35 AM STAFF: Cosper/Faineteau
AGENDA ISSUE:	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”	PROPOSED TIME: 8:35-11:25 AM STAFF: Bond

<p><u>Background</u></p> <p>In April 2015, the FASB issued Update No. 2015-05, <i>Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement</i>, which provides guidance about a customer’s accounting for fees paid in a cloud computing arrangement (CCA).</p> <p>Since then, several stakeholders requested that the Board provide additional guidance on accounting for implementation costs incurred in a CCA that is considered a service contract. Those stakeholders observed that because of the lack of clear guidance in GAAP, entities have looked to various areas of the Codification for additional guidance, resulting in diversity in practice. At its May 10, 2017 Agenda Prioritization Meeting, the Board added this project to the EITF’s Agenda.</p> <p><u>Prior EITF Discussion</u></p> <p>At the July 2017 EITF meeting, Task Force members did not express support for Alternative A or Alternative C¹, and, accordingly, the discussion focused on Alternatives B and C. The Task Force requested that the staff perform additional research in order to improve upon (or clarify) Alternatives B and C.</p> <p>At the October 2017 EITF meeting, the staff presented Alternative B, which proposes a model prescribing how to determine whether activities are distinct from the hosting service when there is no relevant GAAP; Original Alternative C, which would account for implementation costs of a CCA that is considered a service contract the same as implementation costs associated with a software license; and Revised Alternative C, under which all CCAs would include a software element that is within the scope of Subtopic 350-40. The Task Force reached a tentative conclusion to align the accounting for all CCAs wherein all CCAs would include a software element that would be within the scope of Subtopic 350-40 (that is, Revised Alternative C).</p> <p>The Task Force also discussed the practical questions under Revised Alternative C related to the capitalization of the software element of a hosting arrangement, such as how to consider renewal and termination options, what discount rate to use, and how to account for variable payments. The Task Force ultimately asked the staff to perform additional research on these questions.</p> <p><u>Accounting for Implementation Costs Incurred in a CCA That Is Considered a Service Contract (Issue 1)</u></p> <p>Considering the additional staff research and feedback received after the October 2017 EITF meeting, the Task Force could decide to either affirm its tentative conclusion on Revised Alternative C or select a different alternative.</p>	<p>MEETING NOTES</p>
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The alternatives to be considered by the Task Force are:

Alternative B—Residual approach utilizing guidance in Topic 606 to determine what is distinct

Original Alternative C—Implementation costs associated with a CCA that is considered a service contract would be accounted for the same as implementation costs associated with a software license

Revised Alternative C—All hosting arrangements (as defined in the Master Glossary) are within the scope of Subtopic 350-40 (as supplemented by either Alternative 1 or 2 below)

If the Task Force chooses to affirm its tentative conclusion on Revised Alternative C, the Task Force would need to consider how it would like to account for renewal/termination options, discount rate determination, and variable payments. The staff has developed two alternatives for the Task Force's consideration.

Alternative 1—Include limited and specific guidance in Subtopic 350-40. Guidance on renewal/termination options and variable payments would be based on what exists in Topic 842 on leases, and guidance on discount rates would be based on what exists in Topic 410 on asset retirement and environmental obligations

Alternative 2—Do not add any guidance. Entities account for renewal/termination options, variable payments, and discount rates today, so no additional guidance would be necessary

Question 1: Does the Task Force want to affirm its tentative conclusion to align the accounting for CCAs, wherein all CCAs would include a software element that would be within the scope of Subtopic 350-40 (Revised Alternative C)? If not, what alternative does the Task Force want to select?

Question 2: If the Task Force chooses to affirm its tentative conclusion, which accounting alternative (Alternative 1 or Alternative 2) does the Task Force want to select to address the questions related to the capitalization of the software element of a CCA?

Question 3: If the Task Force chooses to affirm its tentative conclusion, does the Task Force want to provide a practical expedient, similar to Topic 842, that allows an entity not to separate the hosting service from the associated software element?

Question 4: If the Task Force chooses to affirm its tentative conclusion, does the Task Force want to provide guidance to account for a CCA like an operating lease or like a finance lease?

Amortization Period (Issue 2)

Issue 2 was last discussed at the July 2017 EITF meeting for only Alternative B of Issue 1. Issue 2 is not relevant if the Task Force selects Revised Alternative C or Original Alternative C for Issue 1 because there is existing guidance in Subtopic 350-40 that an entity would apply when determining and reassessing the estimated useful life of the intangible asset recognized. If the Task Force selects Alternative 1 under Revised Alternative C, the guidance on the determination of useful life in Subtopic 350-40 would be amended to state that the useful life of the asset is the accounting term of the CCA. The staff believes that no further deliberations on Issue 2 are necessary.

Definition of Implementation Costs (Issue 3)

The Task Force reached a tentative conclusion at the October 2017 EITF meeting not to provide a definition or description of implementation costs within Subtopic 350-40. The staff believes that no further deliberations on Issue 3 are necessary.

Scope of the Project (Issue 4)

Some stakeholders questioned whether service arrangements that have a minor element of hosting (where the main provision of the arrangement is something other than providing hosting) would be in the scope of the amendments that result from this Issue.

Question 5: Does the Task Force want to provide any guidance on scope in addition to changing the definition of a Hosting Arrangement?

Analogy to Other Service Contracts (Issue 5)

The Task Force could allow, prohibit, or remain silent about whether the amendments that result from this Issue could be analogized to other transactions.

Question 6: Does the Task Force want to provide guidance about analogies to this Issue?

Disclosures (Issue 6)

The staff evaluated whether disclosures would be required with respect to this Issue. In doing so, the staff considered the existing disclosure requirements in GAAP, including those on accounting policies in paragraph 235-10-50-3. The staff also considered the disclosure requirements under Topic 842 that could be applicable if the Task Force affirms its tentative conclusion on Revised Alternative C.

Question 7: Does the Task Force want to require additional disclosures for CCAs within the scope of this Issue?

Question 8: If the Task Force affirms its tentative conclusion on Revised Alternative C and wants to require additional disclosures for CCAs, does the Task Force agree with the staff's analysis as to which disclosures from Topic 842 should be provided?

Transition and Transition Disclosures (Issues 7 and 8)

The Task Force could require retrospective transition, require modified retrospective transition, require prospective transition, or allow entities to choose between some of the alternatives. The staff also considered the transition disclosure requirements in paragraphs 250-10-50-1 through 50-3, which provide guidance about disclosures that are required for accounting changes.

Question 9: Does the Task Force want to require retrospective transition, require modified retrospective transition, require prospective transition, or allow entities to choose between some of the alternatives?

Question 10: What transition disclosures does the Task Force want entities to provide when initially applying the amendments that result from this Issue?

AGENDA ITEM:	FASB Staff Q&As on the Financial Reporting Effects of the Tax Cuts and Jobs Act	PROPOSED TIME: 11:25-11:55 AM STAFF: Cosper/Bond
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