

MINUTES



MEMORANDUM

To: Board Members
From: Stansel (x264)
Subject: Minutes of the June 27, 2018 Board Meeting: EITF Ratification
Date: July 5, 2018
cc: Tosches

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: Board ratification of the consensus reached on EITF Issue 17-A, and the consensus-for-exposure reached on EITF Issue No. 18-A

Basis for Discussion: EITF Ratification Memorandum

Length of Discussion: 9:30 to 9:55am

Attendance:

Board members present: Golden, Kroeker, Botosan, Hunt, Schroeder, and Siegel
Board members absent: None
Staff in charge of topic: Bond, Park
Other staff at Board table: Cosper, Carter, and Stansel
Outside participants: Gary Buesser (Incoming July 2018 Board Member)

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss the potential issuance of an Accounting Standards Update resulting from 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." The Board also met to discuss the potential issuance of a proposed Update resulting from EITF Issue No. 18-A, "Recognition under Topic 805 for an Assumed Liability in a Revenue Contract."

Tentative Board Decisions:

Ratification of the EITF consensus. The Board ratified the consensus reached at the June 7, 2018 EITF meeting on the following EITF Issue. The Board directed the staff to draft an Update finalizing the consensus for vote by written ballot.

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"

The Task Force reached a consensus that requires the capitalization of implementation costs of a hosting arrangement that is a service contract based on the guidance in Subtopic 350-40. The Task Force decided that an entity should record the expense related to the capitalized implementation costs in the same line item in the statement of income as the expense for the fees for the hosting arrangement. In addition, the Task Force decided that an entity should present the capitalized implementation costs in the same line item that a prepayment for fees of the associated hosting arrangement would be presented, and an entity should classify the cash flows from capitalized implementation costs in the same manner as the cash flows for the fees paid for the associated hosting arrangement.

Amortization

The Task Force reached a consensus to require entities to expense the capitalized implementation costs over the term of the hosting arrangement, which includes renewal options that are reasonably certain to be exercised.

Impairment

The Task Force reached a consensus to clarify how to account for impairment and abandonment of capitalized implementation costs for a hosting arrangement that is a service contract by requiring an entity to apply the guidance in Subtopic 350-40 (which references the impairment model in Subtopic 360-10 on property, plant, and equipment). The Task Force also decided to clarify that an entity is required to evaluate the capitalized implementation costs of each module or component of a hosting arrangement that is a service contract for abandonment.

Scope

The Task Force reached a consensus to amend the definition of a hosting arrangement to remove the reference to licensing and the requirement that the

software application resides on the vendor's or a third party's hardware. Certain other minor amendments to the definition were also made, such as changing "take possession" to "currently have possession" and eliminating the phrase "over the internet or via a dedicated line."

Disclosures

The Task Force reached a consensus that the existing disclosures in paragraph 350-40-50-1 are sufficient to provide information to users about implementation costs of a hosting arrangement that is a service contract, supplemented by a description of the nature of an entity's hosting arrangements that are service contracts.

Effective Date and Transition

The Task Force reached a consensus to allow entities to choose between prospective and retrospective transition when adopting the amendments in the Update resulting from this Issue. Under prospective transition, an entity will apply the amendments to any costs for implementation activities performed after the date of adoption. The Task Force also reached a consensus to require different transition disclosure requirements depending on the transition method elected.

The Task Force reached a consensus to require that the amendments in the Update resulting from this Issue be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019, for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021. The Task Force also reached a consensus to permit early adoption.

(Vote: 4-2)

Ratification of the EITF consensus-for-exposure. The Board ratified the consensus-for-exposure reached at the June 7, 2018 EITF meeting on the following EITF Issue. The Board directed the staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot.

Issue No. 18-A, "Recognition under Topic 805 for an Assumed Liability in a Revenue Contract"

The Task Force reached a consensus-for-exposure that would require an entity to use the Topic 606 performance obligation definition to determine whether an assumed contract liability from a revenue contract with a customer represents an identifiable liability that is recognized in a business combination at the acquisition date.

Measurement

The Task Force reached a consensus-for-exposure that it would be inappropriate for an acquirer to use a carryover basis for the measurement of an assumed contract liability in a revenue contract (that is, recording the liability on the acquirer's balance sheet equal to the amount of the contract liability on the acquiree's balance sheet immediately preceding the business combination date). The Task Force also reached a consensus-for-exposure that an acquirer would consider the assets and liabilities in the acquired set when determining the fair value of an assumed contract liability.

(Vote: 6-0)

The Board decided to expose the proposed Update for public comment for a period of 30 days.

(Comment Period Vote: 6-0)

General Announcements: None.