financial executives international

April 30, 2018

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2018-230

Submitted via electronic mail to director@fasb.org

Dear Chairman Golden,

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to comment on the Financial Accounting Standard Board's (the "Board") Proposed Accounting Standards Update, *Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*

FEI is a leading international organization representing more than 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 $8.6 trillion in market capitalization and actively monitor the standard setting activities of the SEC, FASB, and PCAOB.

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

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CCR appreciates the Board's attention to this evolving area, and welcomes this timely guidance to promote consistency in practice. Overall, we are supportive of the proposed amendments to align the requirements for capitalizing implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract with the capitalization requirements for internal-use software in ASC 350-40. There are limited areas in which we suggest changes to this proposed ASU.

Disclosure Considerations
ASC 350-40 does not currently contain specific disclosure requirements, and instead refers users to other relevant guidance in U.S. GAAP for disclosure purposes. The proposal amends ASC 350-40 to require disclosure of a quantitative description of the implementation costs that were expensed and capitalized during the period. This will require reevaluation, and in many cases expansion, of current disclosures on internal-use software and hosting arrangements. We are not supportive of such quantitative disclosure requirements, and request that this requirement be eliminated for the following reasons:

- This requirement would be challenging to operationalize because it would require companies to capture a subset of costs that most companies don't currently distinguish separately from other internal use software costs on a project.
- We question the cost-benefit, relevance and consistency of requiring companies to disclose additional quantitative information, particularly as it relates to implementation costs that are expensed. Consider the accounting for property, plant and equipment (PP&E); ASC 360-10-50 does not require companies to disclose the spending related to PP&E that is expensed (e.g. expenditures for assets that are below capitalization thresholds, repairs and maintenance costs, etc.). Since there is generally no other sub-class of fixed assets that requires such specific disclosures for related set-up costs, it would be inconsistent to establish specific disclosure requirements under ASC 350-40.

Therefore, we **very strongly** oppose the requirement for companies to disclose a quantitative description of the implementation costs that were expensed and capitalized during the period.

Transition
In addition to the retrospective and prospective transition methods proposed by the Board, we suggest amending the proposal to also permit companies to adopt using a modified retrospective method.

Hosting arrangements for large systems are becoming more common and there are a large number of existing arrangements that were entered into in the past. Therefore many of these existing arrangements will have related ongoing (in-flight) implementations as of the adoption date of this standard. We recommend permitting the use of a modified retrospective method which would allow companies to capitalize costs incurred after the date of adoption for these in-flight arrangements.

Effective Date
The Board requested respondents to provide feedback on the amount of time necessary to implement the proposed ASU as written. We believe public business entities will need one year to apply the proposed amendments, if our recommendations are incorporated into the proposal. We believe this is a prudent timeframe considering the amount of change in the system for both users and preparers. If our

recommendations are not incorporated, then we believe additional time will be needed. Additionally, we believe early adoption should be permitted.

Conclusion

Overall, we are supportive of the conclusions reached in this proposed ASU. We suggest the following recommendations be considered:

- Eliminating the proposed requirement to disclose a quantitative discussion of the implementation costs that were expensed and capitalized during the period, and
- Permitting a modified retrospective method of adoption

Additionally, we suggest the Board provide public business entities one year to adopt the proposed amendments, if our above suggestions are incorporated, with early adoption permitted.

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We look forward to working closely with the Board as the accounting for technology-based products and services continues to evolve. We are willing to provide the preparer perspective in an effort to align the accounting for these transactions to their underlying economics. Should you have any questions, we welcome the opportunity to discuss our comments further.

Sincerely,

Mick Homan

Mick Homan
Chair
Committee on Corporate Reporting
Financial Executives International