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Summary of the July Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the July 20, 2017, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensuses (“consensus-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

After that meeting, the official EITF minutes, including the results of the FASB’s ratification process, will be posted to the [Deloitte Accounting Research Tool \(DART\)](#) and to the [FASB’s Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 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”

Status: Initial deliberations.

Affects: Entities that incur implementation costs as customers in cloud computing arrangements that are considered service contracts.

Background: In April 2015, the FASB issued [ASU 2015-05](#),¹ which clarifies the circumstances under which a customer in a cloud computing arrangement would account for the arrangement as a license of internal-use software under ASC 350-40.² The ASU provides guidance on whether a cloud computing arrangement contains a software license or whether it is considered a service contract and is thus not within the scope of ASC 350-40, which addresses the accounting for implementation costs that are only related to software licenses. As noted in the Background Information and Basis for Conclusions of ASU 2015-05, at that time the Board decided not to address the accounting for implementation costs related to cloud computing arrangements that are considered service contracts.

As these arrangements have become more prevalent, stakeholders have raised concerns that the guidance in GAAP is unclear on the accounting for implementation costs associated with cloud computing arrangements that are considered service contracts. Stakeholders have indicated that there is currently diversity in practice as entities look to various Codification topics for guidance on accounting for such costs.

At its May 10, 2017, meeting, the FASB acknowledged that accounting for a customer's implementation costs in a cloud computing arrangement is an emerging and prevalent issue and added a narrow-scope project on this issue to the EITF's agenda.

Summary: At this meeting, the Task Force discussed the accounting for a customer's implementation costs incurred in a cloud computing arrangement that is considered a service contract, primarily focusing on the following alternatives:

- Account for the costs on the basis of existing GAAP, including ASC 340, ASC 350-40, ASC 360, and ASC 720-45 (Alternative B proposed in the [Issue Summary](#)).
- Account for the costs in a manner consistent with how an entity accounts for a customer's implementation costs associated with a software license (i.e., under ASC 350-40) (Alternative C proposed in the Issue Summary).

When asked which alternative they preferred, more Task Force members favored Alternative C over Alternative B. However, no formal votes on the proposed alternatives were taken and no decisions were made at this meeting.

Next Steps: The Task Force requested that the FASB staff continue to research the alternatives discussed and that such research include (1) understanding the challenges in applying ASC 350-40 to arrangements that contain a software license, (2) developing examples of implementation costs incurred in various cloud computing arrangements, and (3) applying to those examples the proposed accounting under Alternative B and Alternative C.

Announcement and Administrative Matters

At this meeting, the SEC staff announced that a public business entity (PBE) that meets the definition of a PBE only because its financial statements or financial information is included in another entity's filing with the SEC is permitted to apply the non-PBE transition and effective date provisions when adopting [ASUs 2014-09](#)³ and [2016-02](#).⁴ For additional information, see Deloitte's July 20, 2017, [Heads Up](#).

The next EITF decision-making meeting is tentatively scheduled for September 14, 2017. At that meeting, the EITF is expected to discuss the results of the FASB staff's research related to the alternatives noted above.

¹ FASB Accounting Standards Update No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

³ FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

⁴ FASB Accounting Standards Update No. 2016-02, *Leases*.

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The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

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