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Summary of the January Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the January 18, 2018, meeting of the Emerging Issues Task Force (EITF or "Task Force"). Initial Task Force consensuses ("consensuses-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 each 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: Consensus-for-exposure.

Affects: Entities that incur costs for implementation activities (implementation costs) as customers in cloud computing arrangements (CCAs) 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 CCA would account for the arrangement as a license of internal-use software under ASC 350-40.² The ASU provides guidance on whether a CCA contains a software license or whether it is considered a service contract and thus is not within the scope of ASC 350-40. ASC 350-40 only addresses the accounting for the costs of implementation activities related to software licenses used internally. 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 costs for implementation activities related to CCAs that are considered service contracts.

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

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

At its October 12, 2017, meeting, the Task Force tentatively decided that a customer should apply the “revised Alternative C” approach to account for implementation costs incurred in a CCA that is considered a service contract. See below for a description of the revised Alternative C approach.

In addition, the Task Force discussed other issues related to a customer’s implementation costs incurred in a CCA that is considered a service contract and tentatively decided not to:

- Add guidance on how to apply ASC 350-40 to CCAs.
- Provide additional guidance on separation of elements.
- Add a definition or further description of implementation costs.

The Task Force requested that the FASB staff further examine practical questions related to capitalization of the software element of a CCA under the revised Alternative C approach.

Summary: At this meeting, the Task Force continued discussing the accounting for a customer’s implementation costs incurred in a CCA that is considered a service contract. On the basis of its research and stakeholder outreach performed after the October meeting, the FASB staff presented the following two alternatives for the Task Force to consider (the two alternatives are described in the [January Issue Summary](#)):

- *Revised Alternative C* — A customer would account for the software element of the CCA not as a service but as an asset (i.e., a right to access specified software). A customer would be required to record an asset for the software element and a liability to the extent that fees related to the software element are paid over time in a manner similar

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.”](#)

to those related to a lease under ASC 842. However, the asset would be accounted for in a manner consistent with the framework in ASC 350-40 for internal-use software, including capitalization of certain implementation costs. Under this approach, the software element and hosting service element are separately identified and the transaction price allocated between the two elements. This accounting is similar to a transaction in which the entity purchases a license for internal-use software and will pay for the license over time. Follow-on issues under this alternative would be whether to allow a practical expedient not to separate the components and whether the treatment should be similar to that for a finance or operating lease.

- *Original Alternative C* — An entity would apply ASC 350-40 to determine which implementation costs should be capitalized. For example, while an entity would expense costs incurred in the preliminary project and post-implementation-operation stages, the entity would capitalize certain costs incurred during the application development stage and when upgrades and enhancements are made. Capitalized implementation costs would not be considered part of a software intangible asset, as is required for CCAs that contain a software license (i.e., under ASC 350-40). Instead, costs would be capitalized as part of the CCA contract, and income statement classification for the related amortization would be consistent with the ongoing periodic costs of the underlying CCA.

On the basis of the additional research and outreach presented by the FASB staff as well as clarification of the balance sheet and income statement treatment under the Original Alternative C approach, the Task Force reached a consensus-for-exposure that a customer should apply this approach to account for implementation costs incurred in a CCA that is considered a service contract. Further, the Task Force decided:

- That an entity would amortize capitalized implementation costs over a period representing the noncancelable contract term plus any renewal periods whose exercise is reasonably certain.
- Not to provide additional guidance on scope.
- To amend the definition of a hosting arrangement by changing “licensing of software products” to “accessing and using software products,” since hosting arrangements that are considered service contracts do not contain a license.
- Not to explicitly prohibit analogies to this Issue. The Task Force noted that the proposed guidance addressing this narrow-scope issue is not expected to change practice for implementation costs incurred in other service contracts.
- To add specific disclosure requirements related to this topic, which could include a general description of the terms and conditions of a CCA, significant judgments and assumptions an entity used in applying the amendments resulting from this Issue, and qualitative or quantitative disclosure of costs that were expensed and capitalized. The Task Force will consider whether any of these disclosure requirements should also be applied to internal-use software (i.e., whether they should be incorporated into ASC 350-40).

Effective Date and Transition: The Task Force decided that an entity would have the option of applying either a retrospective or prospective transition method when adopting the final guidance. The effective date will be discussed at a future meeting.

Next Steps: The FASB staff will draft and issue a proposed ASU for public comment on the basis of the decisions made at the January meeting.

Tax Reform

At its January 10, 2018, meeting, the FASB made a number of decisions related to the application of ASC 740 to certain provisions of the new tax reform legislation, commonly known as the Tax Cuts and Jobs Act. (See Deloitte's [Financial Reporting Alert 18-2](#) for more information about the issues discussed and decisions made at that meeting.) In addition, the FASB directed its staff to draft Q&A documents to address implementation issues discussed at the January 10 meeting. The FASB staff distributed draft Q&A documents on the following topics to the Task Force before the January 18, 2018, EITF meeting:

- Whether to discount the tax liability for the deemed repatriation transition tax.
- Whether to discount alternative minimum tax credits that become refundable.
- Accounting for the base erosion anti-abuse tax.
- Accounting for global intangible low-taxed income.

At this meeting, the Task Force was given an opportunity to provide feedback on the FASB staff's draft Q&A documents but raised no concerns. The FASB intends to issue final Q&A documents and post them to its Web site.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for March 22, 2018.

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