

DEMANDE D'INTÉGRATION À
LA BASE DE TARIFICATION
DES COÛTS LIÉS AUX PROJETS
INFORMATIQUES INFONUAGIQUES

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INTRODUCTION

1 Dans sa décision D-2017-144, autorisant la réalisation du projet de mise en place d'une solution
2 informatique pour la gestion de la relation avec la clientèle (« Projet CRM »), la Régie de l'énergie
3 (la « Régie ») réservait le droit d'Énergir, s.e.c. (« Énergir ») de présenter, dans le cadre du
4 dossier tarifaire 2018-2019, sa demande visant l'intégration à la base de tarification de tous les
5 coûts initiaux de configuration et de personnalisation de cette solution ainsi que leur
6 amortissement sur une période de 10 ans.

7 Pour la présente demande, Énergir profite du cadre élargi du dossier tarifaire qui offre à tous les
8 intéressés aux dossiers tarifaires d'Énergir l'opportunité de faire valoir leur point de vue, pour
9 étendre la portée de sa demande à tous les futurs projets informatiques infonuagiques, en plus
10 du Projet CRM mentionné précédemment.

1 CONTEXTE

11 Le logiciel en tant que service, aussi nommé *Software as a Service* (« SaaS ») est un nouveau
12 modèle d'exploitation commerciale informatique qui gagne en popularité ces dernières années.
13 Selon ce modèle, les logiciels sont hébergés sur des serveurs détenus par un tiers et accessibles
14 à distance plutôt qu'installés sur l'appareil de l'utilisateur, d'où leur appellation de solutions
15 « infonuagiques ».

16 À l'instar des entreprises dans les secteurs des télécommunications, de la santé, des services
17 financiers, des assurances et gouvernementaux, les utilités publiques réglementées délaissent
18 les solutions basées sur des logiciels détenus pour se tourner vers celles de type infonuagique.
19 Les avantages des solutions de type infonuagique sont nombreux autant pour l'utilité publique
20 que pour ses clients :

- 21 ▪ réduction des coûts;
- 22 ▪ fiabilité, flexibilité et sécurité accrues;
- 23 ▪ suivi de l'innovation technologique facilité; et
- 24 ▪ mises à jour qui minimisent les interruptions commerciales.

Particularité du secteur des utilités publiques réglementées

1 Cependant, les traitements comptables de ces solutions présentent un défi unique au secteur des
2 utilités publiques réglementées. Les logiciels utilisés par les utilités publiques réglementées sont
3 habituellement capitalisés et considérés comme des investissements amortis sur leur durée de
4 vie utile¹. Advenant que la Régie exige une harmonisation du traitement réglementaire aux
5 normes comptables à l'égard des logiciels de type infonuagique, les investissements d'Énergir
6 effectués pour ce type de solutions seraient amortis de la façon suivante, selon la situation :
7 i) ceux qui auraient été portés à un compte de frais reportés (« CFR ») à la suite d'une décision
8 de la Régie pour la réalisation d'un projet dont les investissements seraient supérieurs à 1,5 M\$
9 devraient être entièrement amortis en une année à la base de tarification du prochain dossier
10 tarifaire à être soumis, tandis que ii) les investissements de projets inférieurs à 1,5 M\$ seraient
11 directement comptabilisés dans les dépenses d'exploitation. En conséquence, des sommes
12 importantes pourraient être intégrées aux tarifs en une seule année engendrant ainsi une iniquité
13 intergénérationnelle. En effet, les normes comptables stipulent que les sommes investies pour
14 ces solutions sont comptabilisées à titre de dépenses d'exploitation et non à titre d'actifs comme
15 le sont les logiciels habituellement détenus au sein de l'entreprise.

16 Cet enjeu, propre au secteur des utilités publiques réglementées, introduit donc un biais dans les
17 décisions futures à l'égard de l'acquisition de logiciels qui répondraient mieux aux besoins des
18 clients et à ceux des entreprises réglementées que les solutions traditionnelles.

2 TRAITEMENT COMPTABLE ACTUEL

19 On peut répartir les sommes investies dans les solutions infonuagiques en trois catégories :

20 A) les dépenses d'exploitation, c'est-à-dire les coûts qui ne rencontrent pas les critères
21 comptables de capitalisation;

22 B) les sommes investies qui rencontrent les critères comptables de capitalisation; et

¹ Voir par exemple les coûts de logiciels à la pièce B-0005, Gaz Métro-1, Document 1 dans le dossier R-3834-2013.

- 1 C) les sommes investies qui ne rencontrent pas les critères de capitalisation lorsqu'il s'agit
2 d'une solution infonuagique, mais qui sont capitalisables dans le cas d'une solution
3 traditionnelle.

**Catégorie A : les dépenses d'exploitation, incluant les coûts annuels d'hébergement
et d'abonnement**

4 Du point de vue des normes comptables, les solutions infonuagiques requièrent un traitement
5 particulier puisque, contrairement aux logiciels traditionnels, l'utilisateur ne prend pas possession
6 du logiciel SaaS. Au lieu d'acquérir des licences lui donnant droit d'utiliser le logiciel, l'utilisateur
7 se voit plutôt facturer annuellement des coûts d'hébergement et d'abonnement au logiciel. La
8 norme *ASU 2015-05, Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40) :*
9 *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (« Subtopic 350-40 »),
10 publiée en avril 2015, traite spécifiquement de ce sujet. Pour reconnaître la prise de possession
11 et permettre la capitalisation d'un logiciel, la norme exige le respect de deux critères :

- 12 1) le client-utilisateur détient un droit contractuel de prendre possession du logiciel à tout
13 moment au cours de la période d'hébergement sans encourir de pénalité importante; et
14 2) le client-utilisateur est en mesure d'exploiter le logiciel sur son propre équipement
15 informatique ou peut contracter avec une tierce partie, indépendante du vendeur,
16 l'hébergement du logiciel.

17 Les contrats ne respectant pas ces deux critères de capitalisation sont reconnus être des contrats
18 de service. Par conséquent, les frais annuels engagés dans le cadre d'un contrat SaaS pour
19 l'hébergement et l'abonnement représentent des coûts de catégorie A et doivent être
20 comptabilisés en tant que dépenses d'exploitation.

Catégories B et C : les coûts de configuration et de personnalisation

21 En plus des frais annuels engagés dans le cadre d'un contrat SaaS pour l'hébergement ou
22 l'abonnement au logiciel, il est fréquent que des coûts initiaux soient engagés afin de répondre
23 aux besoins de l'utilisateur, soit pour personnaliser le logiciel SaaS ou encore pour configurer les
24 autres logiciels déjà détenus par l'utilisateur de façon à les rendre compatibles avec la nouvelle
25 solution. Bien que le traitement des coûts annuels d'hébergement/abonnement soit clairement
26 établi dans la norme précitée, le traitement des coûts initiaux est plus nuancé :

- 1 ▪ **Catégorie B** : les coûts encourus initialement afin de modifier les logiciels déjà détenus
2 par l'utilisateur pour les rendre compatibles avec la nouvelle solution peuvent être
3 capitalisés lorsqu'ils constituent une amélioration apportée à un actif déjà détenu, basé
4 sur le Subtopic 350-40; et
- 5 ▪ **Catégorie C** : les coûts encourus initialement afin de personnaliser ou de configurer le
6 logiciel SaaS pour répondre aux besoins de l'utilisateur ne peuvent être capitalisés
7 puisque'ils représentent des améliorations à un actif qui n'appartient pas à l'utilisateur et
8 dont il n'a pas le contrôle (voir les critères de prise de possession énumérés
9 précédemment).

10 Ce sont les coûts de catégorie C qui représentent un enjeu pour les utilités publiques
11 réglementées. Les normes comptables actuelles ne permettant pas la capitalisation et
12 l'amortissement de ces sommes sur la durée de vie utile de la solution informatique, elles
13 engendrent un fardeau pour le client actuel alors que le client futur, bien que bénéficiant de la
14 solution, n'aura pas à en supporter les coûts.

15 Énergir estime que la clientèle tire avantage de ces sommes investies pour la configuration et la
16 personnalisation de la solution SaaS durant une période qui s'étend bien au-delà de la première
17 année d'utilisation. Comme mentionné précédemment, ces investissements sont essentiels pour
18 permettre l'adaptation aux besoins spécifiques de l'utilisateur ainsi que l'accès et l'utilisation
19 continue de la solution informatique. Par conséquent, ils améliorent le droit de l'utilisateur de
20 recevoir le service, et ce, tout au long de la durée de vie utile de la solution informatique.

3 STATUT SUR LES NORMES COMPTABLES AMÉRICAINES

21 Le Subtopic 350-40 des normes comptables américaines fournit les directives à l'égard de la
22 comptabilisation des solutions informatiques développées ou acquises pour utilisation interne.
23 Toutefois, cette norme actuellement en vigueur ne traite pas de façon spécifique des coûts
24 encourus pour l'implantation des solutions de type infonuagique. À la suite de demandes de
25 directives additionnelles de plusieurs parties prenantes, le Financial Accounting Standards Board
26 (« FASB ») a publié, le 1^{er} mars 2018, un exposé-sondage, voir annexe 1, *Intangibles–Goodwill*
27 *and Other–Internal-Use Software (Subtopic 350-40) : Customer's Accounting for Implementation*
28 *Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*

1 Cet exposé-sondage, ouvert aux commentaires jusqu'au 30 avril 2018, propose la capitalisation
2 des coûts de configuration et de personnalisation d'un logiciel SaaS défini comme un contrat de
3 service. La capitalisation se ferait en fonction de la nature des coûts et de l'étape du projet où ils
4 sont encourus (planification, développement, post-développement), tout comme pour les logiciels
5 traditionnels visés par la norme actuelle. Les coûts capitalisés seraient amortis sur la durée du
6 contrat de service de la solution infonuagique et l'amortissement serait présenté dans les
7 dépenses d'exploitation, à la même ligne que les frais annuels associés au contrat.

8 Bien que le FASB considère que les coûts d'implantation et de configuration des solutions
9 infonuagiques ne répondent pas aux critères de comptabilisation d'un actif intangible, il reconnaît
10 qu'ils génèrent une hausse des avantages économiques futurs sur toute la durée du contrat
11 SaaS. Conséquemment, la position du FASB rejoint celle d'Énergir, soit que ces coûts sont liés
12 à des avantages économiques futurs du contrat de service et qu'ils devraient être capitalisés.

4 PROPOSITION D'ÉNERGIR

13 L'issue de l'exposé-sondage du FASB ne sera pas connue avant plusieurs mois. Advenant la
14 publication d'une norme modifiée conformément à la proposition contenue à l'exposé-sondage,
15 les coûts d'implantation et de configuration des solutions infonuagiques devront être capitalisés.
16 Cependant, dans l'éventualité où la proposition de capitalisation du FASB ne serait pas retenue,
17 Énergir soumet qu'elle souhaiterait maintenir la capitalisation de ces coûts, comme proposé dans
18 la présente demande.

19 Évidemment, le développement du Projet CRM étant déjà en cours de réalisation, Énergir soumet
20 qu'il n'est pas souhaitable d'attendre le dénouement futur des normes comptables américaines
21 pour statuer sur la capitalisation des coûts de ce projet. Considérant que les solutions
22 infonuagiques seront de plus en plus présentes dans les futurs projets informatiques, Énergir croit
23 qu'une pratique uniforme et générique devrait être établie à l'égard de ce type de solution.

24 Elle estime aussi que les normes comptables actuelles mènent à un traitement inadéquat des
25 coûts d'implantation et de configuration des solutions infonuagiques du fait qu'il engendre une
26 iniquité intergénérationnelle. Ainsi, de façon générique, Énergir demande à la Régie d'autoriser
27 l'intégration à la base de tarification de tous les coûts initiaux de configuration et de
28 personnalisation des projets informatiques infonuagiques ainsi que leur amortissement en

1 fonction de la durée de vie utile de la solution à laquelle ils sont associés, soit habituellement une
2 période de 5 ans (ou de 10 ans pour certains projets majeurs).

3 À des fins réglementaires, l'actif serait présenté comme un CFR puisqu'il ne peut être qualifié
4 d'actif intangible. Conséquemment, et contrairement à ce que suggère l'exposé-sondage du
5 FASB, l'amortissement serait intégré au coût de service en tant qu'amortissement comptable du
6 CFR et non à titre de dépense d'exploitation.

7 En ce qui concerne plus particulièrement le Projet CRM (dossier R-4014-2017), Énergir demande
8 à la Régie d'autoriser l'intégration à la base de tarification de tous les coûts initiaux de
9 configuration et de personnalisation ainsi que leur amortissement sur une période de 10 ans,
10 représentant la durée de vie utile de la solution CRM.

5 TRAITEMENT UTILISÉ PAR LES PAIRS DE L'INDUSTRIE

11 Bien avant la parution de l'exposé-sondage du FASB, certains régulateurs et associations se sont
12 prononcés sur cet enjeu. À ce titre, Énergir souligne la résolution² de la National Association of
13 Regulatory Utility Commissioners (« NARUC »), déposée en novembre 2016 et présentée à
14 l'annexe 4 de la pièce B-0006, Gaz Métro-1, Document 1 du dossier R-4014-2017, qui encourage
15 les régulateurs américains à permettre la capitalisation des solutions infonuagiques de façon à
16 ce qu'elles soient admissibles à l'intégration dans la base de tarification de l'utilité publique. La
17 NARUC reconnaît ainsi qu'il serait souhaitable que les utilités publiques réglementées soient
18 libres de procéder à des investissements informatiques en fonction de l'option répondant le mieux,
19 à la fois aux besoins de l'utilité et à ceux de ses clients, plutôt qu'en fonction de la manière dont
20 l'investissement sera traité comptablement.

21 Notons aussi qu'à ce chapitre, la State of New York Public Service Commission a pris position en
22 faveur de la capitalisation des solutions infonuagiques à la page 104 de son *Order Adopting a*
23 *Ratemaking and Utility Revenue Model Policy Framework* du 19 mai 2016 rendue dans le dossier
24 14-M-0101 (*Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision*)³.

² <http://pubs.naruc.org/pub/2E54C6FF-FEE9-5368-21AB-638C00554476>

³ <http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=14-m-0101>

1 De plus, le personnel technique de l'Illinois Commerce Commission (« ICC ») a publié un rapport
2 en avril 2017 recommandant à l'ICC de « *consider implementing regulatory accounting rules that*
3 *enable utilities to capitalize investments in cloud-based analytics solutions, just as they do with*
4 *on-premise systems* » (voir page 123 du rapport)⁴.

5 Du côté canadien, un projet de cette nature a été analysé en 2017 par l'Alberta Utilities
6 Commission. La décision du régulateur n'a cependant pas permis à l'entreprise ENMAX la
7 capitalisation des coûts de son projet infonuagique⁵. Il est cependant important de noter que cette
8 entreprise électrique et gazière présente ses résultats réglementaires et statutaires en fonction
9 des normes internationales IFRS et non en fonction des PCGR des États-Unis, comme c'est le
10 cas pour Énergir, et qu'aucune modification portant sur la comptabilisation des solutions
11 infonuagiques n'est présentement à l'étude dans les normes internationales IFRS, contrairement
12 aux normes comptables américaines.

13 D'autres entreprises canadiennes du secteur énergétique, plus particulièrement Fortis BC, Union
14 Gas, Enbridge Gas Distribution ainsi qu'Hydro-Québec, ont confirmé à Énergir qu'elles utilisaient
15 déjà des solutions infonuagiques ou qu'elles comptaient en implanter prochainement. Toutes ont
16 aussi confirmé appliquer, le cas échéant, la norme actuellement en vigueur pour la
17 comptabilisation de leurs solutions infonuagiques et attendre avec impatience les résultats de
18 l'exposé-sondage du FASB à cet égard.

6 IMPACT TARIFAIRE

19 Une analyse d'impact tarifaire marginal (différentiel) a été effectuée afin de refléter l'impact
20 qu'aurait la demande d'Énergir sur les tarifs, en utilisant comme base de référence les
21 investissements prévus en développements informatiques au dossier tarifaire 2018-2019. Le
22 résultat de ces calculs reflète l'impact marginal qu'aurait la demande d'Énergir en comparaison
23 avec le traitement comptable actuel, en prenant l'hypothèse que les coûts d'implantation des
24 nouvelles solutions SaaS seraient portés à un CFR amorti sur 5 ans et que ceux relatifs au Projet
25 CRM seraient amortis sur 10 ans. L'analyse présentée à l'annexe 2 a été effectuée sur une

⁴ <https://www.icc.illinois.gov/NOI2016.aspx>

⁵ Décision 21508-D01-2017 du 13 décembre 2017, dossier 21508.

1 période de 10 ans, pour refléter adéquatement la période complète d'amortissement des
2 investissements.

3 L'impact tarifaire marginal de la proposition d'Énergir se traduit par une faible augmentation de la
4 valeur actuelle nette des tarifs de 0,27 M\$ sur 10 ans, comme démontré à l'annexe 2, tout en
5 permettant d'éviter les variations tarifaires importantes occasionnées par l'inclusion de tous les
6 coûts d'implantation au cours de la première année de service des différents projets.

7 L'impact sur le coût de service a été déterminé en considérant les paramètres suivants :

- 8 ▪ le rendement attribuable à la base de tarification moyenne est calculé selon le coût en
9 capital prospectif avant impôts, soit 5,43 %⁶;
- 10 ▪ la dépense d'impôts est établie selon les taux actuellement en vigueur, soit 26,73 %⁷; et
- 11 ▪ la dépense d'amortissement est attribuable aux investissements en frais reportés afin de
12 refléter la durée de vie utile estimée de 5 ans (10 ans pour le Projet CRM).

Modalité d'application

13 Énergir demande à la Régie que les différentes modifications comptables proposées soient
14 appliquées à partir du 1^{er} octobre 2018, soit à partir de l'année tarifaire 2018-2019.

CONCLUSION

15 Énergir est convaincue que sa proposition d'inclusion à la base de tarification contribuera à
16 l'établissement de tarifs justes et raisonnables.

Ainsi, en ce qui concerne spécifiquement le Projet CRM, dossier R-4014-2017, Énergir demande à la Régie d'autoriser l'intégration à la base de tarification de tous les coûts initiaux de configuration et de personnalisation et leur amortissement sur une période de 10 ans, représentant la durée de vie utile de la solution.

⁶ Voir à cet effet la décision D-2017-094

⁷ Voir à cet effet la décision D-2017-094

De plus, Énergir demande à la Régie d'autoriser de manière générique, à partir du 1^{er} octobre 2018, l'intégration à la base de tarification de tous les coûts initiaux de configuration et de personnalisation de tous les autres projets informatiques infonuagiques et leur amortissement sur une période de 5 ans, sauf dans les cas où la Régie aura autorisé une période d'amortissement différente.

FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: March 1, 2018
Comments Due: April 30, 2018

**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**

**Disclosures for Implementation Costs Incurred for Internal-
Use Software and Cloud Computing Arrangements**

a consensus of the FASB Emerging Issues Task Force

The Board issued this Exposure Draft to solicit public comment on proposed changes to Subtopic 350-40 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2018-230, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until April 30, 2018. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2018-230
- Sending a letter to "Technical Director, File Reference No. 2018-230, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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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

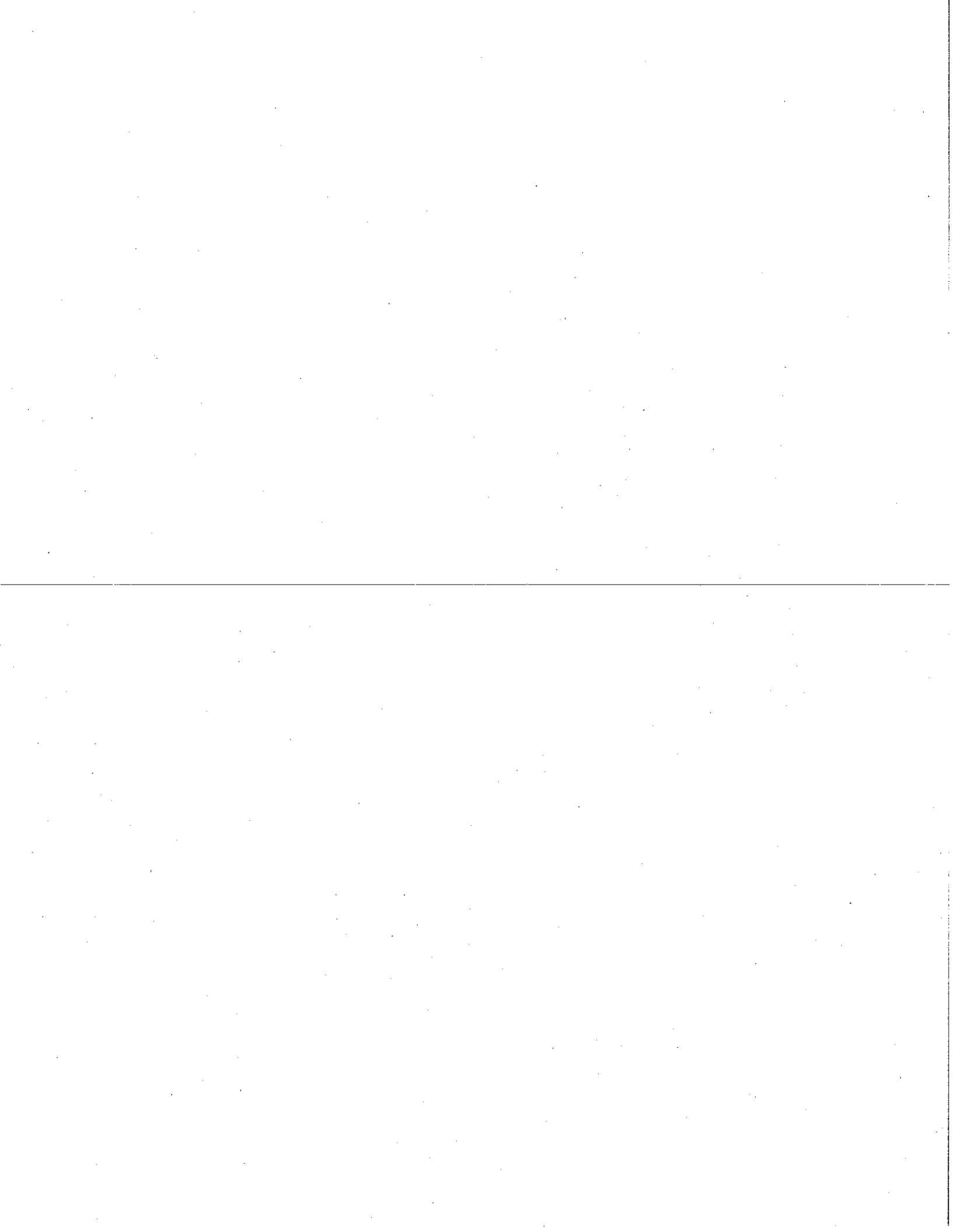
Disclosures for Implementation Costs Incurred for
Internal-Use Software and Cloud Computing
Arrangements

March 1, 2018

Comment Deadline: April 30, 2018

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license.

If a cloud computing arrangement includes a license to internal-use software, then the software license is accounted for by the customer in accordance with Subtopic 350-40. This generally means that an intangible asset is recognized for the software license, and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred.

During the comment period and after the issuance of Update 2015-05, several stakeholders requested that the Board provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. Because the guidance in the Accounting Standards Codification is not explicit in that area, the Board decided to issue this proposed Update to address the resulting diversity in practice.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update on the accounting for implementation, setup, and other upfront costs (collectively referred to as implementation costs) would apply to entities that are a customer in a hosting arrangement, as defined in the Master Glossary and as further amended by this proposed Update, that is a service contract. The proposed amendments for the qualitative and quantitative disclosures about implementation costs would apply to entities that capitalize implementation costs in accordance with the internal-use software guidance under Subtopic 350-40 or in accordance with the amendments in this proposed Update.

What Are the Main Provisions?

The amendments in this proposed Update would align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract would not be affected by the proposed amendments.

Accordingly, the amendments in this proposed Update would require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 on internal-use software to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40, such as training costs and certain data conversion costs, also would not be capitalized for a hosting arrangement that is a service contract. Therefore, an entity (customer) in a hosting arrangement that is a service contract would determine which project stage (that is, preliminary project stage, application development stage, or postimplementation stage) an implementation activity relates to. Costs for implementation activities in the application development stage would be capitalized depending on the nature of the costs, while costs incurred during the preliminary project and postimplementation stages would be expensed as the activities are performed.

The amendments in this proposed Update also would require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and present that expense in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement. The term of the hosting arrangement would include the noncancelable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor.

The amendments in this proposed Update also would require an entity to disclose certain qualitative and quantitative information about implementation costs associated with internal-use software and hosting arrangements.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Current GAAP does not specifically address the accounting for implementation costs of a hosting arrangement that is a service contract. Accordingly, the amendments in this proposed Update would improve current GAAP because they would clarify that accounting and align the accounting for implementation costs for hosting arrangements. The disclosures in the proposed amendments also would increase the information provided to users of financial statements about implementation costs incurred for internal-use software and hosting arrangements.

When Would the Amendments Be Effective?

The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on this proposed Update. The amendments in this proposed Update would be applied either prospectively or retrospectively. Under a prospective transition, an entity would apply the proposed amendments to hosting arrangements that are entered into, renewed, or materially modified on or after the effective date of the proposed amendments. Under a retrospective transition, an entity would be required to apply the proposed amendments retrospectively to all hosting arrangements, with the cumulative effect of applying the proposed amendments to hosting arrangements entered into before the beginning of the earliest period presented in the financial statements recognized in retained earnings.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Should eligible implementation costs of a hosting arrangement that is a service contract be capitalized using the guidance on internal-use software, recognized in profit or loss over the term of the hosting arrangement as defined in this proposed Update, and presented in the same line item in the statement of income as the fee associated with the hosting arrangement? If not, what accounting is more appropriate and why?

Question 2: This proposed Update includes an amendment to the definition of *hosting arrangement* in the Master Glossary. Do you agree with the amendment, and do you have any other concerns with the definition, as amended?

Question 3: Is additional guidance needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement?

Question 4: Can the guidance for determining the project stage (that is, preliminary project stage, application development stage, or postimplementation stage) in Subtopic 350-40 be consistently applied to a hosting arrangement? Why or why not?

Question 5: Should an entity apply an impairment model to implementation costs of a hosting arrangement that is a service contract that is different from the impairment model included in Subtopic 350-40? Why or why not?

Question 6: Do you agree with the disclosures included in the proposed amendments? If not, what additional disclosures do you recommend, or what disclosures should be removed and why?

Question 7: Should the disclosures included in the proposed amendments be applied to internal-use software and hosting arrangements that include a software license? Why or why not?

Question 8: Should an entity be permitted to elect prospective transition or retrospective transition? If not, please explain what transition method should be required and why. If an entity elects prospective transition, should the entity apply the transition requirements to each hosting arrangement, each module or component within a hosting arrangement, or costs of the hosting arrangement?

Question 9: Should an entity be required to provide the transition disclosures specified in the proposed amendments? If not, please explain what transition disclosures should be required and why.

Question 10: How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Do entities other than public business entities need additional time to apply the proposed amendments? Why or why not?

Question 11: Should the proposed amendments be more broadly applied to similar transactions beyond hosting arrangements or be limited to transactions based on the scope of the proposed amendments? If more broadly applied, what transactions are similar to those included in the scope of the proposed amendments?

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–11. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary term *Hosting Arrangement*, with a link to transition paragraph 350-40-65-3, as follows:

~~Hosting Arrangement~~

In connection with ~~the licensing of~~accessing and using software products, an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or via a dedicated line.

Amendments to Subtopic 350-10

3. Amend paragraph 350-10-05-3, with a link to transition paragraph 350-40-65-3, as follows:

Intangibles—Goodwill and Other—Overall

Overview and Background

350-10-05-3 This Topic includes the following Subtopics:

- a. Overall.
- b. Goodwill—Subtopic 350-20 provides guidance on the measurement of goodwill after acquisition, derecognition of some or all of goodwill allocated to a reporting unit, other presentation matters, and disclosures.
- c. General Intangibles Other Than Goodwill—Subtopic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill that are either:

1. Acquired individually or with a group of assets in a transaction that is not a business combination or an acquisition by a not-for-profit entity
2. Internally generated.
- d. Internal-Use Software—Subtopic 350-40 provides guidance on the accounting for the cost of computer software that is developed or obtained for internal use and hosting arrangements obtained for internal use.
- e. Website Development Costs—Subtopic 350-50 provides guidance on whether to capitalize or expense costs incurred to develop a website.

Amendments to Subtopic 350-40

4. Supersede (and move) paragraphs 350-40-05-1 through 05-1B and add paragraphs 350-40-05-1C through 05-1F and 350-40-05-10 and the related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Intangibles—Goodwill and Other—Internal-Use Software

Overview and Background

General

~~**350-40-05-1** Paragraph superseded by Accounting Standards Update No. 2018-XX. This Subtopic provides guidance on accounting for the cost of computer software developed or obtained for internal use and for determining whether the software is for internal use. Certain costs incurred for computer software developed or obtained for internal use should be capitalized depending on the nature of the costs and the project stage during which they were incurred in accordance with the guidance in Section 350-40-25. Computer software to be sold, leased, or otherwise marketed externally is not considered to be for internal use. **[Content amended and moved to paragraph 350-40-05-1D]**~~

~~**350-40-05-1A** Paragraph superseded by Accounting Standards Update No. 2018-XX. Section 350-40-30 includes guidance on the types of costs that should be capitalized, including costs for the purchase of internal-use software in a multiple element transaction. **[Content moved to paragraph 350-40-05-1E]**~~

~~**350-40-05-1B** Paragraph superseded by Accounting Standards Update No. 2018-XX. Section 350-40-35 includes guidance on the following:~~

- a. ~~How to test the internal-use software for impairment~~
- b. ~~How to amortize the asset~~
- c. ~~How to account for software that previously was considered for internal use, but subsequently was marketed. **[Content moved to paragraph 350-40-05-1F]**~~

~~**350-40-05-1C** The Internal-Use Software Subtopic presents guidance in the following Subsections:~~

a. General

b. Implementation Costs of a Hosting Arrangement That Is a Service Contract.

350-40-05-1D ~~This~~ The General Subsections of this Subtopic provide provides guidance on accounting for the cost of computer software developed or obtained for internal use and for determining whether the software is for internal use. Certain costs incurred for computer software developed or obtained for internal use should be capitalized depending on the nature of the costs and the project stage during which they were incurred in accordance with the guidance in Section 350-40-25. Computer software to be sold, leased, or otherwise marketed externally is not considered to be for internal use. **[Content amended as shown and moved from paragraph 350-40-05-1]**

350-40-05-1E Section 350-40-30 includes guidance on the types of costs that should be capitalized, including costs for the purchase of internal-use software in a multiple element transaction. **[Content moved from paragraph 350-40-05-1A]**

350-40-05-1F Section 350-40-35 includes guidance on the following:

- a. How to test the internal-use software for impairment
- b. How to amortize the asset
- c. ~~How to account for software that previously was considered for internal use, but subsequently was marketed.~~ **[Content moved from paragraph 350-40-05-1B]**

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-05-10 The Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsections of this Subtopic address the accounting for the implementation, setup, and other upfront costs (implementation costs) incurred in a hosting arrangement that does not meet the criteria in paragraph 350-40-15-4A.

5. Amend paragraphs 350-40-15-1 through 15-4A and 350-40-15-4C and add paragraphs 350-40-15-4D and 350-40-15-8 through 15-9 and the related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Scope and Scope Exceptions

General

> Overall Guidance

350-40-15-1 This The General Subsection of this Section establishes the pervasive scope for this Subtopic. The General Subsections of this Subtopic follow follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 350-10-15, with specific transaction qualifications and

exceptions noted below and in the Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsection.

> Transactions

350-40-15-2 The guidance in the General Subsections of this Subtopic applies to the following transactions and activities:

- a. Internal-use software
- b. The proceeds of computer software developed or obtained for internal use that is marketed
- c. New internal-use software developed or obtained that replaces previously existing internal-use software
- d. Computer software that consists of more than one component or module. For example, an entity may develop an accounting software system containing three elements: a general ledger, an accounts payable subledger, and an accounts receivable subledger. In this example, each element might be viewed as a component or module of the entire accounting software system. The guidance in this Subtopic shall be applied to individual components or modules.

350-40-15-3 ~~This~~ The General Subsections of this Subtopic ~~provide~~provides guidance on when costs incurred for internal-use computer software are and are not capitalized.

350-40-15-4 The guidance in this Subtopic does not apply to the following transactions and activities:

- a. Software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process, subject to Subtopic 985-20
- b. Software to be used in research and development, subject to Subtopic 730-10
- c. Software developed for others under a contractual arrangement, subject to contract accounting standards
- d. Accounting for costs of reengineering activities, which often are associated with new or upgraded software applications.
- e. Subparagraph superseded by Accounting Standards Update No. 2018-XX. ~~Software that a customer obtains access to in a hosting arrangement that does not meet the criteria in paragraph 350-40-15-4A.~~

350-40-15-4A The guidance in the General Subsections of this Subtopic applies only to internal-use software that a customer obtains access to in a **hosting arrangement** if both of the following criteria are met:

- a. The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty.
- b. It is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

350-40-15-4C {remove glossary link} **Hosting arrangements**{remove glossary link} that do not meet both criteria in paragraph 350-40-15-4A are service contracts and do not constitute a purchase of, or convey a license to, software.

350-40-15-4D Implementation costs of a hosting arrangement that does not meet both criteria in paragraph 350-40-15-4A shall be accounted for in accordance with the Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsections of this Subtopic.

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-15-8 The Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsections of this Subtopic follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Section, with specific qualifications noted in paragraph 350-40-15-9.

350-40-15-9 The Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsections of this Subtopic provide guidance on when costs incurred to implement a **hosting arrangement** that does not meet both criteria in paragraph 350-40-15-4A are and are not capitalized.

6. Add paragraph 350-40-25-18 and its related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Recognition

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-25-18 An entity shall apply the General Subsection of this Section as though the **hosting arrangement** that is a service contract were an internal-use computer software project to determine when implementation costs of a hosting arrangement that is a service contract are and are not capitalized.

7. Amend paragraph 350-40-30-4 and add paragraph 350-40-30-5 and its related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Initial Measurement

General

> Multiple-Element Arrangements Included in Purchase Price

350-40-30-4 Entities may purchase internal-use computer software from a third party or may enter into a **hosting arrangement**. In some cases, the purchase price includes multiple elements, such as the license or hosting, training for the software, maintenance fees for routine maintenance work to be performed by the third party, data conversion costs, reengineering costs, and rights to future upgrades and enhancements. Entities shall allocate the cost among all individual elements. The

allocation shall be based on objective evidence of fair value of the elements in the contract, not necessarily separate prices stated within the contract for each element. Those elements included in the scope of this Subtopic shall be accounted for in accordance with the provisions of this Subtopic.

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-30-5 An entity shall apply the General Subsection of this Section as though the **hosting arrangement that is a service contract** were an internal-use computer software project to determine when implementation costs of a hosting arrangement that is a service contract are and are not capitalized.

8. Add paragraphs 350-40-35-11 through 35-15 and their related Subsection title and heading, with a link to transition paragraph 350-40-65-3, as follows:

Subsequent Measurement

Implementation Costs of a Hosting Arrangement That Is a Service Contract

> Amortization

350-40-35-11 ~~Implementation costs capitalized in accordance with the Implementation Costs of a Hosting Arrangement That Is a Service Contract Subsections of this Subtopic shall be amortized over the term of the associated hosting arrangement, considering paragraph 350-40-35-15, on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from access to the hosted software. This Subsection considers the right to access the hosted software to be equivalent to actual use, which shall not be affected by the extent to which the entity uses, or the expectations about the entity's use of, the hosted software (for example, how many transactions the entity processes or expects to process or how many users access or are expected to access the hosted software).~~

350-40-35-12 An entity (customer) shall determine the term of the hosting arrangement that is a service contract as the fixed noncancelable term of the hosting arrangement plus all of the following:

- a. Periods covered by an option to extend the hosting arrangement if the entity (customer) is reasonably certain to exercise that option
- b. Periods covered by an option to terminate the hosting arrangement if the entity (customer) is reasonably certain not to exercise that option
- c. Periods covered by an option to extend (or not to terminate) the hosting arrangement in which exercise of the option is controlled by the vendor.

350-40-35-13 An entity (customer) shall periodically reassess the estimated term of the arrangement and shall account for any change in the estimated term as a

change in accounting estimate in accordance with Topic 250 on accounting changes and error corrections.

350-40-35-14 An entity shall consider the effects of all the following when determining the term of the hosting arrangement in accordance with paragraph 350-40-35-12 and when reassessing the term of the hosting arrangement in accordance with paragraph 350-40-35-13:

- a. **Obsolescence**
- b. **Technology**
- c. **Competition**
- d. **Other economic factors**
- e. **Rapid changes that may be occurring in the development of hosting arrangements or hosted software**
- f. **Significant implementation costs that are expected to have significant economic value for the entity (customer) when the option to extend or terminate the hosting arrangement becomes exercisable.**

350-40-35-15 For each module or component of a hosting arrangement, an entity shall begin amortizing the capitalized implementation costs related to the hosting arrangement that is a service contract when the module or component of the hosting arrangement is ready for its intended use, regardless of whether the overall hosting arrangement will be placed in service in planned stages that may extend beyond a reporting period. For purposes of this Subsection, a hosting arrangement (or module or component thereof) is ready for its intended use after all substantial testing is completed. If the functionality of a module or component is entirely dependent on the completion of other modules or components, the entity shall begin amortizing the capitalized implementation costs related to that module or component when both that module or component and the other modules or components upon which it is functionally dependent are ready for their intended use.

9. Add Section 350-40-45, with a link to transition paragraph 350-40-65-3, as follows:

Other Presentation Matters

Implementation Costs of a Hosting Arrangement That Is a Service Contract

> Amortization

350-40-45-1 An entity shall present the amortization of implementation costs described in paragraph 350-40-35-11 in the same line item in the statement of income as the fees for the associated **hosting arrangement**.

10. Amend paragraph 350-40-50-1 and add paragraphs 350-40-50-2 through 50-3 and the related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Disclosure

General

350-40-50-1 This Subtopic does not require any new disclosures. In addition to the disclosure requirements in this Subtopic, Disclosed disclosures shall be made in accordance with existing authoritative literature including the following:

- a. Topic 275
- b. Subtopic 730-10
- c. Topic 235
- d. Subtopic 360-10.

350-40-50-2 An entity shall disclose the following:

- a. A general description of the terms and conditions of the software acquired or developed for internal use or the **hosting arrangement**
- b. The significant judgments and assumptions that an entity made in applying this Subtopic to implementation costs
- c. A qualitative and quantitative description of the implementation costs that were expensed and costs that were capitalized during the period
- d. A qualitative and quantitative description of the period over which the implementation costs are recognized as an expense in the income statement.

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-50-3 The disclosure requirements in the General Subsection of this Section are applicable to the capitalized implementation costs of a hosting arrangement that is a service contract.

11. Add paragraph 350-40-65-3 and its related heading as follows:

> **Transition Related to Accounting Standards Update No. 2018-XX, *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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements***

350-40-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-XX, *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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*:

- a. For **public business entities**, the pending content that links to this paragraph shall be effective for annual periods, including interim periods

- within those annual periods, beginning after [date to be inserted after exposure].
- b. For all other entities, the pending content that links to this paragraph shall be effective for annual periods beginning after [date to be inserted after exposure], and interim periods in annual periods beginning after [date to be inserted after exposure].
 - c. Early application of the pending content that links to this paragraph is [to be inserted after exposure].
 - d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
 - 1. Prospectively to arrangements entered into, renewed, or materially modified after the effective date
 - 2. Retrospectively in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10.
 - e. A public business entity that elects prospective transition shall disclose the following in the first interim period and annual period after the effective date:
 - 1. The nature of and reason for the change in accounting principle
 - 2. The transition method
 - 3. A qualitative description of the financial statement line items affected by the change.
 - f. A public business entity that elects retrospective transition shall disclose the following in the first annual period after the entity's adoption date and in the interim periods within the first annual period:
 - 1. The nature of and reason for the change in accounting principle
 - 2. The transition method
 - 3. A qualitative description of the financial statement line items affected by the change
 - 4. Quantitative information about the effects of the change.
 - g. All other entities shall disclose the information in (e) or (f) for prospective transition or retrospective transition, respectively, in the first annual period after the entity's adoption date, unless the entity elects to early adopt the pending content that links to this paragraph in an interim period, in which case the entity also shall disclose that information in the interim periods within the first annual period after the entity's adoption date.

The amendments in this proposed Update were approved for publication by five members of the Financial Accounting Standards Board. Ms. Botosan and Mr. Siegel voted against publication of the amendments. Their alternative views are set out at the end of the basis for conclusions.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

Background Information, Basis for Conclusions, and Alternative Views

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Subtopic 350-40 provides guidance on how to account for software that is developed or obtained for internal use. In Update 2015-05, the Board made amendments to Subtopic 350-40 to help entities evaluate whether a hosting arrangement, as defined in the Master Glossary, includes an internal-use software license for accounting purposes. Examples of hosting arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. When a hosting arrangement is deemed not to include a software license for accounting purposes, the arrangement is accounted for as a service contract.

BC3. The amendments in Update 2015-05 did not address the accounting for costs incurred to implement a hosting arrangement that is a service contract, and some stakeholders therefore requested that the Board provide additional guidance for those implementation costs. Because the guidance in the Codification is not explicit in that area, the Board decided to issue this proposed Update to address the resulting diversity in practice. For example, while some implementation costs related to a hosting arrangement that is a service contract can be accounted for using existing GAAP, such as the acquisition of hardware or coding changes to the customer's on-premise software, other costs such as customization and configuration of hosted software are not specifically addressed in GAAP and generally are expensed as the services are provided.

BC4. On May 10, 2017, the Board decided to add a narrow scope project to the EITF's agenda to address a customer's accounting for costs for implementation activities incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract.

Basis for Conclusions

Scope

BC5. The amendments in this proposed Update would broaden the scope of Subtopic 350-40 to include costs incurred to implement a hosting arrangement that is a service contract. The costs would be capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred, consistent with internal-use software. For example, costs incurred during the application development stage of implementation would be capitalized depending on the nature of the costs, whereas costs incurred during the preliminary project and postimplementation stages would be expensed as the implementation activities are performed. The proposed amendments would result in consistent capitalization of implementation costs of a hosting arrangement that is a service contract and implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).

Accounting for Implementation Costs Incurred in a Hosting Arrangement That Is a Service Contract

BC6. ~~The Task Force reached a consensus-for-exposure that would require an entity to capitalize implementation costs of a hosting arrangement that is a service contract using the guidance in Subtopic 350-40 on internal-use software. The accounting for the hosting fees associated with the hosting arrangement would not be affected by this consensus-for-exposure and, accordingly, would be expensed as the service is performed.~~

BC7. In reaching this consensus-for-exposure, the Task Force noted that an entity may incur significant costs when implementing a hosting arrangement that is a service contract, which may indicate a future benefit to the entity beyond the period over which the implementation services are performed. In a service contract, while the right to receive the service and the obligation to pay for the service as the service is performed are not recognized on the balance sheet, the Task Force observed that certain costs to implement the hosting arrangement enhance the right to receive the related service. Accordingly, the Task Force decided that the implementation costs of a hosting arrangement that is a service contract could be attached to the service contract and, therefore, could be capitalized as an asset and recognized over a period longer than the period over which the implementation services are provided. That is, those capitalized costs, while not representative of an asset on a standalone basis, result in an increase in future benefits to be received under the hosting arrangement, thus resulting in an asset related to the service contract. While overall, the Board and Task Force members believe that it is important that guidance be developed in a manner in which the outcome is both relevant to investors' needs and responsive to preparers' ability to apply the guidance, some Task Force members weighed the

expected costs and expected benefits differently in determining the consensus-for-exposure and its interaction with the FASB conceptual framework. In determining the consensus-for-exposure, the Task Force decided that it represents a practical solution that addresses the original concern that was raised to the Task Force and that it was responsive to the unique characteristics of hosting arrangements that are service contracts.

BC8. The Task Force noted that implementation costs capitalized under the amendments in this proposed Update relate to the rights and obligations embedded in a hosting arrangement (which are not recognized separately as assets and liabilities) for which the entity has the right to use and that this is similar to other contract-related assets. For example, under Subtopic 340-40 on other assets from contracts with customers, costs that relate to a specific contract and that are expected to be recovered are recognized as an asset if they generate or enhance resources of the entity that will be used in fulfilling the contract in the future. This guidance results in the capitalization of costs that cannot be capitalized in accordance with other GAAP and that are not added to the measurement of another asset. They merely generate a resource for the entity. The Task Force believes that the result of the implementation costs of a hosting arrangement generates a resource for the entity that is used in connection with the hosting arrangement.

BC9. In discussing the accounting for implementation costs incurred in a hosting arrangement that is a service contract, the Task Force considered other alternatives, including an alternative that would have resulted in recognizing an asset for both the costs incurred to implement the hosting arrangement and the right to use the software embedded in the hosting arrangement based on the premise that the hosting arrangement provides an economic resource to the customer irrespective of ownership or location of the software. A few Task Force members preferred that alternative. They noted that under Subtopic 350-40, costs associated with implementation activities are not capitalized as a separate or standalone asset. Instead, the software is the identified asset, and costs of implementation activities are added to the measurement of that asset. Those Task Force members also believe that this alternative is consistent with the FASB conceptual framework. Those Task Force members noted that in the absence of an asset to which implementation costs can be added, the implementation costs incurred in a hosting arrangement that is a service contract are like costs incurred in other transactions that, while expected to provide economic benefits in future periods, are not recognized as an asset but rather are expensed as incurred (for example, training costs or business process reengineering costs). However, other Task Force members noted that that alternative also had conceptual limits (for example, it treated the transaction as economically different from how a vendor accounts for the transaction under Topic 606 on revenue from contracts with customers). The Task Force ultimately rejected that alternative. In doing so, the Task Force also considered the general lack of support by preparers and users during outreach. Initial outreach with users indicated that they generally preferred

implementation costs to be expensed as incurred and that they also preferred software and related implementation costs of internal-use software to be expensed as incurred, but they saw an argument for capitalizing the implementation costs of a hosting arrangement that is a service contract. In addition, some Task Force members were concerned that accounting for hosting arrangements that are service contracts like leases may have unintended consequences because intangible assets are not in the scope of Topic 842 on leases. Some Task Force members also noted that the alternative would be beyond the scope of the issue given to the Task Force.

BC10. The Task Force also reached a consensus-for-exposure to require entities to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which would include renewal options that are reasonably certain to be exercised. The Task Force believes that including reasonably certain renewals to determine the period over which the costs should be expensed would represent the expected period of benefit of the enhanced right that is expected to be realized from the hosting arrangement. The Task Force also believes that this is reasonably consistent with the period over which capitalized costs are recognized as an expense for implementation costs of hosting arrangements that contain a license. The Task Force also decided that an entity would record the expense related to the implementation costs in the same line item in the statement of income as the fees for the hosting arrangement (and, accordingly, the amortization expense related to those implementation costs would not be presented along with depreciation or amortization expense related to property, plant, and equipment, and intangible assets). This is because the asset recognized for the implementation costs is recognized only as a result of enhancing the value of the hosting service, which itself is not recognized as an asset. Thus, although the implementation costs are recognized as a standalone asset, the future benefit derived from that asset is linked to the benefit derived from the hosting service, which is expensed as incurred.

BC11. The Task Force decided that there was no need to provide a definition of the term *implementation costs*. The Task Force observed that adding a description of the different types of implementation costs could be helpful but decided it was not necessary because Subtopic 350-40 already has appropriate guidance that entities currently apply in practice.

BC12. The Task Force discussed and decided to remain silent on whether an entity may apply the guidance in the amendments in this proposed Update by analogy to other transactions and activities. The Task Force noted that explicitly disallowing an analogy to Subtopic 350-40 would not be effective because the guidance in the proposed amendments is based, in part, on an analogy to the guidance in Subtopic 340-40. If the Task Force decided to disallow an analogy to Subtopic 350-40, an entity could still analogize to Subtopic 340-40 on the same basis as this proposed Update. Some Task Force members also believe that few, if any, arrangements are similar to hosting arrangements. As a result, there may

not be many transactions for which an entity would attempt to analogize to Subtopic 350-40.

BC13. The Task Force reached a consensus-for-exposure to amend the definition of *hosting arrangement* to remove the reference to licensing. The Task Force noted that the definition of hosting arrangement uses the phrase "licensing of software," which would potentially limit the number of arrangements to which the guidance in the amendments in this proposed Update would apply because many hosting arrangements do not provide the customer with a license to the underlying software. In addition, the Task Force discussed whether to add guidance to limit the scope of the proposed amendments to service contracts in which the hosting arrangement is more than minor. The purpose of that guidance would be to reduce the costs of implementing internal controls over financial reporting related to analyzing all service arrangements to determine whether a hosting arrangement, as defined in the Master Glossary, is included in the service arrangement. While the Task Force decided not to add guidance to limit the scope of the proposed amendments, the Task Force decided to obtain feedback on the issue.

Disclosures

BC14. The Task Force reached a consensus-for-exposure to add disclosure requirements that would apply to implementation costs of all transactions within the scope of Subtopic 350-40, not just hosting arrangements that are service contracts. The amendments in this proposed Update would require certain qualitative and quantitative disclosures about costs incurred to implement internal-use software or hosting arrangements. The intent of these disclosures would be to provide users with information about the type and amount of implementation costs capitalized as well as information about the subsequent measurement of those costs. The Task Force decided that the new disclosures would be required for all transactions within the scope of Subtopic 350-40 to create consistency between the information provided for internal-use software and hosting arrangements.

Effective Date and Transition

BC15. The Task Force did not propose an effective date for the guidance in the amendments in this proposed Update. Consequently, the Task Force will take into consideration the comments received from the exposure of this document before determining when this proposed Update would be effective.

BC16. The Task Force reached a consensus-for-exposure to allow entities to choose between prospective transition and retrospective transition when adopting the guidance in the amendments in this proposed Update. Under prospective transition, an entity would apply the proposed guidance to hosting arrangements entered into, renewed, or materially modified after the effective date. The prospective transition approach is based on whether a hosting arrangement is entered into (or materially modified or renewed) after the effective date, and not

whether implementation costs are incurred after the effective date. The Task Force understands that the benefits of retrospective transition may not justify the costs because the effect of retrospective application may not be significant for many entities. However, the Task Force saw no reason to prohibit an entity from retrospectively applying the proposed amendments, and an entity with significant implementation costs during the comparative periods of the financial statements in which the entity adopts the proposed amendments may believe that retrospective application provides more useful information. The Task Force discussed potential challenges of implementing the proposed guidance in situations in which an entity is incurring costs to implement a hosting arrangement that already exists upon the proposed Update's ultimate effective date. However, in-process implementation costs would be capitalized only if the entity elects retrospective transition.

BC17. The Task Force reached a consensus-for-exposure to require different transition disclosure requirements depending on the transition method elected. For prospective transition, an entity would disclose the nature of and reason for the accounting change, the transition method, and a qualitative description of the financial statement line items affected by the change. For retrospective transition, the disclosure requirements at transition would include all of the requirements for prospective transition plus quantitative information about the effects of the accounting change. The Task Force decided that the benefits of requiring quantitative disclosure of the effect of the proposed amendments for prospective transition would not justify the costs. The transition disclosures would be in lieu of those required in paragraphs 250-10-50-1 through 50-3.

Benefits and Costs

BC18. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC19. The Task Force does not anticipate that entities would incur significant costs as a result of the amendments in this proposed Update. The Task Force agreed that guidance on the costs of implementing a hosting arrangement that is a service contract would benefit users by reducing diversity in practice. Thus, on balance, the Task Force concluded that those benefits would justify the expected costs that entities would incur as a result of applying the proposed amendments.

Alternative Views

BC20. Ms. Botosan and Mr. Siegel do not support the issuance of this proposed Update. They believe that capitalizing the costs incurred in implementing a cloud computing arrangement that is a service contract is contrary to the conceptual framework. They do not believe that such costs, in and of themselves, meet the definition of an asset and believe that the proposed Update, which treats such costs as assets on a standalone basis, does not faithfully represent the economics of the arrangement. They also believe that the proposed amendments result in noncomparable, non-neutral accounting and do not provide users with decision-useful financial reporting information. Furthermore, Ms. Botosan and Mr. Siegel believe that the proposed solution is less cost-beneficial than at least one of the alternative solutions rejected by the Task Force. Finally, Ms. Botosan and Mr. Siegel believe that the accounting for costs incurred in implementing a service contract is a broad issue, which is not appropriately addressed in an emerging issues project narrowly scoped to cloud computing service contracts.

BC21. Assets are defined in FASB Concepts Statement No. 6, *Elements of Financial Statements*, as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Ms. Botosan and Mr. Siegel believe that cloud computing implementation costs do not meet the definition of an asset on a standalone basis because they do not convey probable future economic benefits controlled by the entity when considered independently of any asset created by the cloud computing arrangement itself (a software license, for example). Consistent with this, Ms. Botosan and Mr. Siegel believe that accounting for implementation costs as an asset detached from the related service contract is inconsistent with the Task Force's stated economic view that the implementation costs are *attached to the service contract* (see paragraph BC7).

BC22. Ms. Botosan and Mr. Siegel believe that considering the costs incurred in the implementation of a cloud computing arrangement in isolation, and separate from the cloud computing arrangement that is the subject of those implementation efforts, results in accounting that is not a faithful representation of the economics of the arrangement. If a cloud computing arrangement is truly a service contract, the benefit is received and used simultaneously, and hosting costs are appropriately expensed as incurred. Ms. Botosan and Mr. Siegel question how, within such an arrangement, costs incurred for services that enhance the related service contract (the benefit of which cannot be stored) can yield future benefits that can be stored. Consistent with this, and as noted in paragraph BC9, users generally preferred that both hosting and implementation costs be expensed as incurred for a hosting arrangement that is a service contract. Furthermore, if the costs incurred in enhancing the access to software in the cloud convey a controlled future benefit, Ms. Botosan and Mr. Siegel question how the access that is enhanced can, at the same time, not convey a controlled future benefit. Relatedly, Ms. Botosan and Mr. Siegel question the appropriateness of recognizing a

"deferred implementation cost" asset, while ignoring the obligation for future hosting fees that must be incurred to render that benefit realizable.

BC23. In the context of a cloud computing arrangement, paragraph 350-40-15-4A limits the application of internal-use software accounting guidance to hosting arrangements characterized by a contractual right and ability to take possession of the hosted software. Proponents of the proposed Update maintain that the contractual right and ability to take possession of the hosted software are nonsubstantive conditions; that is, an entity is in the same economic position with respect to the hosted software regardless of whether the hosting arrangement meets the criteria in paragraph 350-40-15-4A. Nevertheless, the proposal does not result in the same accounting for both types of cloud computing arrangements. If the hosting arrangement meets the criteria in paragraph 350-40-15-4A, the hosted software is recognized as an intangible asset and a liability is recognized, to the extent applicable hosting fees are unpaid as of the acquisition date. In addition, certain implementation costs are capitalized as part of the cost of the hosted software asset. Under the amendments in the proposed Update, if the hosting arrangement does not meet the criteria in paragraph 350-40-15-4A, the software element would not be recognized as an intangible asset nor would a liability be recognized for applicable hosting fees unpaid as of the acquisition date. Instead, hosting fees would continue to be expensed as incurred. Nevertheless, certain internal and external implementation costs would be capitalized as a standalone "deferred implementation cost" asset. Ms. Botosan and Mr. Siegel believe that economically equivalent transactions should not be accounted for differently.

BC24. Ms. Botosan and Mr. Siegel also are concerned that the proposed accounting would not offer a neutral depiction of the economics of various hosting arrangements, which could give rise to an "accounting subsidy" resulting in contract or transaction structuring to obtain a preferred accounting outcome. For example, if an entity is in the same economic position with respect to hosted software regardless of whether the arrangement meets the criteria in paragraph 350-40-15-4A or not, hosting arrangements could be easily structured to meet or avoid those criteria depending on whether an entity prefers to recognize, or avoid recognizing, an intangible software asset and related liability, while continuing to defer the related implementation costs as an asset.

BC25. Ms. Botosan and Mr. Siegel agree it is important that the costs of reporting are justified by the benefits. Users generally prefer that hosting and implementation costs be expensed as incurred for a hosting arrangement that is a service contract. Ms. Botosan and Mr. Siegel question the Task Force's decision to require entities to incur costs to analyze the nature of the costs incurred and the project stage during which they are incurred, to identify the subset of implementation costs to be capitalized, which users would otherwise prefer to be expensed.

BC26. Finally, Ms. Botosan and Mr. Siegel believe that the accounting for costs incurred in implementing a service contract is a much broader issue than the accounting for costs incurred in implementing a cloud computing service contract.

Ms. Botosan and Mr. Siegel note that the Board agreed with that view when Update 2015-05 was issued. The basis for conclusions of Update 2015-05 states in paragraph BC7 that:

The Board observed in redeliberations that some stakeholders wanted the scope of this Update to be expanded to address a customer's accounting for implementation, set up, and other upfront costs that often are incurred by customers entering into cloud computing arrangements. . . . In deciding not to provide additional guidance on the accounting for upfront costs incurred by customers entering into cloud computing arrangements that do not transfer a software license to a customer, the Board noted that initial costs incurred in service arrangements are not unique to cloud computing arrangements. Consequently, the scope of that issue is much broader than the scope of this Update. The Board decided that the scope of this Update should not be expanded to address the range of implementation and set-up costs incurred by a customer in a cloud computing arrangement.

Ms. Botosan and Mr. Siegel believe that the implementation costs question is not severable from the question of accounting for the hosting arrangement itself. Consequently, Ms. Botosan and Mr. Siegel believe that a robust solution to the issue raised by stakeholders would necessitate greater understanding of users' needs, the applicability of Topic 842 to right-to-use software (which was not included in the scope of Topic 842 for practical, not conceptual, reasons [see paragraph BC110(a) of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*]), and the accounting for such arrangements by vendors. For these reasons, Ms. Botosan and Mr. Siegel believe the Board was correct in its earlier decision to not add a project to consider these issues at this time, especially as the recent agenda consultation did not indicate any concerns with accounting for implementation costs associated with service contracts.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed improvements to the Taxonomy through [Proposed Taxonomy Improvements](#) provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the Taxonomy will be finalized as part of the annual release process.

Annexe 2 - Impact tarifaire - CALCUL DIFFÉRENTIEL

DEMANDE D'INTÉGRATION À LA BASE DE TARIFICATION DES COÛTS LIÉS AUX PROJETS INFORMATIQUES INFONUAGIQUES
(000 \$)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TOTAL
1											
2	COÛTS - FRAIS REPORTÉS										
3	Portefeuille de projets (On premise + SaaS) 2019	1 950	0	0	0	0	0	0	0	0	1 950
4	Projet CRM	513	0	0	0	0	0	0	0	0	513
5		2 463	0	0	0	0	0	0	0	0	2 463
6	COÛTS - IMMOBILISATION										
7	Équipements	0	0	0	0	0	0	0	0	0	0
8		0	0	0	0	0	0	0	0	0	0
9	Coûts - Investissement initial										2 463
10	ÉCONOMIES ATTENDUES- DÉPENSE D'EXPLOITATION										
11	Portefeuille de projets SaaS 2019	(1 950)	0	0	0	0	0	0	0	0	(1 950)
12	Projet CRM	(513)	0	0	0	0	0	0	0	0	(513)
13		(2 463)	0	0	0	0	0	0	0	0	(2 463)
14	FRAIS ADDITIONNELS- DÉPENSE D'EXPLOITATION										
15		0	0	0	0	0	0	0	0	0	0
16		0	0	0	0	0	0	0	0	0	0
17	Frais additionnels nets - Dépenses d'exploitation										(2 463)

**DEMANDE D'INTÉGRATION À LA BASE DE TARIFICATION DES COÛTS LIÉS AUX PROJETS INFORMATIQUES INFONUAGIQUES
(000 \$)**

	Coût du capital prospectif après impôts 5.01%				Coût du capital prospectif avant impôts 5.43%						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
1											
2											
3											
4											
5											
6	FRAIS REPORTÉS - solde début	0	4 978	4 252	3 526	2 799	2 073	1 542	1 205	869	533
7	COÛTS	2 463	0	0	0	0	0	0	0	0	0
8	AMORTISSEMENT	2 515	(726)	(726)	(726)	(726)	(531)	(336)	(336)	(336)	(533)
9	FRAIS REPORTÉS - solde fin	4 978	4 252	3 526	2 799	2 073	1 542	1 205	869	533	0
10	ÉQUIPEMENT (IMMO.) - solde début	0	0	0	0	0	0	0	0	0	0
11	COÛTS	0	0	0	0	0	0	0	0	0	0
12	AMORTISSEMENT	0	0	0	0	0	0	0	0	0	0
13	ÉQUIPEMENT - solde fin	0	0	0	0	0	0	0	0	0	0
15	BASE DE TARIFICATION MOYENNE	2 489	4 615	3 889	3 163	2 436	1 807	1 373	1 037	701	266
16	IMPACT COÛT DE SERVICE										
17	RENDEMENT SUR LA BASE	135	251	211	172	132	98	75	56	38	14
18	IMPÔTS	35	64	54	44	34	25	19	14	10	4
19	AMORTISSEMENT	(2 515)	726	726	726	726	531	336	336	336	533
20		(2 345)	1 041	991	942	892	654	430	407	384	551
21	DÉPENSES D'EXPLOITATION										
22	Économies attendues	(2 463)	0	0	0	0	0	0	0	0	0
23	Frais additionnels	0	0	0	0	0	0	0	0	0	0
24	IMPACT NET SUR LE COÛT DE SERVICE	(4 809)	1 041	991	942	892	654	430	407	384	551
25	IMPACT CUMULATIF SUR LE COÛT DE SERVICE	(4 809)	(3 768)	(2 776)	(1 835)	(942)	(288)	142	549	933	1 484
26	VALEUR ACTUELLE NETTE - EFFET NET SUR LES TARIFS	272	Augmentation								
27	IMPACT NET SUR LE COÛT DE SERVICE ACTUALISÉ	(4 561)	937	846	762	685	477	297	267	239	325