

April 24, 2018

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

Via email: director@fasb.org

RE: File Reference No. 2018-230 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

Dear Chairman Golden:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the Exposure Draft, *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*. In the current environment, software providers are shifting from selling licenses to subscriptions, as this has many benefits to both the software provider and the consumer. However, under the current model, implementation costs for these economically similar arrangements receive different accounting treatment, based on whether there is an associated software license. More specifically, it results in an immediate expense for implementation costs related to a cloud-based contract when the same costs would have been capitalized if a software license were conveyed and amortized into earnings over the term of the license.

Aligning Accounting Treatment for Implementation Costs

ABA supports the proposed alignment of the accounting treatment for implementation costs incurred in a cloud computing arrangement that is a service contract with the accounting treatment for a cloud computing arrangement that includes a license to internal-use software. More specifically, ABA supports the ability to assess implementation costs incurred in a cloud computing arrangement for capitalization whether it is a service contract or includes a software license. ABA also supports the continued accounting for the service contract under the current model.

In addition to our support of the proposed accounting change, ABA asks the Board to strongly consider the following provisions:

¹ The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

Determination of Useful Life

ABA believes determination of the useful life based on the term of the associated hosting arrangement does not necessarily reflect the useful life of the related asset. For example, in certain instances the implementation is not dependent on the specific service provider. To reflect this example,

Assume Preparer A builds an automated utility that extracts, combines, and relays loan-specific data from different source systems to an application provided by Cloud Computing Provider B. The service contract with Cloud Computing Provider B is for 2 years. Preparer A's utility would be materially similar if a different provider was used and the data feed is anticipated to be used for 5 years. The application could also be used if Preparer A switched to the different provider at the end of the contract with Provider B. Therefore, the ABA believes the useful life of these implementation costs would be more accurately reflected as 5 years rather than 2 year.

As reflected, the end of the specific arrangement does not necessarily mean an end to the usefulness of the related asset. ABA supports the term of the associated hosting arrangement as an indicator of the useful life but with the ability to make an independent assessment.

Transition Flexibility Including a Modified Prospective Adoption Election

ABA supports the election to adopt prospectively or retrospectively with early adoption permissible. ABA further request a modified prospective adoption election in which cost incurred will be assessed for projects put in use after the adoption. If a preparer determines that it is not cost effective or otherwise worthwhile to go back and reassess projects already in use, and for which these costs were already expensed, then the preparer should have that option.

Broad Scope of Application

ABA supports broad application of the standard to similar transactions beyond hosting arrangements, as proposed. For example, ABA supports similar accounting also for costs incurred to implement cloud storage or other cloud-based arrangements that do not necessarily involve software.

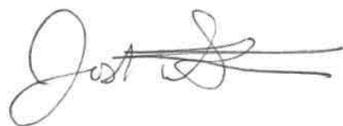
Other Consideration

ABA supports an additional project to reassess the current Internal-Use Software standards under ASC 350-40. In current practice, the development of internal-use software is an iterative process, requiring assessments at different stages under the current accounting model that are often difficult or lead to accounting conclusions that can be often inconsistent with the final results of the projects. Therefore, we would encourage the Board to consider a separate project to reassess the accounting model and to better align it with current software development practices.

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Thank you for your attention to these matters and for considering our views. Please feel free to contact me (jstein@aba.com; 202-663-5318) if you would like to discuss this in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Joshua Stein", with a stylized flourish extending to the right.

Joshua Stein