FASB Update

Paul Munter
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Agenda

• FASB Standard-Setting Priorities Post-Convergence
• Credit Losses (CECL)—Topic 326
• Lessee Accounting—Topic 842
• Hedge Simplification
• Selected Recently Completed ASUs:
  • Financial Instruments: Classification and Measurement
  • Clarifying Definition of a Business
  • Cloud Computing
Objectives

From this session you will:
• Understand the FASB’s standard-setting priorities
• Explain the requirements for recognition of credit losses
• Learn the lessee accounting requirements
• Describe the hedge accounting requirements
• Explain other recent changes to US GAAP
FASB Standard-Setting Priorities Post-Convergence
Convergence Plan

—Norwalk Agreement (September 2002)
  - FASB and IASB pledged to make their existing financial reporting standards fully compatible and coordinate future work programs to ensure compatibility is maintained

—Memorandum of Understanding between FASB and IASB (February 2006)
  - Commitment to achieve convergence
  - Sets guidelines on how to approach the task
  - Presents standard-setting goals to be accomplished by the end of 2008

—Updated Memorandum of Understanding (September 2008)
  - Presents standard setting goals to be accomplished by the end of 2011
The 2006 MoU

Discussions by the FASB and the IASB regarding their approach to the convergence program indicated agreement on the following guidelines:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB’s and the IASB’s resources—instead, a new common standard should be developed that improves the financial information reported to investors
- Serving the needs of investors means that the boards should seek to converge by replacing weaker standards with stronger standards

Report of IASB and FASB to G20 Finance Ministers, February 2013:

- Most of the short-term projects and several of the longer-term projects have been completed or are nearing completion
- In 2012 the boards made significant progress on the remaining joint projects and they continue to appreciate the importance of developing converged accounting standards
Accounting Convergence

What is Convergence?

Accounting standards based on the same concepts and principles

Accounting outcome will be the same regardless whether IFRS or U.S. GAAP
2015 Strategic Plan – Strategic Goals

- Practicing and promoting continued excellence in standard setting
- Demonstrating a commitment to leadership in standard setting
- Building and maintaining trust with stakeholders
- Promoting public discourse on current and future financial reporting issues
FASB Approach to Standard-Setting

- Simplification Initiatives
- Foundational Projects
- EITF Projects
- PCC Initiatives

Standard-Setting
Future Agenda Priorities

— Disclosure Framework
— Conceptual Framework
— Financial Instruments with Characteristics of Liabilities and Equity
— Financial Performance Reporting and Targeted Improvements to Statement of Cash Flow
ASU 2016-13
Credit Losses
Scope

In scope

- Loans
- Loan commitments
- Financial guarantees (not insurance contracts)
- Trade receivables
- Reinsurance receivables
- Lease receivables recognized by a lessor
- Receivables that result from revenue transactions
- Loans made by a NFP entity to meet its mission (programmatic loans)
- Debt securities classified as held-to-maturity

Out of scope

- Equity instruments
- Financial instruments measured at FV through NI
- Loans and receivables between entities under common control
- Policy loan receivables of an insurance entity
- Loans made to participants by defined contribution employee benefit plans
- Pledge receivables of a not-for-profit entity
Main Areas of Change - CECL

- No probability threshold
- Expected lifetime loss estimate
- Estimate future economic conditions
- Applies to HTM securities
CECL – Measurement Overview

Historical loss experience adj. for asset specific attributes + Adjustments for current economic conditions + Reasonable and supportable forecasts = Estimate of current expected credit losses
Further CECL Measurement Considerations

- Pool assets with similar risk characteristics
- Do not consider beyond contractual term
- Consider expected prepayments
- Not required to recognize a loss when the risk of nonpayment of the amortized cost is zero
- Beyond reasonable and supportable forecast period, revert to historical loss experience
AFS Credit Loss Model - Main Areas of Change

- Allowance
- Reversals
- Floor

Cannot consider length of time fair value is below amortized cost
Effective Date

- **SEC filers that are Public Business Entities**
  - Fiscal years beginning after December 15, 2019 and interim periods within those years

- **Non-SEC filers that are Public Business Entities**
  - Fiscal years beginning after December 15, 2020 and interim periods within those years

- **All of entities**
  - Fiscal years beginning after December 15, 2020 and interim periods thereafter

- **Early adoption**
  - Fiscal years beginning after December 15, 2018
ASC Topic 842 – Lessee Accounting Issues
Scope

Within scope

Outside scope

Scope with exceptions

— Non-core assets
— Long-term leases of land
— Certain sales with repurchase rights (supplier’s perspective)

Leases of/to:
— Intangible assets
— Explore for or use non-regenerative resources
— Biological assets
— Inventory
— Assets under construction

— Short-term leases (lease term ≤ 12 months)
— Underlying assets of low value (≤ $5,000, when new – IASB only)

Comparison to current U.S. GAAP
— The scope of the new leases standard is substantially aligned with current U.S. GAAP.
Lease identification

- Asset explicitly or implicitly specified in a contract;
- Asset is physically distinct
  - Applies to distinct portions but not generic capacity; and
- Supplier does not have a substantive substitution right.

Customer has the right to (throughout the period of use):
- Obtain substantially all of the economic benefits from use of the asset; and
- Direct (including the right to change) how and for what purpose the asset is used.
Embedded leases

Where could we find embedded leases?

- Advertising...
- Transportation...
- Construction...
- Related party charges...
- 'As a service' contracts
- Dedicated manufacturing capacity
- Sales contracts
- IT services
- Supply contracts
# Agreements with lease and nonlease components

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Lessor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Separating components</strong></td>
<td>Unless accounting policy elected (see below), separate and allocate based on relative standalone price of components – maximize the use of observable information</td>
</tr>
<tr>
<td><strong>Taxes and insurance on the property</strong></td>
<td>Activities (or costs of the lessor) that do not transfer a good or service to the lessee are <em>not components of a contract</em> and do not receive an allocation of the consideration in the contract</td>
</tr>
<tr>
<td><strong>Accounting policy election by class of underlying asset</strong></td>
<td>Account for lease and nonlease components together as a single lease component</td>
</tr>
</tbody>
</table>
Lease term

Noncancellable period

Optional renewal periods if lessee *reasonably certain* to exercise

Periods after optional termination date if lessee *reasonably certain not* to exercise

Optional periods to extend (or not to terminate) the lease in which exercise of option is controlled by the *lessor*

**Comparison to current U.S. GAAP**

Determination of lease term under new leases standard will remain substantially unchanged from current U.S. GAAP.

** Lease Term**
Lease payments

PV of future lease payments over the lease term – includes:

- Fixed payments
- Termination penalties
- Purchase options
- Residual value guarantees (RVGs)
- Variable lease payments (VLPs)
- Discount rate

1. Fixed payments include in-substance fixed payments, less lease incentives
2. Only include the termination penalty if the lease term reflects the lessee exercising an option to terminate the lease
3. Include the exercise price of a purchase option if lessee is reasonably certain to exercise it
4. For RVGs lessee includes the amount probable of being owed
5. Include VLPs based on an index or rate (e.g., CPI) using the index/rate at lease commencement; and if in-substance fixed
6. A lessor is required to use the rate implicit in the lease. A lessee may use its incremental borrowing rate, if it cannot determine the lessor’s implicit rate
7. Nonpublic business entities may make an accounting policy election to use a risk-free discount rate (FASB only)
Lease classification test – FASB Only

Ownership transfers at end of lease?

- No
  - Lessee purchase option *reasonably certain* of exercise?
    - No
      - Lease term = major part (e.g., 75%) of remaining economic life\(^1\)?
        - No
          - PV of lease payments + Lessee RVG = substantially all (e.g., 90%) FV\(^1\)?
            - No
              - Specialized asset with no alternative use to lessor?
                - No
                  - Operating Lease\(^\wedge\)
                - Yes
                  - Finance Lease*
            - Yes
              - Finance Lease*
        - Yes
          - Operating Lease\(^\wedge\)
    - Yes
      - Finance Lease*

\(^1\) Comparison to current U.S. GAAP

Assessment criteria are similar to current U.S. GAAP, but *without explicit bright lines*

* For lessors, a “sales-type lease”

^ For lessors, a lease that is not a sales-type lease can be classified as a direct financing lease or an operating lease
Lessees

Recognition

Comparison to current U.S. GAAP

— For lessees, all leases (other than short-term leases) will be recognized on the balance sheet
— Presentation of interest expense in the income statement depends on lease classification

Lessee A has the right to use the warehouse for five years

Lessee A has an obligation to make five annual lease payments

Lessor

Right to use underlying asset

Lessee

Lease liability

Obligation to make future lease payments

ROU asset

Right to use underlying asset during lease term

Lease payments
Initial measurement

A lessee initially measures a lease liability (and a right-of-use asset) at the lease commencement date. That is, the date on which the lessor makes the underlying asset available for use by the lessee.

Comparison to current U.S. GAAP

— Under current U.S. GAAP, the date a company performs its lease classification test and initially measures a capital lease is at lease inception (i.e., the date an agreement is reached).
Initial measurement

ROU asset is the sum of:

- Lease liability
- Initial direct costs*
- Prepaid lease payments
- Lease incentives received

* Only incremental costs to obtain the lease qualify – no allocation of internal fixed costs is permitted and costs that would have been incurred even if the lease was not obtained (e.g., legal fees to draft the lease contract) are not initial direct costs.
Subsequent measurement – Finance leases

- *Amortized*, generally on a **straight-line** basis, over the shorter of the lease term or useful life of the ROU asset
  - Together with interest expense, results in a **front-loaded pattern** of total lease cost
- **ASC 360 impairment testing**
Subsequent measurement – Operating leases (FASB only)

Method 1 – Amortize the ROU asset

ROU asset = Beginning balance - Accumulated amortization*

** Periodic amortization of ROU asset represents difference between periodic straight-line lease cost and periodic accretion of lease liability using interest method

Method 2 – Derive the ROU asset from the lease liability

Lease liability + Unamortized initial direct costs + Prepaid/ (accrued) lease payments - Unamortized balance lease incentives received

- **P&L**: Straight-line total lease cost
- **ASC 360 impairment testing**: Once impaired, single lease cost is not straight-line (pattern is equivalent to finance lease)
Subsequent measurement and reassessments

Subsequent measurement

- Measured at PV of unpaid lease payments throughout the lease term
- No fair value option

Lease liability remeasured when

- The lease is modified and that modification is not accounted for as a separate contract
- There is a change in:
  - The assessment of the lease term
  - The assessment of a purchase option exercise
  - The amount probable of being owed under a RVG
- A contingency is resolved resulting in some or all variable lease payments becoming fixed payments
- Change in payments based on index or rate – IASB Only

Comparison to current U.S. GAAP

Under current U.S. GAAP, lease accounting is not revised after commencement unless the lease is modified.
Lease liability

Subsequent measurement and reassessments (continued)

Lease liability remeasurement – Changes in carrying amount of lease liability resulting from:

- Remeasurement of the lease payments from increase to lessee’s right-of-use
  - Adjust ROU asset

- Remeasurement of the lease payments from decrease to lessee’s right-of-use
  - Recognize in P&L

— Discount rate is revised unless remeasurement is result of a change in:
  - Amounts probable of being owed under a residual value guarantee, or
  - Lease payments resulting from the resolution of a contingency upon which some/all of the variable lease payments (VLPs) are based

— VLPs that depend on an index or rate are remeasured using the index or rate at remeasurement date, when remeasurement is required

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Disclosures
**Lessee Disclosure Objective:** Enable financial statement users to assess the amount, timing and uncertainty of cash flows arising from leases. Lessees will exercise judgment to determine the appropriate level at which to aggregate, or disaggregate, disclosures.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Example disclosures</th>
</tr>
</thead>
</table>
| **Qualitative disclosures** | — Information about nature of leases (and subleases), such as basis, terms and conditions of (1) variable lease payments, (2) extension and termination options, (3) residual value guarantees, etc.  
— Leases not yet commenced that create significant rights and obligations. |
| **Quantitative disclosures**| — Finance lease cost, separating ROU amortization and interest on lease liability  
— Operating lease cost  
— Short-term lease cost  
— Variable lease cost  
— Weighted-average remaining lease term (separating finance and operating leases)  
— Weighted-average discount rate  
— Maturity analysis of lease liabilities, reconciling undiscounted cash flows to the recognized lease liabilities, separately for finance leases and operating leases. |
| **Significant judgments/assumptions** | — Determining whether a contract contains a lease  
— Determining standalone prices for lease and nonlease components  
— Determining the discount rate for the entity’s leases. |
Lessee quantitative disclosure example

The table to the right is an example of how the FASB envisions a lessee might satisfy the quantitative disclosures requirements.

The FASB has not mandated use of the tabular presentation however.

<table>
<thead>
<tr>
<th></th>
<th>Year ending December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
</tr>
<tr>
<td><strong>Lease Cost</strong></td>
<td></td>
</tr>
<tr>
<td>Finance lease cost:</td>
<td>$XXX</td>
</tr>
<tr>
<td>Amortization of right-of-use assets</td>
<td></td>
</tr>
<tr>
<td>Interest on lease liabilities</td>
<td>XXX</td>
</tr>
<tr>
<td>Operating lease cost</td>
<td>XXX</td>
</tr>
<tr>
<td>Short-term lease cost</td>
<td>XXX</td>
</tr>
<tr>
<td>Variable lease cost</td>
<td>XXX</td>
</tr>
<tr>
<td>Sublease income</td>
<td>(XXX)</td>
</tr>
<tr>
<td><strong>Total lease cost</strong></td>
<td>$XXX</td>
</tr>
<tr>
<td><strong>Other Information</strong></td>
<td></td>
</tr>
<tr>
<td>(Gains) and losses on sale and leaseback transactions, net</td>
<td>$(XXX)</td>
</tr>
<tr>
<td>Cash paid for amounts included in the measurement of lease liabilities</td>
<td>XXX</td>
</tr>
<tr>
<td>Operating cash flows from finance leases</td>
<td>XXX</td>
</tr>
<tr>
<td>Operating cash flows from operating leases</td>
<td>XXX</td>
</tr>
<tr>
<td>Financing cash flows from finance leases</td>
<td>XXX</td>
</tr>
<tr>
<td>Right-of-use assets obtained in exchange for new finance lease liabilities</td>
<td>XXX</td>
</tr>
<tr>
<td>Right-of-use assets obtained in exchange for new operating lease liabilities</td>
<td>XXX</td>
</tr>
<tr>
<td>Weighted-average remaining lease term – finance leases</td>
<td>XX Years</td>
</tr>
<tr>
<td>Weighted-average remaining lease term – operating leases</td>
<td>XX Years</td>
</tr>
<tr>
<td>Weighted-average discount rate – finance leases</td>
<td>XX%</td>
</tr>
<tr>
<td>Weighted-average discount rate – operating leases</td>
<td>XX%</td>
</tr>
</tbody>
</table>

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Effective dates and transition
Effective dates and transition

**Effective dates**

- Public business entities, certain not-for-profit entities, and certain employee benefit plans:
  - Interim and annual periods in fiscal years beginning after December 15, 2018

- All other entities:
  - Fiscal years beginning after December 15, 2019, and interim periods in fiscal years beginning one year later

- Early adoption permitted for all entities upon issuance
  - Entities can elect to early adopt the leases standard in 2016.

**Transition**

**Initial application** – the first day of the earliest comparative period presented (FASB expected to issue ASU giving practical expedient to apply from year of adoption)

**Lessees and lessors**

- Apply a *modified retrospective transition approach*:
  - Restate all comparative periods presented
  - No revisions to the accounting for leases that expired prior to date of initial application

- Full retrospective adoption prohibited

- Permitted to elect specified transition reliefs as a package (i.e., all or none) for all leases

- Companies that are both a lessee and lessor apply all or none of the specified reliefs to all their leases

- Permitted to use hindsight in evaluating the likelihood of exercise of lease renewal and purchase options for existing leases
### Effective date and transition, continued

| Transition approach* | — Apply a modified retrospective transition approach:  
|                     |   - Restate all comparative periods presented  
|                     |   - No revisions to the accounting for leases that expired prior to date of initial application  
| *See following slide for proposed transition option | — An entity may elect not to reassess:  
|                     |   - Whether expired or existing contracts contain leases under the new definition of a lease;  
|                     |   - Lease classification for expired or existing leases; and  
|                     |   - Whether previously capitalized initial direct costs would qualify for capitalization under ASC 842.  
| Package of practical expedients (all or nothing) | **Does not 'grandfather’ errors in ASC 840 application**  
|                     | — Hindsight allowed when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset  
|                     |   - Does not apply to changes in ‘fact’ – e.g. changes to terms and conditions of the lease or changes in an index or rate used to measure lease payments  
| Use of hindsight (elect on its own or with the package of practical expedients) | — Permits a company at transition to not assess whether expired or existing land easements are or contain leases if the company previously did not account for the land easements as leases.  
| Land easement practical expedient |
ASU 2017-12
Targeted Improvements to Hedging Accounting
Changes to Recognition and Presentation

- Presentation of fair value changes of hedging instruments - fair value hedge
- Presentation and recognition of fair value changes of hedging instruments - cash flow hedge and net investment hedge
- Amounts excluded from hedge effectiveness assessment

No separate measurement of ineffectiveness !!!
New Types of Permissible Hedge Relationships

Non-financial items: Contractually specified components permitted for cash flow hedges

Financial instruments: Contractually specified interest rate indices permitted for cash flow hedges
Changes Related to Cost and Complexity

- Effectiveness testing
- Initial prospective quantitative effectiveness assessment
- Critical terms match method
- Shortcut method
Changes Related to Fair Value Hedges

- SIFMA permitted as a benchmark rate for fair value hedges
- Benchmark interest rate component of a total coupon as a hedged risk
- Partial term hedging
- Prepayable hedged items
Effective Date

Public business entities
—Fiscal years beginning after December 15, 2018 and interim periods within those fiscal years

All other entities
—Fiscal years beginning after December 15, 2019
—Interim periods within fiscal years beginning after December 15, 2020

All entities may early adopt upon issuance of ASU
Selected Recently Completed ASUs
Main Changes

Available for Sale - equity investments

Cost method vs measurement alternative

Financial liabilities (fair value option)
Available-for-sale - Equity Investments With Readily Determinable Fair Value

Previous GAAP

Available for sale – changes in fair value recorded in OCI

ASU 2016-01

Fair value through Net Income

More volatility in Net Income
Cost Method vs Measurement Alternative

Previous GAAP
- Cost method
  - Cost minus impairment

ASU 2016-01
- Measurement alternative may be elected
  - Cost minus impairment +/- fair value changes when there are observable prices

Eliminates cost method, but is an exception to FV
Measurement Alternative - +/- Fair Value Changes when There are Observable Transactions

Fair value changes resulting from observable transactions

From “orderly transactions”

For the identical or “similar” instrument of the same issuer

Potential challenges

• Is the transaction orderly?
• What to do if transaction is not orderly?
• Identifying observable prices
• Determining if an investment is similar
• Adjustments to observed transaction price of the identical or similar investment when measuring fair value
Effective Date

- **Public Business Entities:** Fiscal years beginning after December 15, 2017 (including interim periods within those fiscal years)
- **For All Other Entities:** Fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2019

Early Adoption

- **Entities that are not public business entities:** may adopt for fiscal years beginning after December 15, 2017 (including interim periods within those fiscal years)
- **All entities:** may early adopt the provisions related to the recognition of changes in fair value of financial liabilities
ASU 2017-01: Clarifying the Definition of a Business
An entity must recognize intangible assets acquired in an asset acquisition and in a business combination. For example, an entity would allocate the purchase price between the in-place leases and tangible real estate assets in both an asset acquisition and a business combination.
Definition of a business

**Basic definition**
A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

Outputs are not required to be a business. Not all inputs and processes needed to create outputs are required.
## Key changes

<table>
<thead>
<tr>
<th>Missing inputs or processes</th>
<th>Old guidance</th>
<th>New guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A set is a business if a market participant could replace the missing elements</td>
<td>A set must include at a minimum an input and a substantive process to be a business</td>
<td></td>
</tr>
</tbody>
</table>

| Single/similar asset threshold | None | If substantially all the fair value is concentrated in a single asset (or group of similar assets) the set is not a business |

| Definition of outputs | ...have the ability to provide a return | ...have the ability to provide goods or services |

| Presence of goodwill | Presumption that the set is a business | Indicator of a substantive process |

The new definition of a business does not impact the SEC definition of a business and related filing requirements – e.g. pro forma information.
Clarifying the definition of a business

1. Evaluate whether substantially all of the fair value is concentrated in a single asset (or group of similar assets).

2. Evaluate whether an input and a substantive process exist.
Step 1 – Initial screening test

Is substantially all of the fair value of the gross assets acquired concentrated in a single (group of similar) identifiable asset(s)?

— **Single Identifiable Asset** – includes any individual asset or group of assets that could be recognized and measured as a single identifiable asset.

— **Similar Assets** – consider the risk characteristics when evaluating whether assets are similar.

Goodwill is included in the gross assets acquired. Other items (e.g. deferred taxes and cash) are excluded from gross assets acquired.
### Step 2 – Evaluate whether an input and a substantive process exist…

**Does the set have outputs?**

<table>
<thead>
<tr>
<th>If no…</th>
<th>If yes…</th>
</tr>
</thead>
<tbody>
<tr>
<td>The set is a business if it includes:</td>
<td>The set is a business if it includes an input or inputs and:</td>
</tr>
<tr>
<td>— Employees that form an organized workforce with skills, knowledge, or experience to perform an acquired process (or group of processes) that is critical to the ability to create outputs; <strong>and</strong></td>
<td>— Organized workforce with skills, knowledge, or experience critical to continue producing outputs;</td>
</tr>
<tr>
<td>— Inputs that the workforce could develop or convert into outputs.</td>
<td>— An acquired contract that is in effect an organized workforce critical to continue producing outputs;</td>
</tr>
<tr>
<td></td>
<td>— Process that cannot be replaced without significant cost, effort, or delay; <strong>or</strong></td>
</tr>
<tr>
<td></td>
<td>— Process that is considered unique or scarce.</td>
</tr>
</tbody>
</table>
Effective dates and transition

What is the transition method of the standard?
— The ASU is applied prospectively as of the beginning of the first period that occurs on or after the effective date. No transition disclosures are required.

When is it effective?

<table>
<thead>
<tr>
<th>Public business entities</th>
<th>Annual periods in fiscal years</th>
<th>Beginning after 12/15/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other entities</td>
<td>Interim periods in fiscal years</td>
<td>Beginning after 12/15/2019</td>
</tr>
</tbody>
</table>
Cloud Computing Arrangements
ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement
ASU 2015-05 – Background

U.S. GAAP did not include explicit guidance about a customer’s accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include:

- Software as a service
- Platform as a service
- Infrastructure as a service; and
- Other similar hosting arrangements

Objective is to limit diversity in practice

- Service contract – fees are expensed as service provided
- Internal-use software – capitalize if criteria are met
ASU 2015-05 – Decisions Reached

• A hosting arrangement includes a software license if it meets both of the following criteria:

  - Customer has contractual right to take possession of software at any time during hosting period without significant penalty
  - Feasible for customer to either run software on its own hardware or contract with another party unrelated to vendor to host software
  - Ability to take delivery without incurring costs, AND
  - Ability to use the software separately without a significant reduction in utility or value

• If a cloud computing arrangement includes a software license, account for license portion using the guidance on internal-use software.
• Otherwise account for as a service contract.
Issue Not Addressed

- Accounting for costs incurred for other service providers (i.e., parties other than the SaaS provider) for data migration and integration activities
  - Several comment letters asked the FASB to provide guidance
- FASB concluded that guidance on this issue was not necessary
- Entities should consider:
  - ASC 720-45-25 (originally EITF 97-13)
  - ASC 350-40 (originally SOP 98-1)
  - Other applicable guidance
ASU 2015-05 – Effective Date, Transition and Disclosures

Effective date

• Public business entities: annual periods, including interim periods within those annual periods, beginning after December 15, 2015
• All other entities: annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016
• Early application is permitted by all entities

Transition

• Prospectively, or
• Retrospectively

Disclosures depend on

• Whether an entity is a public business entity, and
• The transition method elected
Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (EITF 17-A)
EITF Consensus

EITF reached a consensus that implementation costs incurred in CCAs should be deferred if those same costs would be capitalized by the customer in a software licensing arrangement.

The new deferred implementation cost assets will affect companies’ financial ratios and deferred tax accounting.
## Potential key changes

<table>
<thead>
<tr>
<th>Accounting for CCAs</th>
<th>Current guidance</th>
<th>EITF consensus</th>
</tr>
</thead>
<tbody>
<tr>
<td>The CCA is accounted for as a service arrangement; no software license is conveyed to the customer.</td>
<td>No change.</td>
<td></td>
</tr>
</tbody>
</table>

| Implementation costs | Most implementation costs are expensed as the related implementation activities are performed. | Implementation costs should be deferred if those same costs would be capitalized by the customer in a software licensing arrangement. |

The EITF’s consensus will require companies to defer potentially significant, specified implementation costs that are often expensed as incurred under current GAAP.
Implementation costs

- Costs incurred to implement a CCA will be (1) deferred or (2) expensed as incurred in accordance with the guidance for the capitalization or expensing of such costs under existing internal-use software guidance.

- Not all implementation costs would be deferred under the EITF consensus-for-exposure – companies would need to allocate costs between deferrable and non-deferrable implementation activities on a relative fair value basis.
EITF Issue 17-A – Effective Date, Transition and Disclosures

**Effective date**
- Public business entities: annual periods, including interim periods within those annual periods, beginning after December 15, 2019
- All other entities: annual periods beginning after December 15, 2020, and interim periods in annual periods beginning after December 15, 2021
- Early application is permitted by all entities

**Transition**
- Prospectively, or
- Retrospectively

**Disclosures depend on**
- Whether an entity is a public business entity, and
- The transition method elected
Thank you