FINANCIAL ACCOUNTING SERIES

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

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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.

FASB

Accounting Standards Update

No. 2018-15
August 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

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

Accounting Standards Update 2018-15

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

August 2018

CONTENTS

Summary

Why Is the FASB Issuing This 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 *FASB Accounting Standards Codification*® is not explicit in that area, the Board decided to issue this Update to address the resulting diversity in practice.

Who Is Affected by the Amendments in This Update?

The amendments in this Update on the accounting for implementation, setup, and other upfront costs (collectively referred to as implementation costs) apply to entities that are a customer in a hosting arrangement, as defined in the Master Glossary and as further amended by this Update, that is a service contract.

What Are the Main Provisions?

The amendments in this Update 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 is not affected by the amendments in this Update.

Accordingly, the amendments in this Update require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. 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 cannot be capitalized for a hosting arrangement that is a service contract. Therefore, an entity (customer) in a hosting arrangement that is a service contract determines 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 are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and postimplementation stages are expensed as the activities are performed.

The amendments in this Update also 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. The term of the hosting arrangement includes the noncancellable 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 entity also is required to apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets. The amendments in this Update clarify that the capitalized implementation costs related to each module or component of a hosting arrangement that is a service contract are also subject to the guidance in Subtopic 360-10 on abandonment.

The amendments in this Update also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They 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 Update improve current GAAP because they clarify that accounting and align the accounting for implementation costs for hosting arrangements, regardless of whether they convey a license to the hosted software.

When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities.

The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

Amendments to the
FASB Accounting Standards Codification®

Introduction

1.   The Accounting Standards Codification is amended as described in paragraphs 2–15. 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 <u>underlined</u>, 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~~<u>accessing and using</u> software products, an arrangement in which ~~an end user~~<u>the customer</u> of the software does not ~~take~~<u>currently have</u> 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 <u>basis.</u>~~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. 2018-15. ~~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. 2018-15. ~~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. 2018-15. ~~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 15-2, 350-40-15-3 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. 2018-15. ~~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 the relative **standalone price**~~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 35-17 and their related Subsection title and headings, 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

> Impairment

350-40-35-11 Impairment shall be recognized and measured in accordance with the provisions of Section 360-10-35 as if the capitalized implementation costs were a long-lived asset. That guidance requires that assets be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The guidance is applicable, for example, when one of the following events or changes in circumstances occurs related to the **hosting arrangement** that is a service contract indicating that the carrying amount of the related implementation costs may not be recoverable:

- a.   The hosting arrangement is not expected to provide substantive service potential.
- b.   A significant change occurs in the extent or manner in which the hosting arrangement is used or is expected to be used.
- c.   A significant change is made or will be made to the hosting arrangement.

350-40-35-12 Paragraphs 360-10-35-47 through 35-49 require that the asset be accounted for as abandoned when it ceases to be used. Implementation costs related to each module or component of a hosting arrangement that is a service contract shall be evaluated separately as to when it ceases to be used.

> Amortization

350-40-35-13 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 the guidance in paragraph 350-40-35-17, 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).

350-40-35-14 An entity (customer) shall determine the term of the hosting arrangement that is a service contract as the fixed noncancellable 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.

350-40-35-15 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.

350-40-35-16 An entity shall consider the effects of all the following when determining the term of the hosting arrangement in accordance with paragraph 350-40-35-14 and when reassessing the term of the hosting arrangement in accordance with paragraph 350-40-35-15:

    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.

350-40-35-17 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 a module or component of a hosting arrangement) 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 350-40-35-13 in the same line item in the statement of income as the expense for fees for the associated **hosting arrangement**.

> Statement of Financial Position

350-40-45-2 An entity shall present the capitalized implementation costs described in paragraph 350-40-25-18 in the same line item in the statement of financial position that a prepayment of the fees for the associated hosting arrangement would be presented.

> Statement of Cash Flows

350-40-45-3 An entity shall classify the cash flows from capitalized implementation costs described in paragraph 350-40-25-18 in the same manner as the cash flows for 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 their related Subsection title, with a link to transition paragraph 350-40-65-3, as follows:

Disclosure

General

350-40-50-1 ~~This~~The General Subsection of this Subtopic does not require any ~~new~~incremental disclosures. Disclosure 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.

Implementation Costs of a Hosting Arrangement That Is a Service Contract

350-40-50-2 An entity shall disclose the nature of its **hosting arrangements** that are service contracts.

350-40-50-3 The disclosure requirements in the General Subsection of this Section are applicable to the capitalized implementation costs of hosting arrangements that are service contracts. An entity shall make the disclosures in Subtopic 360-10 as if the capitalized implementation costs were a separate major class of depreciable asset.

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

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2018-15, *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*

350-40-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-15, *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*:

    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 December 15, 2019.
    b.   For all other entities, the pending content that links to this paragraph shall be effective for annual periods beginning after December 15, 2020, and interim periods in annual periods beginning after December 15, 2021.
    c.   Earlier application of the pending content that links to this paragraph is permitted, including adoption in any interim period for:
        1.   Public business entities for periods for which financial statements have not yet been issued

2. All other entities for periods for which financial statements have not yet been made available for issuance.

    d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:

      1. Prospectively to costs for activities performed on or after the date that the entity first applies the pending content that links to this paragraph

      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 interim and annual periods of adoption:

      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 interim and annual periods of adoption:

      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 annual period of adoption, 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 period of adoption.

Amendments to Status Sections

12. Amend paragraph 350-10-00-1, by adding the following items to the table, as follows:

350-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Hosting Arrangement	Added	2018-15	08/29/2018
350-10-05-3	Amended	2018-15	08/29/2018

13. Amend paragraph 350-40-00-1, by adding the following items to the table, as follows:

350-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Hosting Arrangement	Amended	2018-15	08/29/2018
Standalone Price	Added	2018-15	08/29/2018
350-40-05-1 through 05-1B	Superseded	2018-15	08/29/2018
350-40-05-1C through 05-1F	Added	2018-15	08/29/2018
350-40-05-10	Added	2018-15	08/29/2018
350-40-15-1	Amended	2018-15	08/29/2018
350-40-15-2	Amended	2018-15	08/29/2018
350-40-15-3 through 15-4A	Amended	2018-15	08/29/2018
350-40-15-4C	Amended	2018-15	08/29/2018
350-40-15-4D	Added	2018-15	08/29/2018
350-40-15-8	Added	2018-15	08/29/2018
350-40-15-9	Added	2018-15	08/29/2018
350-40-25-18	Added	2018-15	08/29/2018
350-40-30-4	Amended	2018-15	08/29/2018
350-40-30-5	Added	2018-15	08/29/2018
350-40-35-11 through 35-17	Added	2018-15	08/29/2018
350-40-45-1 through 45-3	Added	2018-15	08/29/2018
350-40-50-1	Amended	2018-15	08/29/2018
350-40-50-2	Added	2018-15	08/29/2018
350-40-50-3	Added	2018-15	08/29/2018
350-40-65-3	Added	2018-15	08/29/2018

14.   Amend paragraph 985-20-00-1, by adding the following item to the table, as follows:

985-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Hosting Arrangement	Amended	2018-15	08/29/2018

15.   Amend paragraph 985-605-00-1, by adding the following item to the table, as follows:

985-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Hosting Arrangement	Amended	2018-15	08/29/2018

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Ms. Botosan and Mr. Siegel dissented.

Ms. Botosan and Mr. Siegel dissent from the issuance of this Update. They believe that capitalizing the costs incurred in implementing a cloud computing arrangement that is a service contract is contrary to the FASB conceptual framework. They do not believe that such costs, in and of themselves, meet the definition of an asset and believe that this 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 amendments in this Update 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 adopted 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 incurring costs to implement a service arrangement is not unique to cloud computing arrangements and, consequently, the accounting for such costs is a broad issue not appropriately addressed in an emerging issues project narrowly scoped to cloud computing service contracts.

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." Under the amendments in this Update, capitalized implementation costs include, for example, expenditures incurred during the application development stage to configure and customize the *vendor's* software. Ms. Botosan and Mr. Siegel believe that such costs do not meet the definition of an asset of the entity (customer) because they do not convey probable future economic benefits controlled by the entity (customer) when evaluated independently of any asset created by the cloud computing arrangement itself (a software license, for example). Consistent with that view, Ms. Botosan and Mr. Siegel believe that accounting for implementation costs as an asset detached from the related service contract conflicts with the Task Force's stated economic view that the implementation costs are *attached to the service contract* (see paragraph BC8).

Ms. Botosan and Mr. Siegel believe that considering the costs incurred in the implementation of a cloud computing arrangement in isolation and separately from the cloud computing arrangement that is the subject of those implementation efforts will result in accounting that is not a faithful representation of the economics of that arrangement. If a cloud computing arrangement is truly a service contract, the service 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 BC10, users generally preferred that both hosting costs 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.

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 amendments in this 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 Update 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 element is recognized as an asset and a liability also 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 this Update, if the hosting arrangement does not meet the criteria in paragraph 350-40-15-4A, the hosted software element is not recognized as an asset and a liability is not recognized for applicable hosting fees unpaid as of the acquisition date. Instead, hosting fees continue to be expensed as incurred. Nevertheless, the implementation costs are capitalized as a standalone "deferred implementation cost" asset. Ms. Botosan and Mr. Siegel believe that economically equivalent transactions should not be accounted for differently.

Ms. Botosan and Mr. Siegel also are concerned that the accounting does 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 the economic benefit it derives from the 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 asset and related liability, while continuing to defer the related implementation costs as an asset.

A hosting arrangement that includes a software license is accounted for on-balance sheet in a manner that resembles capital lease accounting under Topic 840. Following the amendments in the Update, a hosting arrangement that does not include a software license will be accounted for in a manner that resembles operating lease accounting under Topic 840—that is, off-balance-sheet treatment for the lease (hosting) arrangement with leasehold improvements (implementation costs) capitalized. The litmus test underpinning these very different balance sheet outcomes is whether the hosting arrangement includes a contractual right and ability to take possession of the hosted software; a feature that proponents of this Update maintain is nonsubstantive and does not alter the economic position of the entity with respect to its right to use the hosted software. In issuing Topic 842, the Board concluded that the existence of two very different accounting models for economically similar right-to-use assets reduced comparability for users and provided opportunities for transaction structuring to achieve preferred accounting outcomes; see paragraph BC16(b) of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Ms. Botosan and Mr. Siegel believe that in the same vein, the Board should have rejected differential balance sheet treatment of economically similar right-to-use software assets.

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 otherwise prefer to be expensed.

Ms. Botosan and Mr. Siegel are concerned that the decision not to limit analogies to these amendments could create pressure in the financial reporting system to capitalize "implementation" costs incurred in a wide variety of service arrangements well beyond the outsourcing of computing services including, for example, the outsourcing of manufacturing, professional, and other operational activities. Ms. Botosan and Mr. Siegel believe that the basis for conclusions included in this Update, that "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" (see paragraph BC8), could justify asset treatment for expenditures made in connection with many different types of service arrangements. Ms. Botosan and Mr. Siegel believe that it is inappropriate to introduce an accounting model with the potential to fundamentally alter the accounting for executory contracts in the context of a narrow discussion. Instead, Ms. Botosan and Mr. Siegel believe that

the accounting for costs incurred in implementing a service contract is a broad issue. 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:

> 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*. [Emphasis added.]

Ms. Botosan and Mr. Siegel believe that the implementation cost question is not severable from the question of accounting for the hosting arrangement itself. Ms. Botosan and Mr. Siegel believe that a robust solution to the issue raised by stakeholders will 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 Update 2016-02]), and the accounting for such arrangements by vendors.

Members of the Financial Accounting Standards Board:

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

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this 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 Update to address the existing 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. At its January 18, 2018 meeting, the Task Force reached a consensus-for-exposure to clarify a customer's accounting for costs for implementation activities incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract. The Board subsequently ratified the consensus-for-exposure on February 7, 2018, and on March 1, 2018, issued 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. The Board received 53 comment letters on the proposed Update. Almost all respondents supported the proposed amendments 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. A majority of respondents did not support the proposed amendments that added quantitative and qualitative disclosure requirements that apply to implementation of all transactions within the scope of Subtopic 350-40. Most respondents agreed with the other amendments in the proposed Update.

BC5.   The Task Force considered feedback received on the proposed Update at its June 7, 2018 meeting and reached a consensus. The Board subsequently ratified the consensus on June 27, 2018, resulting in the issuance of this Update.

Basis for Conclusions

Scope

BC6.   The amendments in this Update broaden the scope of Subtopic 350-40 to include costs incurred to implement a hosting arrangement that is a service contract. The costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred, consistent with costs for internal-use software. For example, costs incurred during the application development stage of implementation are capitalized depending on the nature of the costs, whereas costs incurred during the preliminary project and postimplementation stages are expensed as the implementation or other activities relevant to that stage are performed. The amendments in this Update 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

BC7.   The Task Force reached a consensus that requires an entity to capitalize implementation costs of a hosting arrangement that is a service contract using the guidance in Subtopic 350-40. The accounting for the hosting fees associated with the hosting arrangement is not affected by this consensus and, accordingly, the hosting fees are expensed as the service is provided.

BC8.   In reaching this consensus, 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 provided are not recognized on the balance sheet, the Task Force observed that certain costs to implement the hosting arrangement enhance the unrecognized 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, should 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 concluded 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 and its interaction with the FASB conceptual framework. In determining the consensus, 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 is responsive to the unique characteristics of hosting arrangements that are service contracts.

BC9. The Task Force noted that implementation costs capitalized under the amendments in this 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 and deferred costs for 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 concluded 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.

BC10. 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 license is the identified asset, and costs of

implementation activities are added to the measurement of that asset. To those Task Force members, 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 has conceptual limits (for example, it treats 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. 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 understood the arguments 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 similar to leases may have unintended consequences because intangible assets are not within 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.

BC11. The Task Force also reached a consensus 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 includes customer renewal options that are reasonably certain to be exercised and all contractual renewal options controlled by the vendor. The Task Force concluded that including reasonably certain renewals to determine the period over which the costs are expensed represents the expected period of benefit of the enhanced right that is expected to be realized from the hosting arrangement. The Task Force also concluded 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.

BC12. The Task Force decided to require entities to record the expense related to the implementation costs in the same line item in the statement of income as the expense for fees for the hosting arrangement (and, accordingly, the amortization expense related to those implementation costs should not be presented along with depreciation or amortization expense related to property, plant, and equipment and intangible assets if such depreciation or amortization is presented separately from its functional classification), to present the capitalized implementation costs in the same line item in the statement of financial position as a prepayment of the fees for the associated hosting arrangement, and to classify the cash flows from capitalized implementation costs in the same manner as the

cash flows for the fees for the associated hosting arrangement. 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.

BC13. The Task Force reached a consensus to clarify how to account for impairment and abandonment of capitalized implementation costs for a hosting arrangement that is a service contract by requiring an entity to apply the guidance in Subtopic 350-40 (which references the impairment model in Subtopic 360-10 on property, plant, and equipment). The Task Force decided that applying the same impairment model to both internal-use software (which includes the costs to implement that developed or acquired software) and capitalized implementation costs of a hosting arrangement that is a service contract should reduce complexity for preparers because capitalized implementation costs of a hosting arrangement that is a service contract and internal-use software may be included in the same asset group for impairment purposes. The Task Force also decided to clarify that an entity is required to evaluate the capitalized implementation costs of each module or component of a hosting arrangement that is a service contract for abandonment. This decision is consistent with the Task Force's decision to amortize separately the capitalized implementation costs of certain modules or components of a hosting arrangement that is a service contract. In the Task Force's view, it should reduce potential diversity in practice as to when impairment losses are recognized and how to account for the abandonment of capitalized implementation cost assets. The amendments related to abandonment require that a loss be recorded for capitalized implementation costs that no longer provide a future benefit in cases in which a module or component is no longer used while the core hosted software continues to be used.

BC14. 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.

BC15. Although the Task Force intended for the scope of the amendments in this Update to be narrowly applied to implementation costs of hosting arrangements that are service contracts, the Task Force discussed and decided to remain silent on whether an entity may apply the guidance in the amendments 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 amendments in this Update 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 the guidance in the amendments in this 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.

BC16. The Task Force reached a consensus to amend the definition of *hosting arrangement* to remove the reference to licensing and the requirement that the software application resides on the vendor's or a third party's hardware. The Task Force noted that the definition of hosting arrangement used the phrase *licensing of software*, which would have potentially limited the number of arrangements to which the guidance in the amendments in this Update applies because many hosting arrangements do not provide the customer with a license to the underlying software. The Task Force also noted that the key characteristic in a hosting arrangement is that the customer does not have possession of the software at the date of the evaluation of the scope of Subtopic 350-40; it is not where the software resides at that date.

BC17. The Task Force discussed whether to add guidance to limit the scope of the amendments to service contracts in which the hosting arrangement is more than minor. The purpose of that guidance was 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. The Task Force decided not to propose guidance to limit the scope of the amendments but asked respondents to the proposed Update to provide feedback on the issue. While some respondents indicated that clarifying the guidance on scope would be beneficial, most respondents indicated that it was not necessary. Paragraph 350-40-30-4 (as amended in this Update) provides guidance on separating multiple elements in an arrangement, and paragraph 105-10-05-6 states that the provisions of the Codification need not be applied to immaterial items. Therefore, the Task Force concluded that existing guidance sufficiently addresses the issue and decided not to provide guidance to limit the scope of the amendments to service contracts in which the hosting arrangement is more than minor.

Disclosures

BC18. The Task Force reached a consensus that the existing disclosures in paragraph 350-40-50-1 are sufficient to provide information to users about implementation costs of a hosting arrangement that is a service contract, supplemented by a description of the nature of an entity's hosting arrangements that are service contracts. The Task Force concluded that those disclosures will 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 proposed Update would have required several new disclosures for hosting arrangements that are service contracts. Those disclosures would have been applied to other transactions within the scope of Subtopic 350-40, not just hosting arrangements that are service contracts. A majority of respondents did not support applying those proposed disclosures to internal-use software. The Task

Force decided not to finalize those proposed disclosures, except for the requirement to disclose the nature of an entity's hosting arrangements that are service contracts, because the disclosure requirements for internal-use software already provide sufficient and similar information for all transactions within the scope of Subtopic 350-40.

Effective Date and Transition

BC19.   The Task Force decided that the amendments in this Update should be effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other entities, the amendments are effective for all fiscal years beginning after December 15, 2020, and all interim periods beginning after December 15, 2021. Early adoption is permitted, including adoption in an interim period.

BC20.   The Task Force reached a consensus to allow entities to choose between prospective transition and retrospective transition when adopting the guidance in the amendments in this Update. Under prospective transition, an entity applies the guidance to any costs for implementation activities performed after the date of adoption. The Task Force decided that a prospective transition approach based on costs for activities performed after the date of adoption will result in increased comparability among entities for the treatment of any implementation costs incurred after the date of adoption. Otherwise, two entities that enter into hosting arrangements that require a long implementation period could have different accounting for the costs for several years if, for example, one entered into a hosting arrangement shortly before the adoption date and one entered into a hosting arrangement shortly after the adoption 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 amendments, and an entity with significant implementation costs during the comparative periods of the financial statements in which the entity adopts the amendments may believe that retrospective application provides more useful information.

BC21. The Task Force reached a consensus to require different transition disclosure requirements depending on the transition method elected. For prospective transition, an entity is required to 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 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 amendments in this Update for

prospective transition do not justify the costs. The transition disclosures are in lieu of those required in paragraphs 250-10-50-1 through 50-3.

Benefits and Costs

BC22.   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.

BC23.   The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Task Force agreed that guidance on the costs of implementing a hosting arrangement that is a service contract will benefit users by reducing diversity in practice. Thus, on balance, the Task Force concluded that those benefits justify the costs that entities are expected to incur as a result of applying the amendments in this Update.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification®* in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.