January 27, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2024-ED400

Dear Mr. Day:

Cohen & Company is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Targeted* Improvements to the Accounting for Internal-Use Software (Update or Proposal).

We support the Board's efforts to modernize the accounting for internal-use software guidance in Subtopic 350-40, align the accounting guidance with how software is developed, and reduce the diversity in practice in determining when to begin capitalizing software development costs.

Overall, we agree with the proposed amendments to clarify the requirements for determining when to begin capitalizing software development costs. We also concur with the proposed guidance that would remove the project stages, including the additional guidance related to establish a universal threshold for capitalization, regardless of the software development phase. However, we believe that, similar to prior guidance, there is significant judgment in determining when the significant development uncertainty has been relieved, which can lead to continued diversity in practice.

Our responses to the questions posed in the proposed Update are included in the remainder of this letter.

Responses to Questions for Respondents

Overall

Question 1: The amendments in this proposed Update would make targeted improvements to Subtopic 350-40.

a. Do you agree with the proposed amendments? Please explain your reasoning.

Yes, we agree with the proposed improvements to the accounting for internal-use software to improve the operability of capitalizing software development costs. The proposed amendments effectively address the removal of the project development phases, which applies software capitalization based on a prescriptive and sequential development method, which is an outdated software development method. We believe the proposed guidance further aligns with an incremental and iterative development method approach, which is notably a more realistic approach to software development.

b. Are the proposed amendments clear and operable? Please explain your reasoning.

Yes, the proposed amendments are clear and operable. We believe that the requirements for the statement of cash flows investing section is clear and preparers already have this information readily available for reporting. We believe that the removal of the project development phases and including the probable-to-complete recognition threshold with definitions of significant uncertainty is a clearer and more operable threshold than forcing non-linear development into project phases. We believe that the illustrations provided clarify certain broad circumstances that are clear to follow. However, we believe that there may still be diversity in practice in establishing the probable-to-complete recognition threshold depending on the optimism/pessimism of the decision maker. One optimist decision maker may believe that all of the projects approved for funding will work, while others may note that the Company is not sure if the software will work until closer to completion, which can lead to diversity in practice.

c. Would the proposed amendments clarify and improve the application of Subtopic 350-40? Please explain your reasoning.

Yes, we believe that tracking phases of software development can be difficult, especially because software development isn't a linear process. We believe that prior guidance is outdated and difficult to follow.

d. Do you anticipate that the proposed amendments would result in a significant change in outcome? For example, would the proposed amendments result in the same level of capitalization of internal-use software or a decrease or an increase in the level of capitalization? Is that outcome appropriate? Please explain your reasoning.

We believe that the proposed amendment would not result in a significant change in outcome from prior guidance. As noted at 350-40-25, the types of costs incurred that are to be expensed does not significantly change, nor do the costs incurred to be capitalized. We believe that the probable-to-complete recognition threshold does not significantly differ from prior guidance describing the preliminary phase. We also believe that this outcome is appropriate as well, as users of financial statements are used to a certain level of capitalization and a significant change may shift views of financial statement users even though the operations of companies before and after this Proposal would not have changed.

e. What costs would be incurred to apply the proposed amendments? If significant, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs, as well as whether you expect the proposed amendments to result in any reduction of costs.

We believe that there should not be significant additional costs for our clients on a recurring basis. We believe that there would be a shift in documentation from applying stages to a single threshold approach, however, would overall not result in additional costs for the preparer. Implementation in year one would require time to understand the standard and implement a shift in documentation, however, recurring costs are not expected to increase from prior guidance.

f. Alternatively, would you have preferred that the Board further pursue the single model as described in paragraphs BC45–BC49? Please explain your reasoning.

We would have preferred that the Board pursued the single model described in BC45-BC49. We believe that this would be easier for auditors and preparers in that there is a single method of capitalization for both internal and external software; as many times, there is no difference in the software development process between the two. However, we recognize the concerns raised in BC45-BC49 and we agree that a single model for external use software may increase tracked capitalized costs, giving higher risk that those costs would be impaired at a later date because capitalization commenced too early. So, while a single model would be preferred by us, we understand the decision that the Board came to on why not to adopt the single model.

Removal of Project Stages

Question 2: The proposed amendments would remove all references to software development project stages throughout Subtopic 350-40. As a result, the proposed amendments would require all entities to determine when to begin capitalizing software costs by evaluating whether (a) management has authorized and committed to funding the software project and (b) the probable-to- complete recognition threshold has been met. Do you foresee any operability or auditability concerns with removing the references to project stages? Please explain your reasoning.

We believe that this proposed amendment does simplify the operability and auditability compared to prior guidance, as it relieves the preparers of the need to track development stages and permits them to apply a singular capitalization threshold to all internal-use software. However, we do note that the probable-to-complete recognition threshold does require significant judgment in determining whether there is significant uncertainty. Specifically, there is significant judgment in determining whether the significant performance requirements of the software have been identified or continues to be substantially revised. This may lead to diversity in practice, as some preparers may have different conclusions in determining when this significant uncertainty has been relieved. Also, this proposed amendment may become outdated as the process for developed software continues to change.

Significant Development Uncertainty

Question 3: If there is significant uncertainty associated with the development activities of the software (referred to as “significant development uncertainty”), the probable-to-complete recognition threshold described in paragraph 350-40-25-12(c) would not be considered to be met. There may be significant development uncertainty if the software being developed has novel, unique, unproven functions and features or technological innovations or if the significant performance requirements have not been identified or continue to be substantially revised.

a. Do you foresee any operability or auditability concerns with determining whether there is significant uncertainty associated with the development activities of the software? Please explain your reasoning.

As noted in our response to Question 2, we believe that the significant development uncertainty related to identification of performance requirements requires significant judgment of preparers. The guidance does not clearly establish the point at which significant performance requirements no longer continue to be substantially revised. While we understand this will be determined by each company for each project, we feel that in an incremental and iterative method of software development, significant performance requirements can continuously be explored or revised, and the determination of the significant performance requirements may not be known until closer to the completion of the development of the software. We believe that all other significant uncertainty thresholds noted in the proposed guidance are operable and auditable.

b. The proposed amendments would define performance requirements as what an entity needs the software to do (for example, functions or features). Is the definition of performance requirements clear and operable? Please explain your reasoning.

Yes, we believe that this definition of performance requirements is clear and operable as the needs of what the software needs to do is consistent with the prior performance requirements definition in the preliminary project phase (prior guidance).

Presentation and Disclosure

Question 4: The proposed amendments would require an entity to classify cash paid for capitalized software costs accounted for under Subtopic 350-40 as investing cash outflows in the statement of cash flows and to present those cash outflows separately from other investing cash outflows, such as those related to property, plant, and equipment (PP&E). Similar to cash paid for internally developed PP&E, cash paid for software costs could include certain expenditures related to employee compensation.

a. For preparers and practitioners, are the proposed presentation requirements operable in terms of systems, internal controls, or other similar considerations? What auditing challenges, if any, do you foresee related to the proposed presentation requirements? Please explain your reasoning.

We believe that the proposed presentation requirements in terms of systems, internal controls, or other similar considerations do not impose auditing challenges. We believe that preparers would already have the information readily available to comply with the statement of cash flow presentation and therefore, processes and controls are not expected to need to significantly change or place any undue burden on preparers or practitioners.

b. For investors, would the proposed presentation requirements provide decision-useful information? How would this information be used in your investment and capital allocation decisions? Please explain your reasoning.

N/A – responders are not investors and therefore, this question is not applicable to our responses.

c. The proposed presentation requirements would not include cash outflows incurred to implement a hosting arrangement that is a service contract. Those cash outflows are typically classified as operating cash flows due to the separate presentation requirements in paragraph 350-40-45-3, which originated in 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* (see paragraph BC64). Is it necessary to change the current classification of those costs to be consistent with the proposed presentation requirements? Please explain your reasoning.

We do not believe that a change in current classification of cash outflows incurred to implement a hosting arrangement that is a service contract costs is necessary. The conclusion reached in Accounting Standard Update No. 2018-15 BC12 is still appropriate.

Question 5: The Board considered but dismissed two potential disclosures that would have required entities to disaggregate internal-use and external-use capitalized software costs. One alternative would have required an entity to disclose the total amount of internal-use and external-use software costs capitalized during the period. The second alternative would have required an entity to provide a rollforward of the beginning to ending balance of net capitalized software costs (including additions, amortization, impairments, and disposals). These alternatives differ from the proposed cash flow presentation requirements because, among other reasons, they would include both internal-use and external-use capitalized software costs and noncash costs capitalized.

a. For preparers and practitioners, how would the operability and costs of these disclosure alternatives compare with the proposed cash flow presentation requirements (described in Question 4)?

We believe that these alternatives would require more costs and more in-depth reporting which can be difficult for private companies to track. We also believe that these alternative disclosures would not have resulted in significantly more useful information for the user of the financial statements, as adjusted EBITDA and other metric information can be calculated using the information presented in the statement of cash flows.

b. For investors, how would the decision usefulness of these disclosure alternatives compare with the proposed cash flow presentation requirements? How and when would the information provided by each of the disclosure alternatives influence investment and capital allocation decisions?

N/A – responders are not investors and therefore, this question is not applicable to our responses.

c. For investors, is the information that you currently receive about capitalized internal-use and external-use software costs sufficient? If not, how would receiving additional information about capitalized internal-use and external-use software costs affect your analysis? How does your analysis differ between capitalized internal-use software costs and capitalized PP&E??

N/A – responders are not investors and therefore, this question is not applicable to our responses.

Website Development Costs

Question 6: The proposed amendments would supersede the guidance in Subtopic 350-50 and incorporate website-specific development costs guidance from that Subtopic into Subtopic 350-40.

a. Would the proposed amendments be operable, and do you foresee any auditability challenges?

We believe that the proposed amendment is operable, and similar to internal-use software guidance, updates the guidance for the current development of websites. We believe that aligning the guidance of 350-50 with the proposed guidance of 350-40 simplifies the accounting and auditability website-specific development costs.

b. Would the proposed amendments have a significant effect on practice? Please explain your reasoning.

Similar to internal-use software, we believe that this does not significantly impact the processes, controls, or amount of capitalized costs from prior website-design development. We believe that aligning 350-50 with 350-40 would simplify the practice and would not cause a significant effect on website-specific development costs. In this day and age, distinguishing website-specific development costs can be difficult to distinguish from software development costs.

c. The Board considered but dismissed an approach that would have retained Subtopic 350-50 and replaced any reference to stages in Subtopic 350-50 with the term *activities* (for example, replace *costs incurred in the planning stage* with *costs incurred during planning activities)*. Would you prefer this approach, and would it be more operable and auditable? Please explain your reasoning.

We believe that aligning internal-use software development with website-specific development is more operable and auditable than having separate guidance. As noted above, we believe that the nature of the costs incurred for web-specific design and internal-use software are similar and guidance should align due to the similarities in nature of those costs.

Transition and Effective Date

Question 7: The proposed amendments could be applied either prospectively or retrospectively.

a. For preparers and practitioners, are the proposed transition requirements operable, and do you foresee any auditability challenges? Please explain your reasoning. If the proposed transition requirements are not operable, please explain what transition method would be more appropriate and why.

We believe that the transition requirements are operable. We believe that requiring a retrospective transition could be difficult and more costly for private companies, as it would require significant lookback where we believe it would not significantly impact the capitalization of such costs. In essence, requiring retrospective transition requirements could be difficult to apply, with little impact noted to prior year capitalized amounts. Therefore, allowing companies to choose between a prospective and retrospective approach will be suitable for preparers of private company financial statements without greatly impacting comparability.

b. For investors, would the information required to be disclosed by paragraph 350-40-65-4(d) through (e) be decision useful? Please explain your reasoning.

N/A – responders are not investors and therefore, this question is not applicable to our responses.

Question 8: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain your reasoning.

We believe that one year from issuance of the Update is appropriate for public companies to implement and transition. We believe that private companies typically do not have the same infrastructure or sophistication as public companies to immediately implement the new guidance. Therefore, we believe giving private companies one additional year to implement the update to both understand the changes and determine its impact on their processes would be beneficial. Early adoption should be permitted, as we believe that this Update does not significantly impact the amount of capitalized costs from prior guidance.

Private Company Considerations

Question 9: The proposed amendments would apply to all entities, including private companies. Do you agree? Are there any private company considerations, in the context of applying the guidance in the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, that the Board should be aware of in developing a final Accounting Standards Update? Please explain your reasoning.

We do not believe that there should be a private company alternative. The implementation for this standard (both before and after the Update) is not overly burdensome on private companies. However, we would support allowing private companies to have one extra year to implement the new guidance than public companies are given.

We appreciate the opportunity to provide feedback on this proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Jami Blake, Assurance Partner, at 330-480-4663.