



# Customer's Accounting for Cloud Computing Arrangements

## Responses to Exposure Draft

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June 2022

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June 15, 2022

Katharine Christopoulos  
Director, Accounting Standards Board  
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**Delivered via email to [kchristopoulos@acsbcanada.ca](mailto:kchristopoulos@acsbcanada.ca)**

Dear Ms. Christopoulos:

**Subject: Accounting Standards Board – Exposure Draft – Proposed Draft Guideline: Accounting Standards for Private Enterprises - Customer’s Accounting for Cloud Computing Arrangements**

We have read the Exposure Draft (ED) issued in March 2022 titled ‘Proposed Draft Guideline – Accounting Standards for Private Enterprises – Customer’s Accounting for Cloud Computing Arrangements’ and we are grateful for the opportunity to respond with our comments. We support AcSB’s project to address and clarify certain issues related to cloud computing arrangements.

HOOPP is a jointly sponsored, multi-employer, defined benefit pension plan. HOOPP independently manages all aspects of the pension provision, not only administering the pension plan but also investing member and employer contributions to ensure that pensions can be paid now and in the future.

HOOPP has been helping to build financially secure retirements for Ontario’s healthcare workers for over 60 years. HOOPP is now one of Canada’s largest pension plans. Currently, there are over 400,000 active, deferred and retired members, over 600 participating employers, both private and public sector entities, and HOOPP’s net assets available for benefits as at December 31, 2021, were \$114 billion. HOOPP is an independent pension service provider to hospitals as well as many private sector healthcare employers.

HOOPP has reviewed the ED and we welcome the additional guidelines contained within for accounting for cloud computing arrangements. In particular, we support the addition of an optional simplification approach to permit an enterprise to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064, *Goodwill and Intangible Assets*. The ED overall, adds needed clarity and practicality in accounting for cloud computing arrangements. We have no other specific comments.

Thank you for the opportunity to comment on this ED. If you have any questions, please do not hesitate to contact Juliana Duray Kikuchi at [jduraykikuchi@hoopp.com](mailto:jduraykikuchi@hoopp.com) or 416-350-4277.

Sincerely,  
HEALTHCARE OF ONTARIO PENSION PLAN

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SVP, Finance & CFO





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June 17, 2021

**Re: Customer's Accounting for Cloud Computing Arrangements**

Dear Ms. Christopoulos,

We have read the above-mentioned Exposure Draft that was issued in March 2022, and we are pleased to have the opportunity to respond to your specific questions as outlined below.

1. *This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20 - 30 in the Basis of Conclusions).*

a. *In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.*

No, we do not find it challenging to account for software access separate from the other activities performed by the vendor.

b. *The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20 - 26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis of Conclusions).*

i. *Would including these factors in the Guideline be helpful?*

Yes, we believe that including factors in the Guideline would be helpful.

ii. *Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?*

Other factors that may be considered relate to implementation activities provided internally by the enterprise rather than an IT vendor. For example, purging of existing data will typically be done by an enterprise's staff as it is unrealistic to expect an IT vendor to have the ability to purge existing data off another platform where the enterprise's current data resides. Guidance may need to be provided on whether these direct labour costs could be directly attributable implementation costs capitalized as prepaid expenses.

- c. *The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7 - 9 of AcG-20). Do you agree with the Board's decision? If not, why not, and what method do you think the Board should prescribe?*

Yes, we agree with the Board's decision not to prescribe a method to allocate consideration to significant separable elements in a contract.

2. *Do you agree that an optimal simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10 - 11 of AcG-20?) If not, why not?*

We agree that an optimal simplification approach should be provided so an enterprise is permitted to expense the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064.

3. *For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.*

- a. *Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why?*

Yes, we agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use.

- b. *Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why?*

Yes, we agree that an enterprise should be provided with a choice to expense as incurred or apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service.



4. *The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.*

a. *Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?*

Yes, we agree that such capitalized expenditures should be presented as prepaid expenses.

b. *Do you agree that the factors proposed in paragraph 23 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?*

Yes, we agree that the factors proposed in paragraph 23 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed.

5. *The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).*

a. *Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?*

Yes, we agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure.

b. *Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?*

Yes, we agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement.

6. *Do you agree with the proposed disclosure requirements (see proposed paragraphs 31 - 33 of AcG-20)? If not, why not?*

Yes, we agree with the proposed disclosure requirements.



7. *Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?*

At the time of submission of this response to the exposure draft, we are only six months away from the effective date of the Guideline, and because the transition provisions require an enterprise to apply the guidance retrospectively, we are already halfway through the date of initial application of the Guideline (January 1, 2022).

While some may argue that there is time to prepare users before December 31, 2023 (the first reporting date), the application of this Guideline is not only an accounting entry or a balance sheet item to be reported on audited or reviewed financial statements. Enterprises invest heavily in cloud computing arrangements and software intangible assets. These are projects that take years to implement at a high cost to the enterprise which means that management, those charged with governance, and financial statement users want to understand the accounting implications from day 1 so that the information used for decision making is accurate. The decisions arising from accounting policy choices may have a significant financial reporting impact. We would recommend that the proposed effective date be pushed by one year to January 1, 2024.

If the effective date is to remain January 1, 2023, we would recommend the Board consider how best to roll out an “educational campaign” for practitioners and financial statement users on the intricacies of the Guideline before the effective date and consider additional transitional provisions (discussed below).

8. *Do you agree with the transition provision to require an enterprise to apply the guidance retrospectively, but only to cloud arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?*

Under this proposal, enterprises will be required to account for any cloud computing arrangements that exist from January 1, 2022, onward. We believe that clarification may be needed on when a cloud computing arrangement “exists.”

Is it the Board’s intention that only cloud computing arrangements in-use at January 1, 2022 would fall under this transitional provision? Would arrangements that are not yet in use, but where entities have incurred implementation costs to ready the software for use, be scoped in?

Paragraph 68 of the Basis of Conclusion states that a prospective application was not proposed because the Guideline is limited to cloud computing arrangements that exist on or after the beginning of the earliest period presented. This transitional relief may not be clear given the questions above.

Another point of consideration relating to the transitional provisions is the term of these cloud computing arrangements and how far back an enterprise may have to look to restate implementation costs.



ERP systems are meant to be a long-term strategy for a company and are not expected to change on a regular basis. Based on the effort required to put one in place and for it to be an effective resource for the enterprise, service contracts may last upwards of 10 years.

As a result of the transitional provisions, enterprises will need to decide between going back several years to determine the historic implementation costs for a system that has been in use for several years to capitalize on a prepaid asset or to adopt the policy to expense these costs.

As the accounting policy choice must be applied consistently, an enterprise may be entering into new arrangements to add modules to an existing system or may have other, newer cloud computing arrangements with different providers for other systems and would need to treat all costs the same way.

Therefore, we would recommend consideration of a transitional provision to allow for a prospective method on costs associated with cloud computing arrangements from the effective date of the Guideline with past costs not being restated. This may make it easier for financial statement preparers and users to plan for an effective date of January 1, 2023.

9. *The illustrative examples are intended to show the application of the Guideline.*

- a. *The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.*

For most scenarios, we do agree with the assumption that services provided by the vendor for implementation costs will be received prior to the commencement of accessing the software; however, some systems are highly customizable and may have upgrades periodically to update and/or improve the customization, and neither the illustrative examples nor the Guideline considers costs that occur after the software is put into use.

- b. *Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?*

Yes, we believe that enterprises will be able to obtain pricing information from their vendors to assist with the allocation of arrangement consideration.

- c. *Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?*





Yes, we believe that these examples are helpful. However, we also believe that at least one additional example would be beneficial for more complicated scenarios than Illustrative Example 2, such as when systems are modular and the project implementation plan spans multiple years as new features are added to the base system, which would require customization and configuration.

Thank you for considering the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please get in touch with me at 782-355-0227 or via email at [lvail@bdo.ca](mailto:lvail@bdo.ca).

Yours sincerely,

A handwritten signature in black ink that reads 'Lauren Vail'. The signature is written in a cursive, flowing style.

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20 June 2022

**Re: *Exposure Draft on Customer's Accounting for Cloud Computing Arrangements***

Dear Ms. Christopoulos,

We appreciate the opportunity to provide input concerning the Proposed Draft Guideline for *Customer's Accounting for Cloud Computing Arrangements*

**Question 1: This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).**

**(a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.**

Such an arrangement involves multiple elements that will be delivered at different times. Our experience with revenue recognition under such arrangements, is that the pricing by the vendor in their quote or invoicing may not reflect the relative stand-alone selling prices for the various elements. This may occur, for example, if the vendor has discounted certain aspects in pricing the software and related services. In other circumstances, the vendor may provide a single all-in price for the software and related services and the customer may not have sufficient information to allocate the costs to the software and the other activities.

**(b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).**

**i. Would including these factors in the Guideline be helpful?**



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Including the factors in paragraph 25 of the Basis of Conclusions directly in the Guideline would be helpful.

**ii. Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?**

We have encountered arrangements where there are multiple parties involved in the implementation of the cloud computing arrangement, for example, where the software service provider subcontracts services to a third party, or where the enterprise engages a company to assist with implementation and to monitor and coordinate the relationship with the software service provider and a third-party hosting provider. Determining all the elements and the stand-alone selling prices can be a challenge in these types of arrangements. This may be further complicated if the arrangement is structured where a single payment is made to the contracting party who will then pay the software service provider and the third party hosting service.

**(c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?**

In our experience, there may be difficulties noted in allocating the arrangement consideration to significant separable elements in a contract (as noted in our response to Question 1(a)). In allocating such costs, an entity must distinguish between (i) the software license or subscription for access to the software, (ii) expenditures on implementation activities that create a separate intangible asset; (iii) expenditures on implementation activities that are directly attributable to preparing the software service for its intended use; (iv) other expenditures that are not directly attributable to preparing the software service for its intended use, and (v) support services and maintenance where the software meets the definition of an intangible asset.

Paragraph 20 of AcG-20 provides examples of implementation activities that may be incurred to implement the software in such an arrangement. Given the potential difficulty in allocation the arrangement consideration, an option that might be considered is to allow entities to allocate the arrangement consideration to the categories of expenditures noted above, rather than requiring a more granular allocation to the specific activities within each of the categories if the subsequent accounting will generally be the same for the expenditures within each of the categories. For example, for expenditures on implementation activities that are directly attributable to preparing the software service for its intended use, if the entity chooses to capitalize such costs, the Guideline proposes that such costs would be recorded as prepaid expenses and amortized on a straight-line basis over the expected period of access to the software service. As such, we would not expect the amortization period to be different for separate activities within this category of expenditures. Perhaps the one scenario where there could be a difference would be for expenditures where a separate intangible asset is created as amortization periods could be different for separate expenditures within this category.



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**Question 2: Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?**

Yes – we agree with the optional simplification approach. Some entities may not wish to undertake a detailed analysis of the expenditures and this optional simplification is consistent with the cost / benefit principle in Section 1000.

**Question 3: For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.**

**(a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?**

We agree with the financial reporting considerations that the AcSB considered when undertaking this project. Many vendors are switching their business models to a cloud computing environment and will not offer the option for an entity to purchase an on-premises solution and as noted by stakeholders. We also agree that expensing expenditures on implementation activities for a cloud computing arrangement does not reflect the economic benefits an enterprise receives over time from implementing the software under such arrangements. As such, we do support the proposed exception to allowing an entity to choose to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use. Certain not-for-profit entities, for example, operate on the principal of balanced budgets and would otherwise potentially report significant deficiencies in the periods during which implementation expenditures are incurred. Of note, we are aware that an exposure draft for Contributions under Accounting Standards for Not-for-Profit Organizations is expected in the spring of 2023. In selecting an accounting policy choice, not-for-profit entities that receive third party funding for such projects and follow the deferral method of revenue recognition, may want to prudently consider their respective policy choice related to cloud computing arrangements. Specifically, considering the financial reporting implications if the project has restricted funding associated with it.

**(b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?**

We agree with providing entities with the choice to expense as incurred or to apply the exception



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to capitalize directly attributable expenditures on implementation activities related to cloud computing arrangements. Entities may have different stakeholders and varying objectives in their financial reporting and this approach allows entities to choose the method that best meets their needs.

**Question 4: The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.**

**(a) Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?**

Yes.

**(b) Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?**

Yes. We agree with the factors presented in paragraph 25.

**Question 5: The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).**

**(a) Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?**

We agree that the control criterion would be satisfied when an enterprise has the contractual right to obtain control without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure. However, in our experience, many vendors will not continue to offer an on-premises option to customers and if they were to provide such an option, we expect that it would be rare for an entity to be able to move to an on-premises solution without significant penalty as outlined in paragraph 17 of AcG-20, as doing so would likely involve significant cost, or may not allow the enterprise to have the full functionality that would be available within a cloud computing arrangement.

**(b) Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?**

Given the nature of cloud computing arrangements, we think it would be rare for an entity to



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have substantive rights, so we do not believe that the proposed additional factors in paragraph 18 of AcG-20 are required. Furthermore, making such an assessment may involve significant judgments and the cost of undertaking the analysis may not be relevant given the proposed guideline provides entities with a choice to capitalize directly attributable expenditures on implementation activities in a cloud computing arrangement.

**Question 6: Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?**

Yes.

**Question 7: Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of Cg-20)? If not, why not?**

Yes.

**Question 8: Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?**

Yes.

**Question 9: The illustrative examples are intended to show the application of the Guideline.**

**(a) The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.**

In our experience, software implementation projects may have various phases of implementation and so implementation activities may be incurred prior to the commencement of accessing the software, but also after the enterprise is already accessing the software. This would occur, for example, if the enterprise chose to implement the software within certain divisions or entities within the group prior to others, or if the entity chose to add certain modules available within the cloud computing arrangement at a later date. However, in our experience, the complexity is in allocating the costs incurred to the significant separable elements within the arrangement and not the timing of when such costs are incurred.

**(b) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating**



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**the arrangement consideration to the goods or services you receive in a cloud computing arrangement?**

In our experience, there may be challenges with obtaining pricing information from the vendor, however, the Guideline provides enterprises with flexibility to use other sources of information, including vendor quotations, which should allow enterprises to obtain the required information. However, as noted in our response to Question 1 (a), the pricing by the vendor in their quote or invoicing may not reflect the relative stand-alone selling prices for the various elements, so professional judgment will likely be required to allocate the arrangement consideration to the various goods and services received.

**(c) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?**

Yes, the examples are helpful.

Yours truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Per:  
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June 20, 2022

Dear Ms. Christopoulos:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB") on the March 2022 "Customer's Accounting for Cloud Computing Arrangements" Exposure Draft (the "Exposure Draft"). Our responses to the specific questions posed in the Exposure Draft are included below.

### **Comments on Specific Questions Requested by the AcSB**

1. This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).
  - (a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.

*Yes, we believe that there could be circumstances where enterprises could find it challenging to account for software access separate from other activities performed by the vendor.*

*Firstly, we expect that enterprises will place some reliance on their chosen vendor to produce information detailing activities to implement the software versus other activities performed. However, a vendor may not be inclined to produce such information if it is of marginal benefit to the vendor itself.*

*Further, from a practitioner's perspective, we foresee that vendors will be most incentivized by their own cash flow or revenue recognition, and less so on ensuring that information detailing their implementation and other activities provided to enterprises is accurate for the purposes of the enterprises' financial reporting (for example, different vendors may group implementation and other activities in different manners). As such, we see a possibility for there to be a lack of reliable information as well as a lack of consistency and comparability between enterprises, depending on the vendor chosen to complete the work.*

*For the reasons noted above, and more generally, we anticipate there could be instances where pricing information obtained in contracts or invoices may not be appropriate to separately account for software access and other implementation activities. In such cases, enterprises will have to find alternative evidence to support a pricing conclusion from external sources to satisfy a practitioner. We anticipate there being situations where an enterprise (and its practitioner) may not be able to exclusively rely on information provided by a vendor.*



*We expect that a requirement to obtain such information to address accounting for the software access separate from the other activities performed could place an undue burden on enterprises, so we appreciate that the simplification approach exists.*

- (b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).

- i. Would including these factors in the Guideline be helpful?

*We recognize that the Guideline does not explicitly state criteria for determining significant separable elements in a cloud computing arrangement; however, including a list of examples would increase the clarity of the Guideline to financial statement preparers. As we note in our comments to question 1(a), given that our position is that information to determine the accounting for significant separable elements in a cloud computing arrangement may be hard to obtain, giving financial statement preparers flexibility in applying the Standards to cloud computing arrangements through use of the simplification approach would be preferred.*

*While we understand that some goods or services procured may not qualify for allocating arrangement consideration and may add additional complexity in the accounting for significant separable elements, we would expect that an enterprise that does not apply the simplification approach would be sophisticated enough to identify the significant separable elements of the cloud computing arrangement and the goods or services received and therefore may derive limited benefit from inclusion of additional examples; however, we believe that smaller, less sophisticated enterprises not applying the simplification approach would still benefit from additional examples.*

- ii. Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?

*We believe that an enterprise should consider whether an expenditure would have been incurred had the enterprise not pursued a cloud computing arrangement with its vendor.*

- (c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?

*Yes, we agree with the Board's decision to not prescribe a method to allocate arrangement consideration to significant separable elements in a contract. We believe that it would be difficult to prescribe a method given the wide range of goods or services that can be received in a cloud computing arrangement, not only between enterprises, but from one vendor to another. We believe that the method to allocate arrangement consideration to significant separable elements in a contract on a rational and consistent basis should be left to the best judgment of the enterprise in order to maximize the flexibility available under this Guideline. We do not believe that a one-size-fits-all approach would be practical.*

2. Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?

*Yes, we agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064. Please refer to our response to question 1(a).*

*Section 3064 identifies that potential issues arise when an enterprise cannot demonstrate that an intangible asset exists that will generate probable future economic benefits and, as such, allows for these expenditures to be recognized as an expense when they are incurred. We believe that similar treatment should be maintained for cloud computing arrangements, as permitted by the optional simplification approach.*

*The simplification approach is also needed for some enterprises, such as smaller enterprises and NFPOs, that would find it difficult and costly to analyze the significant elements in their cloud computing arrangements.*

*We also believe that enterprises should be able to apply the optional simplification approach as an accounting policy choice on an arrangement-by-arrangement basis. We anticipate situations where an enterprise may prefer to capitalize eligible costs, but encounter certain cloud computing arrangements where it is more difficult to obtain reliable pricing information, as we have noted in our response to question 1(a).*

3. For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.

- (a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?

*Yes, we agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use. We believe that large-scale expenditures on implementation activities are not likely to be undertaken without the expectation of significant multi-period economic benefits on the part of an enterprise. We believe that this concept is not dissimilar to the expensing of prepaid insurance, or the amortization of transaction costs over the term of a loan agreement, and that capitalizing these expenditures and expensing over the term of the cloud computing arrangement would best reflect the future economic benefits to be obtained from the implementation activity expenditures.*

*We also believe that there is little to no practical difference in an enterprise purchasing a software licence versus subscribing to a cloud computing arrangement; in fact, in our view, most software is transitioning to a subscription-based cloud computing arrangement. Operationally, there is generally no difference in the enterprise's ability to use software obtained via licence or via subscription. As such, we would expect to see a similar treatment allowed for implementation activities relating to a cloud computing arrangement as we do for implementation activities relating to new processes or systems for software intangible assets.*

- (b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?

*Yes, we agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service.*

*We view such arrangements to be similar to the accounting policy choice to expense or capitalize expenditures on internally generated intangible assets during the development phase (ASPE Section 3064.40). We note that the notes to the financial statements disclose the relevant information necessary to reflect this diversity in practice, and similar application can be applied for cloud computing arrangements.*

4. The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.

- (a) Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?

*We agree that it is appropriate to capitalize expenditures as an asset. Please refer to our response to question 3.*

*We believe that there is little operational difference between an enterprise purchasing computer software and subsequently treating it as an intangible asset, and the purchase of a software-as-a-service (SaaS) subscription and related implementation costs in a cloud computing arrangement.*

*While we do not oppose presentation as prepaid expenses, we agree with the view presented in paragraph 54 of the Basis for Conclusions. An intangible asset presentation is consistent with how an enterprise would present expenditures on implementation activities for the purchase of a computer software licence and, similarly, the amortization of such licences over their useful life. The decision to incur a recurring subscription fee rather than a one-time licence impacts cash flow, but not profit and loss, if the intangible asset license is capitalized and amortized over a similar period of time as the contractual obligation.*

*We believe that the opposing views on presentation as an asset are valid based on the current definition of an asset in Section 1000, but would draw attention to paragraph 25(b) of Section 1000 on control. Please refer to our response to question 5.*

*As an alternative to presentation as prepaid expenses, we believe that capitalized expenditures could be presented as an "other asset", to avoid the confusion around whether the capitalized expenditures meet the criteria of a prepaid expense or an intangible asset. We also believe that additional guidance on the expensing of capitalized expenditures should be included in the Guideline. Since EBITDA is a measure commonly used by private enterprises, guidance should be provided on whether the expense is an operating cost (and therefore within EBITDA), or reflected as a form of amortization (outside of EBITDA). While we note that this topic was discussed within the Basis for Conclusions, the absence of guidance within the Guideline may cause confusion amongst enterprises and could lead to diversity in practice. Additionally, we believe that the Guideline should more clearly state whether the AcSB intends for enterprises to show a portion of the asset as a current asset, in line with how prepaid expenses are accounted for under ASPE, as other amortized assets (i.e.,*

*property, plant and equipment and intangible assets) are not presented as partially current and partially non-current.*

- (b) Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?

*Yes, we agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed; however, we believe that additional wording should be added to paragraph 25 to more clearly indicate that the list of examples is not all encompassing. This would not be dissimilar to wording found in Section 3856. As such, for greater clarity to financial statement preparers, we believe similar use of the wording "include, but are not restricted to, the following:" should be used in paragraph 25 to indicate that the list of factors is not all encompassing.*

5. The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).

- (a) Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?

*We do not believe that paragraphs 16-18 of AcG-20 provide enough guidance or detail to apply the control criterion in Section 3064 for the purposes of determining whether a cloud computing arrangement includes a software intangible asset.*

*The Guideline states that "if an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or on a third party's infrastructure, the enterprise has control over the software and an intangible asset exists."*

*Given our position that, in principle, a cloud computing arrangement is similar to a software intangible asset, the requirement for an enterprise to have exclusive rights to use the software for there to be control contradicts conclusions that enterprises may come to when applying Section 3064.13. Section 3064.13 defines control as an entity's ability to obtain future economic benefits from an intangible asset that stem from legal or contractual rights, which we believe could be achieved in a cloud computing arrangement.*

*Similarly, the term "penalty" in the context of a cloud computing arrangement is unclear. We note that the term "penalty" is used in other Sections of Part II, such as Leases; we believe that the determination of a penalty in those contexts is clearer than in the context of cloud computing arrangements as it refers to a contractual penalty. Given that the "penalty" as described in paragraph 17 may not necessarily refer to a contractual penalty between an enterprise and a vendor, we believe that confusion may arise on what a penalty could be. We believe another term, such as "significant burden", could replace "significant penalty" and prevent any potential confusion on this topic.*

*We recommend that further examples be provided to assist enterprises in applying the control criterion for the purposes of determining whether a cloud computing arrangement includes a software intangible asset and, in particular, taking into account the operational realities or*

*business decisions behind obtaining such cloud computing arrangements, and clarifying the examples provided that refer to control over customized code.*

- (b) Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?

*Yes, we agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement. However, we also believe that the concept of how an entity "controls the software" needs to be clarified, with additional examples provided. We believe that paragraph 18(b) is too vague in its use of "reconfigure the software", as we believe that a reconfiguration would need to be substantive and/or significant in order to indicate control.*

6. Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?

*Yes, we agree with the proposed disclosure requirements in paragraphs 31-33 of AcG-20.*

7. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?

*Yes, we agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted.*

8. Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?

*Yes, we agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline.*

9. The illustrative examples are intended to show the application of the Guideline.

- (a) The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.

*While we believe Examples 1 and 2 are valuable, we believe that an additional useful example would be where there are further implementation costs after commencement of accessing the software.*

*In our experience, it is common for enterprises to engage in a multi-phase project, where multiple modules relating to a cloud computing arrangement are being developed. In these situations, there is often a multi-phase implementation of software elements and, as such, it may be unclear to enterprises what is considered a "subsequent expenditure" per paragraph 28.*

*While we believe that paragraphs 20-28 provide clear guidance on implementation activities that can be capitalized, it is unclear as to when an expenditure should no longer be considered an implementation activity based on paragraph 28. We recommend leveraging the guidance in Section 3061.14-.15 on "Betterment" and providing examples to define what expenditures could be considered to be enhancing the service potential of a cloud computing arrangement. This may include guidance on whether a cloud computing arrangement consists of multiple, separate arrangements.*

- (b) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?

*Please refer to our comments to question 1. We believe that the ability to obtain information to allocate arrangement consideration will vary from vendor to vendor.*

- (c) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?

*Yes, we believe Examples 1 and 2 are helpful; please refer to our response to question 9(a).*

*We also note that there are errors in both Example 1 and Example 2. The period of September 1, 20X2 to March 31, 20X3 noted in the examples is a seven-month period, not a six-month period.*

*With respect to other potential examples, we suggest the following scenarios also be considered:*

*We anticipate situations where a contract may contain a step-up clause, where there is an increase in an annual subscription fee over the course of a contract. Similar to accounting for lease expense, we would anticipate that an enterprise should account for this expense on a straight-line accrual basis, rather than on a cash basis. An example on how to account for this expense on an accrual basis would be helpful for enterprises as it would mimic a likely real-world scenario.*

*There may also be situations where a contract states the annual payments to be made in the future. We believe that additional guidance in the Guideline and an example on discounting these payments is necessary, similar to how a lease liability is recorded in accordance with Section 3065.*



We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Associate Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Laney Doyle, Professional Practice Director, at 416-943-3583 (Laney.Doyle@ca.ey.com).

Yours sincerely,  
ERNST & YOUNG LLP

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP' in a cursive, script font.

Chartered Professional Accountants  
Licensed Public Accountants

June 20, 2022

Katharine Christopoulos, CPA, CA  
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Dear Ms. Christopoulos:

**Re: Exposure Draft – Customer’s Accounting for Cloud Computing Arrangements [March 2022]**

Grant Thornton LLP (we) would like to thank you for the opportunity to provide comments on the Accounting Standards Board’s (the “Board”) Exposure Draft *Customer’s Accounting for Cloud Computing Arrangements* (the “ED”).

In general, we are supportive of the Board’s proposed Guideline on the accounting for cloud computing arrangements; however, we believe there are some areas of the proposed Guideline where additional guidance or illustrative examples would be helpful. Our comments on specific questions are found in Appendix A.

If you wish to discuss our comments or concerns, please contact Katie Quinn ([Kathleen.Quinn@ca.gt.com](mailto:Kathleen.Quinn@ca.gt.com)).

Yours sincerely,



Kathleen Quinn, CPA, CA  
Partner



## Appendix A – Responses to Exposure Draft questions

1. **This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).**

(a) **In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.**

We believe the challenges to separating software access from other vendor activities include:

- In some contracts, implementation activities can relate to both software and tangible elements. For example, implementation can include the installation or integration of routers, servers, terminals, etc. that are located on-premises or are dedicated to the customer. Such tangible elements may be owned or controlled by the customer, or meet the definition of a lease. While it is clear that tangible assets are scoped out of AcG-20 under paragraph 3, our understanding is that this scope out also applies to implementation activities that are directly attributable to tangible assets. This requires separating implementation activities between software and tangible elements, which can be challenging because entities often do not have insight into the specific implementation activities performed by the vendor, or one activity can relate to both software and tangible elements. We recommend providing guidance on separating implementation activities between software and tangible elements.
- Some enterprises may have difficulty obtaining relevant and reliable information for the purpose of allocating the arrangement consideration to significant separate elements. Our comments on this challenge are expanded upon in our response to Question 1(c) of the ED below.

(b) **The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).**

- i. **Would including these factors in the Guideline be helpful?**
- ii. **Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?**

Yes, we believe including these factors in AcG-20 would be helpful. However, paragraph 25 in the Basis for Conclusions suggests that when implementation activities can only be performed by the vendor that offers the software service, that such activities are unlikely to be a separate element. While many implementation activities *can* be performed by other vendors with sufficient access to user manuals (e.g., data conversion, training, testing, business process reengineering, etc.), in many cases only the vendor providing the software access has the *practical ability* to perform the implementation. This is often the case for arrangements that are more complex, customized to the enterprise, or when different components of the arrangement are highly integrated. We believe the guidance should clarify if this limited practical ability, rather than just the possibility, of other vendors performing the implementation should factor into whether an implementation activity is grouped together with the software access.

**(c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?**

While we agree that a prescribed method of allocation is not necessary, we feel that certain principles or presumptions can be provided to improve the practical application of this requirement. In many cases, enterprises will begin by looking to the relative stand-alone prices for the various components of the arrangement. Challenges in allocation the arrangement consideration include:

- While pricing is typically separated between software access and implementation activities, vendors often do not provide pricing for each specific implementation activity, such as integration, customization and coding, configuration, testing, training, etc. This impacts the accounting because certain of these activities must always be expensed (e.g., training) while others may qualify for capitalization. Even when specific price quotations can be obtained from a vendor, that allocation may not reflect the value of the services provided. Furthermore, implementation activities can be specific to a vendor's own cloud software, and even when another vendor provides prices for implementation activities of the same nature for their own software (e.g., training), the underlying activities may not be comparable between the two vendors.
- Smaller enterprises are less likely than larger enterprises to have access to the prices of specific implementation activities. For example, a larger enterprise may use a competitive bidding process to ensure it has obtained competitive prices from more than one vendor for a defined set of services, technical capabilities and related workloads. Larger enterprises may also have greater ability to refine and negotiate final pricing with vendors. In contrast, smaller enterprises will likely struggle to obtain this information. We do not believe it would be reasonable to expect a smaller organization that has already selected a reputable/established cloud software vendor to solicit prices from other vendors solely for the purpose of verifying its allocation of the arrangement consideration.

We believe the necessary allocation can usually be obtained solely from the selected vendor, without particular comparisons to other vendors, because:

- (a) When an enterprise enters into a cloud computing arrangement that is unique and highly customized to its needs and existing operations and systems, the enterprise likely has greater insight into the pricing of each component by the chosen vendor. Furthermore, there is unlikely to be comparable information available from other vendors for a complex and bespoke solution (other than information obtained during a bidding process).
- (b) When an enterprise enters into a more standard cloud computing arrangement, such as access to off-the-shelf cloud solutions and the related implementation, there will likely be readily available pricing information that the vendor is also quoting to other customers.

Based on these challenges and considerations, we recommend that the Board consider a "rebuttable presumption" approach whereby the prices provided by the vendor for each component (i.e., implementation vs. software access, and the breakdown of implementation activities) is presumed to be a rational allocation unless there is evidence to the contrary (e.g., if software access is only \$1 per year).

- 2. Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?**

Yes, we agree. However, one challenge with applying the simplification approach is that in many cases it will not be possible for the customer to measure a vendor's progress during the implementation phase. Although cloud computing arrangements often include milestone payments, they may not be tied to the specific levels of progress. In practice, many enterprises may default to recognizing implementation expenses evenly over the expected duration of the implementation phase.

- 3. For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.**

**(a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?**

Yes, we agree.

**(b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?**

Yes, we agree.

- 4. The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.**

**(a) Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?**

Yes, we agree.

**(b) Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?**

Yes, we agree. However, we note that Illustrative Examples 1 and 2 include an extension period within the expected period of software access, despite the fact pattern only indicating that "ongoing access is negotiable with Provider B" after the end of the original term. While the examples indicate the software is critical to the enterprise's strategic plan, our view is that an extension simply being "negotiable" is insufficient evidence to support an expectation of access beyond the arrangement term. At a minimum, we believe the customer must have an understanding of the terms and conditions of the renewal in order to make this assessment. This could be the met if the arrangement included a formal renewal option.

**5. The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).**

- (a) Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?**

Yes, we agree. However, we believe it would be helpful to include an illustrative example in which the customer determines that it has control over the software element.

- (b) Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?**

Yes, we agree. However, paragraph 18(b) indicates that deciding "how and when to update or reconfigure the software" is an example of when an enterprise "has decision-making rights to change how and for what purpose the software is used throughout the period of use". We believe that deciding when to update the software does not, on its own, result in the enterprise controlling the software: it is not a substantive right that determines whether the enterprise has the power to obtain the future economic benefits from the software element and restrict others from doing so.

**6. Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?**

Yes, we agree. However, we believe the disclosure requirements should also include the enterprise's accounting policies for:

- (a) determining the significant separable elements in a cloud computing arrangement; and
- (b) allocating the arrangement consideration to those elements.

Paragraph 26(b) of the Basis for Conclusions indicates that the Board did not provide guidance on these determinations but believes that the disclosures should provide sufficient information for users to understand how a cloud computing arrangement is accounted for in an enterprise's financial statements.

**7. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?**

Because the Guideline must be applied retrospectively, enterprises will need to revisit any existing cloud computing arrangements in the year of initial application (as well as the comparative period) in order to determine the significant separable elements and allocate the arrangement consideration. We expressed the challenges we expect in making those determinations in our response to Question 1 of the ED above. Allocating the arrangement consideration in particular may require enterprises to obtain and compare vendor-specific information, potentially from more than one source. We do not believe an effective date of January 1, 2023 provides sufficient time to obtain the information to make those determinations.

**8. Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?**

Yes, we agree.

**9. The illustrative examples are intended to show the application of the Guideline.**

- (a) The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.**

We believe that typically most of the implementation activities will be performed prior to the software access. However, there is often no defined ending for the implementation phase, and in some cases the implementation phase occurs in stages where additional modules or functionalities are scheduled to be implemented at a future date. As a result, some implementation activities may overlap with the timing of when the software is available for access, which can make it more difficult to determine the period over which to recognize implementation expenses.

- (b) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?**

We believe some enterprises will have difficulty obtaining pricing information for the purpose of allocating the arrangement consideration, as expressed in our response to Question 1(c) of the ED above.

- (c) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?**

We believe that the illustrative examples provided in AcG-20 are helpful. Based on the challenges identified in our other responses, we recommend that the Board also consider examples for when:

- (a) there are expenditures related to tangible elements that must be separated (from both implementation and ongoing activities) before applying the rest of AcG-20 (see Question 1(a));
- (b) some implementation activities must be grouped with the software element (see Question 1(b));
- (c) the arrangement consideration is allocated using a method other than stand-alone prices;
- (d) the customer determines that it has control over the software element (see Question 5);
- (e) implementation activities overlap with when software access is provided (see Question 9(a)); and
- (f) there are service level requirements within the arrangement –  
in some contracts, the vendor issues performance credits to the customer (i.e., a return of consideration) when agreed-upon service level requirements are not met, such as exceeding a maximum amount of access downtime per month; often, a performance credit is issued in the period following the failure, but the vendor may also have the opportunity to rectify failures by a given time or be penalized with additional performance credits in the case of consecutive failures.



June 20, 2022

Ms. Katharine Christopoulos, CPA, CA  
Director, Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Ms. Christopoulos:

**Re: Customer’s Accounting for Cloud Computing Arrangements (“Exposure Draft” or “proposal”)**

We welcome the opportunity to comment on the Accounting Standards Board’s (“AcSB” or the “Board”) proposal to issue new Accounting Guideline 20, *Customer’s Accounting for Cloud Computing Arrangements* (“AcG-20” or the “Guideline”). We agree there is diversity in accounting for cloud computing arrangements overall and expenditures on implementation activities in an arrangement in particular. We believe that an accounting guideline to address the issue and to improve consistency in accounting for cloud computing arrangements by impacted private enterprises and not-for-profit organizations would be helpful.

We welcome the Board’s efforts to address issues that organizations may experience when applying existing guidance to cloud computing arrangements. In particular, when it comes to identification of all significant elements of an arrangement and allocation of total arrangement price between those elements.

We note that an option to expense the cost of certain software intangible assets in scope of the proposed AcG-20 is an exception to recognition and measurement rules from Section 3064 otherwise applicable to such intangible assets purchased from third party providers. Similarly, an option to capitalize directly attributable expenditures on implementation activities when the arrangement is a software service (i.e., when no intangible asset exists) may result in the recognition of an asset that does not meet the definition of an asset in Section 1000, *Financial statement concepts* (“Section 1000”). However, we believe that it may be justifiable to introduce certain practical expedients, even if they represent exceptions from existing guidance, if this results in a relief in application in practice and drives consistency in application by different organizations, as well as by the same organization in similar circumstances.

Our responses to the specific questions in the Exposure Draft are included below.

- 1. This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).**

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Ms. Katharine Christopoulos, CPA, CA  
Director, Accounting Standards Board  
June 20, 2022

**(a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.**

We believe, in certain arrangements, the identification of significant separate elements will require judgment. However, identification is generally not what results in challenges in accounting for these arrangements.

Where we find the most significant challenges in accounting for these arrangements is in allocating the arrangement consideration to the separate elements identified. Entities do not always have the information to perform this allocation, or cannot obtain the information without significant effort. We believe the simplification approach outlined in the Guideline provides relief from this allocation requirement. However, as discussed further in our response to Question 2, we believe it would be helpful to also include leases of tangible assets within the scope of this simplification.

**(b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).**

**i. Would including these factors in the Guideline be helpful?**

We believe that including these factors in the Guideline would be helpful. Though, if included, it should be clear that these are examples of factors to consider, and are not an exhaustive list.

However, we note that paragraph 25 in the Basis for Conclusions indicates that (emphasis added) "...if an enterprise engages a third party consultant to perform the implementation activities, the expenditures for such activities would always be separate from the software service...". There may be circumstances where a third party consultant is acting as an agent of the vendor of the software service. In these cases, the implementation activities may or may not be a separate element from the software service. To reflect this, we recommend using "generally" rather than "always" in the preceding guidance.

In addition, we note that paragraph 25 in the Basis for Conclusions focuses on implementation activities. We believe this guidance would also be helpful in identifying separate elements other than implementation activities as well - such as leases of equipment, enhanced customer support services, data storage, hosting, and data recovery services. If factors for consideration in determining separate elements are added to the Guideline, we recommend expanding the discussion to also consider elements other than implementation activities.



Ms. Katharine Christopoulos, CPA, CA  
Director, Accounting Standards Board  
June 20, 2022

**ii. Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?**

While there may be other factors considered in certain circumstances, we have not identified any we believe would be helpful to include within the Guideline.

**(c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?**

Yes, we agree with the Board's decision not to prescribe an allocation method. A single method to allocate arrangement consideration may not work well in all scenarios. Therefore, the absence of specific guidance permits entities to use judgment and the information they have available.

**2. Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?**

Yes, we agree with the inclusion of the optional simplification approach.

We believe that the scope of the application of the simplification approach should be expanded to include leases of tangible assets. Currently, the proposed guideline requires separate identification and accounting for both tangible assets and leases by excluding them from its scope. We believe that identification of tangible assets and allocation of an amount from total arrangement consideration should not be challenging to enterprises in many cases, as information about prices for tangible assets, in particular equipment, is typically available. However, identification of leases within a cloud computing arrangement, determining whether that lease is operating or capital, and then allocating total consideration to the lease component may be burdensome and challenging to enterprises, in particular when information about the cost of the lease component is not readily available. Therefore, we believe that expanding the scope of the simplification approach to include leases would provide important relief to preparers of financial statements.

We also note that expenses for operating leases or amortization of capital lease assets are typically recognized in the financial statements on a straight line basis. In many scenarios this will align with the recognition of expenditures for the receipt of services over the service period under the simplification approach, therefore minimizing the impact of applying the simplification approach rather than Section 3065, *Leases*.

We believe this could be accomplished by making the following amendments to the scope of the Guideline:

- 3 This Guideline does not address expenditures on tangible elements of a cloud computing arrangement, except for expenditures incurred for the right to use a tangible asset incurred by





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an entity that applies the simplification approach in paragraph 10 of this Guideline. Elements that are tangible assets are dealt with elsewhere in other Sections:

- a. property, plant and equipment (see PROPERTY, PLANT AND EQUIPMENT, Section 3061); and
- b. right to use a tangible asset (see LEASES, Section 3065).

We also believe the references to “goods” and “services” in paragraph 10(a) will result in challenges in applying the simplification approach. Software that is an intangible asset might be considered a “good” which, in accordance with paragraph 10(a), would be expensed once an entity has the right to access that software. Whereas software that is a service would be expensed over the term of the service arrangement. Therefore, entities would still need to consider whether they are acquiring goods (including intangible assets) or services, and allocate consideration to these separate elements. We believe this defeats much of the purpose of the simplification approach, as we believe many of the challenges from cloud computing arrangements arise in the allocation of consideration to separate elements within the arrangement.

We recommend including an accommodation within the simplification approach whereby expenditures related to the receipt of computing resources through the cloud computing arrangement would be expensed over the period those resources are received. This would capture software that is an intangible asset, software that is a service, as well as leasing costs (please see our comment earlier within our response to Question 2).

- 3. For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.**

- (a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?**

We acknowledge that providing such an exception results in the recognition of assets that may not meet the definition of an asset under Section 1000. However, we do note that ASPE already provides several accounting policy choices which deviate from the conceptual framework, such as those outlined in paragraph 1506.09, as a result of a cost/benefit analysis.

In considering the appropriateness of such an exception, we have also looked to recent activities by standard-setters in other jurisdictions.

The IFRS Interpretations Committee (IFRIC) published an agenda decision in March 2021 related to configuration and customization costs in a cloud computing arrangement. The agenda decision



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does not provide an exception to the conceptual framework within International Financial Reporting Standards (IFRS). However, it does provide guidance on circumstances where configuration and customization costs that don't meet the definition of an intangible asset might be capitalized as a prepayment. If an entity were to use this same approach under ASPE (which has a similar conceptual framework to IFRS), certain costs might meet the definition of an asset, even without the proposed exception. However, the exception would enable entities to recognize these costs as assets without being required to perform the detailed analysis that might otherwise be required.

The Financial Accounting Standards Board (FASB) in the United States provided a similar exception to require certain implementation costs to be recognized as an asset. Paragraph BC8 of the Basis for Conclusions to Accounting Standards Update (ASU) 2018-15 indicates that the task force involved believed this provided a practical solution that addressed the original concern raised, and is responsive to the unique characteristics of hosting arrangements that are service contracts.

ASPE is an accounting framework that has provided exceptions from the conceptual framework when the benefits of doing so outweigh the costs. In addition, other standard setters have opened the door for the recognition of certain implementation costs as assets. Considering this, we do not object to the exception proposed in paragraph 23(b) of AcG-20.

We do recommend the following amendments to paragraph .23 of the exposure draft to clarify that this policy choice applies only to costs related to implementation activities that have not already been capitalized:

- 23 An enterprise that recognizes a software service in accordance with paragraph 19 shall make an accounting policy choice to either:
  - a. expense the expenditures on implementation activities, other than those capitalized in accordance with paragraphs .21 and .22 of this guideline, as incurred (see GOODWILL AND INTANGIBLE ASSETS, paragraphs 3064.52-54, for guidance on recognition of an expense); or
  - b. capitalize the expenditures on implementation activities that are directly attributable to preparing the software service for its intended use as prepaid expenses.

This accounting policy choice shall be applied consistently. In making this accounting policy choice, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

- (b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?**



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Yes, we believe it is important for an entity to have the ability to select an accounting model that would be consistent with the framework without being required to apply the exception.

- 4. The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.**

- (a) Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?**

Yes, if such capitalization is permitted as a policy choice in AcG-20, we agree with presentation as prepaid expenses.

- (b) Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?**

Yes, we agree.

- 5. The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).**

- (a) Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?**

Yes, we agree.

- (b) Do you agree that an enterprise may consider other factors such as exclusive rights or decisionmaking rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?**

Yes, we agree.

- 6. Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?**

Yes, we agree.

- 7. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?**



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Yes, we agree.

- 8. Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?**

Yes, we agree.

- 9. The illustrative examples are intended to show the application of the Guideline.**

- (a) The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.**

Yes, we believe that this assumption is reasonable.

- (b) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?**

We believe that such information may not be easily available to a customer in a cloud computing arrangement. While the vendor may be willing to provide a breakdown of total arrangement consideration upon customer's request, such information may not be based on relative cost to the vendor or relative standalone prices of separate components. The customer may not have an ability to determine a reasonable allocation without significant efforts by alternative vendor quotations or other means.

- (c) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?**

Yes, we believe both examples are helpful.



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In Example 2, when enterprise A analyzes the accounting for expenditures on implementation activities, the example illustrates the application of paragraph 23(b) (the identification of directly attributable implementation costs) prior to the application of paragraph 22 (the identification of separate intangible assets). We believe it would be more appropriate to apply paragraph 22 first, then paragraph 23(b). Please see also our suggested edits to paragraph 23 in our response to Question 3(a).

Within Example 2, we also believe it would be helpful to include data conversion as an example of a significant separable element, and show that these costs would not be directly attributable to preparing the software for its intended use, and would be expensed rather than capitalized.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy ([celeste.k.murphy@pwc.com](mailto:celeste.k.murphy@pwc.com)) or Sean Cable ([sean.c.cable@pwc.com](mailto:sean.c.cable@pwc.com)).

Yours very truly,

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants



June 20, 2022

493720

Katharine Christopoulos, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Katharine Christopoulos:

**RE: Exposure Draft: Proposed Draft Guideline: Customer's Accounting for Cloud Computing Arrangements**

Thank you for the opportunity to provide comments on the exposure draft: *Customer's Accounting for Cloud Computing Arrangements*. The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. We have an interest in the development of other Canadian standards and guidelines as they may be referred to when PSAB is silent on an issue, or they may influence PSAB in future standard setting activities. We strongly believe that continuity in conceptual consistency between private sector and public sector standards is important.

The exposure draft proposes that an entity would make an accounting policy choice to use the simplification method when accounting for cloud computing arrangements. This accounting policy choice would be applied consistently within the entity; however, this option does compromise comparability between entities that engage in similar arrangements. We are constantly approached by entities with a variety of capital-type arrangements that have been structured to achieve a specific accounting result. The guideline would support two organizations recognizing the same arrangement in two very different ways. Without firm guidance and definition on accounting for these arrangements, inconsistency in application and the potential for manipulation of form will result.

.../2

Responses to specific questions posed in the exposure draft are attached. Should the Accounting Standards Board have any comments or questions, please contact me at: 250-387-6692 or via e-mail: [Carl.Fischer@gov.bc.ca](mailto:Carl.Fischer@gov.bc.ca), or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: [Diane.Lianga@gov.bc.ca](mailto:Diane.Lianga@gov.bc.ca).

On behalf of the Government of British Columbia,

Sincerely,

A handwritten signature in black ink, appearing to read 'Carl Fischer', written over a light blue horizontal line.

Carl Fischer, CPA, CGA  
Comptroller General  
Province of British Columbia

Encl.

cc: Michael Pickup, FCPA, FCA  
Auditor General  
Province of British Columbia

Diane Lianga, Executive Director  
Financial Reporting and Advisory Services  
Office of the Comptroller General

### Comments Requested

1. This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).

- a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.

It is not difficult to separate the two activities because they are usually specified in the contract. There have been challenges in determining the appropriate recognition of operating versus capital related costs because of the lack of consistent understanding across user groups. For example, accountants will base recognition on the substance of the arrangement. Colleagues in program areas are pitched on "software-as-a-service" and interpret that to mean recognition is solely as an operating expense.

- b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).

- i. Would including these factors in the Guideline be helpful?

This may be helpful to ensure appropriate accounting or budget impacts. Procurements don't tend to consider the fiscal impacts, rather they'll look at the maximum contract value against contract budget.

- ii. Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?

We consider the requirements of PSG-2 issued by PSAB, specifically, ownership, control, component approach, whole asset approach, economic benefit and risk attribution.



- c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?

IT contracts within governments can be very significant in terms of complexity and dollar values. If no prescribed method is available then consistent application is at risk. Further guidance will be required to determine how to apply or interpret contract components.

2. Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?

We do not agree that a simplification approach should be provided because it does not support comparability across entities.

3. For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.

- a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?

We do not agree with this option for exception because there is a high probability that components of the same asset will become disconnected, either through capital versus non-capital treatment or as services capitalized without a tangible capital asset identified. For example, contractor labour costs could be capitalized, but without an underlying software asset.

- b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?

Clearly defined guidance would better support comparability across entities.

4. The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.
  - a) Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?  
*We do not agree that separating these capitalized expenditures from similar tangible capital asset expenditures would provide users with complete information. Users would be required to review the notes to the financial statements to piece together the entity's true capital stock.*
  - b) Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?  
*Contracted maintenance terms would be another factor to consider when determining useful life.*
  
5. The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).
  - a) Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?  
*We recommend that further criteria on "enterprise to run software on third party's infrastructure" to determine roles and responsibilities.*
  - b) Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?  
*We agree that an entity may need to consider other factors that may be unique to the contract to ensure that the substance of the arrangement is accurately represented in the financial statements.*

6. Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?

We agree with the proposed disclosures that align with current tangible capital asset and intangible asset requirements.

We do not agree that software service expenses should be specifically identified as this would be inconsistent with other service contracts. As a pure service contract, no additional disclosure should be required.

7. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?

An effective date that occurs within the same fiscal year as the exposure draft does not provide sufficient time to implement. With retroactive implementation, it may take time to reassess existing IT contracts. Within governments, an implementation date that provides a full budget cycle is a minimum requirement.

8. Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?

This modified retroactive treatment results in like contracts being treated differently over the useful life of an asset. Fully retroactive, or prospective, treatment would promote internal consistency in an entity's financial statements.

9. The illustrative examples are intended to show the application of the Guideline. The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.

It is valid that most of the implementation work is required in advance of access; however, in our experience, further implementation work has always been required after access to the software has been granted.

- a) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?

This information is not always available and is dependent on how clear the vendor solicitation instructions are in terms of specific criteria needed on the vendor proposals.

- b) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?

The examples are helpful.

June 22, 2022

Katharine Christopoulos, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2

**Subject: Exposure Draft – Proposed Draft Guideline Accounting Standards for Private Enterprises, Customer’s Accounting for Cloud Computing Arrangements**

Dear Ms. Christopoulos:

We thank you for the opportunity to provide comments on the above noted Exposure Draft – Proposed Draft Guideline, Accounting Standards for Private Enterprises, Customer’s Accounting for Cloud Computing Arrangements.

We commend the Canadian Accounting Standards Board for their initiative in taking onto their agenda a timely issue which impacts our private clients which are, or plan to, migrate their computer processing capability from a traditional on-premises model to a cloud-based model. Our response was developed with input from a number of practitioners from across the country that have a deep knowledge of the application of ASPE to private enterprises.

Please find attached our comments to the specific questions raised in the Exposure Draft. If you have any questions, please contact Diana De Acetis ([ddeacetis@deloitte.ca](mailto:ddeacetis@deloitte.ca)) at 416-601-6203 or Derek Youdelis ([dyoudelis@deloitte.ca](mailto:dyoudelis@deloitte.ca)) at 604-640-3263.

Yours truly,



Albert Kokuryo CPA, CA  
National Professional Practice Director Audit Private  
Deloitte LLP

## Appendix

### Customer's Accounting for Cloud Computing Arrangements

1. This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).

- (a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.

We understand that it is challenging to account for software access separate from the other activities performed by the vendor. We understand that the main area of judgement for private entities is determining the various deliverables in a cloud computing arrangement. Cloud computing arrangements can be technical in nature and may be offered as a broad scope of services which are not disaggregated to sufficient detail to clearly distinguish the provision of access for the software separately from other activities performed by the vendor. Understanding what rights the customer has surrounding the cloud software versus the software provider, and understanding the rights of the customer to tangible assets (e.g., servers), services and other deliverables under the arrangement, which may be provided by the software vendor or third parties, will be important in order to appropriately analyze and account for such arrangements.

- (b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).

- i. Would including these factors in the Guideline be helpful?

We believe that including these factors in the Guideline would be helpful as not all users refer to the Basis for Conclusions when preparing their assessment. We believe that this may promote more consistent application of the proposed guideline.

- ii. Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?

We believe that the factors discussed in paragraph 25 in the Basis for Conclusions are reasonable and we do not propose the inclusion of additional factors to be considered.

- (c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?

We agree with the Board's decision to not prescribe a method to allocate the arrangement consideration to significant separable elements in a contract while noting that an enterprise may consider, but is not required, to adapt the methods in REVENUE, Section 3400, to perform this allocation. However, we believe that the inclusion of examples of acceptable methods in allocating arrangement consideration to the significant separable elements in a contract would be helpful. We believe that some examples may include the use of relative stand-alone selling prices should the

vendor sell the services separately or the use of quotes available from other vendors for comparable services.

2. Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?

Yes, we agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064.

3. For an enterprise that does not apply the simplification approach, the Board proposes an accounting policy choice to apply an exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service or to continue with existing requirements to expense as incurred. The exception applies to expenditures that do not meet the definition of an intangible asset on a stand-alone basis.

- (a) Do you agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use (see proposed paragraph 23(b) of AcG-20)? If not, why not?

We agree with providing an exception to capitalize expenditures on implementation activities that are directly attributable in preparing the software service for its intended use. We do acknowledge that capitalizing the costs incurred in implementing a cloud computing arrangement that is a service contract is contrary to Section 1000 Financial Statement Concepts as such expenditures do not meet the definition of asset contained therein. However, we note that similar exceptions have been granted by other accounting standard setting bodies (i.e., the IASB and the FASB) in accounting for similar implementation costs in cloud computing arrangements. We agree with the Board's intention noted in paragraph 44 in the Basis for Conclusions that this exception shall not be used for arrangements beyond cloud computing arrangements to reduce further pressure in the financial reporting system to capitalize implementation costs incurred in a wider variety of service arrangements beyond the outsourcing of computing services.

We believe that it would be beneficial to provide additional examples as to what types of costs would **not** be considered directly attributable to preparing the software service for intended use. We acknowledge that paragraph 26 of AcG-20 identifies training costs as one such example with reference to Section 3064.53(b) of Goodwill and Intangible Assets, however, there is limited other guidance within Section 3064 and AcG-20 which would assist users in determining what costs are considered 'directly attributable' in preparing the software service for its intended use. Furthermore, we note that in Example 2 it is concluded that "Purging existing data" would not be considered 'directly attributable' but does not elaborate on why this is the case. We believe that such examples could include, but are not limited to, costs incurred on research and feasibility assessments, and data migration and conversion (other than software acquired or developed for this purpose). We are concerned that if further clarity is not provided it may result in inconsistent interpretation as to what costs are considered directly attributable to preparing the software service for its intended use.

- (b) Do you agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service? If not, why not?

We agree that an enterprise should be provided with a choice to expense as incurred or to apply the exception to capitalize directly attributable expenditures on implementation activities when the cloud computing arrangement is a software service.

4. **The Board proposes to present as prepaid expenses capitalized expenditures on implementation activities using the proposed exception in paragraph 23(b) of AcG-20. Such capitalized expenditures shall be expensed on a straight-line basis over the expected period of access of the software service by the enterprise.**

- (a) **Do you agree that such capitalized expenditures should be presented as prepaid expenses (see paragraph 30 of AcG-20)? If not, why not?**

We agree that when expenses are capitalized on implementation activities using the proposed exception in paragraph 23(b) of AcG-20, they should be presented as prepaid expenses. This would be consistent with the fact that the implementation costs capitalized may be viewed as a form of prepaid expense which increases the benefit to be derived from the hosting service. The proposed presentation is consistent with US GAAP and would allow the capitalized implementation costs to be aggregated on a single-line item on the balance sheet, and subsequently recognized in operating expenses (and not amortization expense) consistent with the presentation of the expenditures incurred to access the hosting software.

- (b) **Do you agree that the factors proposed in paragraph 25 of AcG-20 are sufficient to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed? If not, what other factors would you suggest?**

We agree that the factors proposed in paragraph 25 of AcG-20 are helpful to assist an enterprise in determining the expected period over which the capitalized expenditures should be expensed.

However, we believe that further guidance would be beneficial regarding how to evaluate such factors when determining the expected period of access for the software service. For example, paragraph 25(b) of the Exposure Draft states that an enterprise would consider "any clauses that may exist in the arrangement such as non-cancellable periods, renewal periods or termination clauses that would impact the expected period of access of the software service by the enterprise". It would be helpful to clarify how a customer should treat renewal or termination rights. For example, if the software access contract has a non-cancellable period and the customer has an option to renew the agreement, should the customer be "reasonably assured" to exercise such option, in order to take into account the renewal period when determining the expected period of access. Applying the threshold of "reasonable assured" to renewal options is consistent with the approach used to determine the lease term in Section 3065.03(p)(ii)), and is generally consistent with the approach taken under US GAAP when determining the term of the hosting arrangement and the amortization period for capitalized implementation costs (ASC350-40-35-14). We believe additional guidance is warranted in order for entities to approach the analysis of renewal and termination options in a consistent manner.

We further believe this has implications for Example 2 in the Exposure Draft, where an entity enters into a cloud computing arrangement with a 3-year non-cancellable term, renewals are subject to negotiation, however, for the reasons given, the customer expects to renew the software access for an additional 2-year period and concludes the expected access period is 5 years. While it is clear that the company has an expectation to renew, it is unclear whether that such expectation will necessarily be realized in the absence of a contractual right to renew with specified pricing terms. Therefore,



depending on the circumstances, the uncertainty associated with customer's practical ability to renew may outweigh the customer's expectation of renewal, such that it may be appropriate to limit the expected period of access to the contractual term. We believe that if the example were amended to include, for example, a customer renewal option for which pricing during the renewal period would be at market, that would be consistent with including the renewal period after the contractual period ends in determining the period of expected access.

Other factors that an entity might consider when evaluating the expected period of access would be the length of the non-cancellable period in relation to the expected period of use; implementation costs that are expected to have a significant economic value to the customer when the contractual term ends which may provide an economic incentive to extend / not terminate the contract; and changes that may occur in the development of hosting arrangements or the hosted software. We believe it would be beneficial to provide additional guidance regarding the factors and thresholds to consider when evaluating the expected period of access to the software service. We further believe that it would be helpful to provide guidance that the customer should periodically reassess the expected period of access and account for any change in this expected period of access as a change in accounting estimate in accordance with Section 1506 – Accounting Changes.

5. **The Board proposes factors an enterprise should consider in applying the control criterion in Section 3064 for purposes of determining whether a cloud computing arrangement includes a software intangible asset (see proposed paragraphs 16-18 of AcG-20).**

- (a) **Do you agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure? If not, why not?**

We agree that the control criterion of an intangible asset is satisfied when an enterprise has the contractual right to obtain the software without significant penalty and it is feasible for the enterprise to run the software on its own or a third party's infrastructure.

- (b) **Do you agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement? If not, why not?**

We agree that an enterprise may consider other factors such as exclusive rights or decision-making rights in relation to the software in determining whether it controls the software in the cloud computing arrangement.

6. **Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not?**

We agree with the proposed disclosure requirements.

7. **Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?**

We agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted.

8. **Do you agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period**

presented in the financial statements in which the enterprise first applies the Guideline (see proposed paragraph 35 of AcG-20)? If not, why not?

We agree with the transition provision to require an enterprise to apply the Guideline retrospectively, but only to cloud computing arrangements that exist on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline.

**9. The illustrative examples are intended to show the application of the Guideline.**

- (a) **The fact pattern used in both Illustrative Examples 1 and 2 includes an assumption that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software. Do you think this assumption is reasonable? If not, please describe the types of implementation services that would be received during the period when an enterprise is already accessing the software.**

We believe that the assumption used in Examples 1 and 2 that the services provided by the vendor for implementing the software are received prior to the commencement of accessing the software is reasonable. Further experience may reveal scenarios that differ from this.

- (b) **Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?**

We understand that pricing information available to customers in a cloud computer arrangement is not often readily available or sufficiently disaggregated in order to allocate arrangement consideration. We understand that this may require companies to request more detailed pricing information from vendors in order to provide a rational and consistent basis for allocating arrangement consideration.

- (c) **Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?**

We agree that the examples are helpful in illustrating the application of the Guideline. In the current fact pattern, we note that the vendor's pricing is assumed to be competitive considering other vendor's pricing obtained during the vendor selection process. We believe that enterprises may find it helpful to see an example where the vendor's pricing was not comparable (i.e., vendor provided a customer specific discount) and therefore the enterprise must perform a rational and consistent allocation of the consideration in the arrangement.

We also note that the fact pattern to Example 1 indicates that *"All the implementation activities are expected to be performed evenly over a six-month period so that the ERP software will be implemented by March 31, 20X3"*. This would imply a contract commencement date of September 30, 20X2, however the fact pattern notes that Enterprise A enters into the non-cancellable SaaS arrangement on September 1, 20X2. We believe that if the implementation period is intended to be six months, the date in the example should be changed from September 1 to September 30.

June 14, 2022

**SENT ELECTRONICALLY**

Katharine Christopoulos, CPA, CA  
Director, Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

**Re: Accounting Guideline (AcG) 20, “Customer’s Accounting for Cloud Computing Arrangements”**

Dear Ms. Christopoulos,

Thank you for the opportunity to provide input to the Accounting Standards Board (AcSB) on the above noted document.

MNP LLP is one of Canada’s largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as pension plans, credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizable contingent of publicly traded companies. We believe that we are positioned well to provide feedback on this exposure draft (“ED”).

We have reviewed the ED and have provided our comments below. We support the AcSB’s efforts to provide clarity on how to account for cloud computing arrangements as well as provide a simplified approach to ease the accounting requirements and address some common issues for such arrangements. While we’ve noted a few concerns, we generally agree with the proposed AcG. Our explanations are included, below.

**Question 1: This Guideline considers that an enterprise would be able to apply professional judgment to its facts and circumstances to determine the significant separable elements in a cloud computing arrangement and to allocate the arrangement consideration to such elements (see paragraphs 20-30 in the Basis for Conclusions).**

**(a) In a situation when a vendor provides software access and performs activities to implement the software, do you find it challenging to account for the software access separate from the other activities performed by the vendor? If so, please explain why.**

We do not believe that it will be challenging to separately identify software access from the other activities performed by the vendor to implement the software. However, as described in our response to question 9(b), in some circumstances difficulty may arise in allocating cost to the separate elements.

**(b) The Board decided not to provide guidance in determining significant separable elements in a cloud computing arrangement (see paragraphs 20-26 in the Basis for Conclusions). However, it has discussed some factors that may help an enterprise in determining such elements in a cloud computing arrangement (see paragraph 25 in the Basis for Conclusions).**

**(i) Would including these factors in the Guideline be helpful?**

We agree with the factors discussed to help determine distinct elements in a cloud computing arrangement. Determining the distinct elements under a cloud computing arrangement would depend on the specific circumstances of each individual cloud computing contract. We agree that not providing specific guidelines provides flexibility and allows enterprises to use professional judgement to determine the significant separable elements based on their individual unique circumstances.

**(ii) Are there other factors that you currently consider in your analysis when determining the goods or services you receive from your vendor in a cloud computing arrangement?**

Other factors that could be considered include whether the supplier also provides the bundled goods or services individually or whether each good or service can be procured from another supplier separately. Similar to our response to the question above, we believe that professional judgement should be applied to determine the separable elements based on the unique circumstances of each cloud computing arrangement contract.

**(c) The Board also decided not to prescribe a method to allocate arrangement consideration to significant separable elements in a contract (see proposed paragraphs 7-9 of AcG-20). Do you agree with the Board's decision? If not, why not and what method do you think the Board should prescribe?**

We agree with the decision to not prescribe a method to allocate arrangement consideration. Many enterprises find that the method provided in Section 3400 *Revenue*, is useful when performing the allocation and although not required, we expect that many enterprises will use that method as a reference when performing allocation of arrangement considerations to significant separable elements in a contract. However, as noted in our response to question 1(b)(i), the most appropriate method would depend on the specific circumstances of each individual cloud computing contract. Not mandating a specific allocation method provides flexibility and allows enterprises to use professional judgement.

**Question 2: Do you agree that an optional simplification approach should be provided so an enterprise is permitted to expense as incurred the expenditures related to the elements in a cloud computing arrangement within the scope of Section 3064 (see proposed paragraphs 10-11 of AcG-20)? If not, why not?**

We agree that an optional simplification approach should be provided as it helps smaller enterprises to enter into cloud computing arrangements and not spend significant effort, time, and cost to account for such arrangements.

**Question 6: Do you agree with the proposed disclosure requirements (see proposed paragraphs 31-33 of AcG-20)? If not, why not??**

We agree with the proposed disclosures when an enterprise does not apply the simplification method.

When an enterprise does apply the simplification method, we agree with the disclosure of this fact as the disclosure of such an accounting policy choice is important information to financial statement readers. However, we are concerned that a requirement to disclose separately the amount expensed for software service may not be practicable. Smaller enterprises would be expected to adopt the simplification method to simplify the accounting for cloud computing arrangements. Adding a layer of disclosure requirements for these enterprises will increase reporting effort while not necessarily providing any additional useful information to the users of the financial statements. We note that, in general, Section 1400 *General Standards of Financial Statements* and Section 1520 *Income Statement* require application of professional judgment in determining which expenses to disaggregate into line items on the income statement and in note disclosure. While specific disclosure requirements exist related to amortization expense of owned and capital leased property, plant and equipment and interest expense on capital leases, entities are not required to provide separate disclosure of total operating lease expenses. Further, while disclosure requirements exist for the amortization expense on intangible assets subject to amortization, entities are not required to provide separate disclosure of the total expense related to intangibles which have been expensed as they do not meet the recognition criteria of an asset, nor for which the entity has made an accounting policy choice to expense costs on internally generated intangibles in the development stage.

We suggest that instead of requiring enterprises who apply the simplification method to provide disclosure of the amount of the cloud computing expenses, such enterprises should use professional judgement to determine as to whether a disclosure (either on the face of the income statement or in the notes) would benefit the users of the financial statements.

**Question 7: Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2023, with earlier application permitted (see proposed paragraph 34 of AcG-20)? If not, why not?**

The Guideline is expected to be released in the last quarter of 2022. With the earliest release date of October, the proposed effective date of January 01, 2023, provides enterprises with three months to prepare for the implementation. Based on the size of the enterprises that the Guideline will impact, including not-for-profit organizations that have limited resources available, we recommend providing additional time to prepare so enterprises are able to develop comprehensive understanding and interpretations of the requirements.

**Question 9: The illustrative examples are intended to show the application of the Guideline.**

**(b) Another assumption in the fact pattern is about the availability of information to allocate arrangement consideration. Would you be able to obtain pricing information from your vendor**

**or from other sources such as through vendor quotations to assist in allocating the arrangement consideration to the goods or services you receive in a cloud computing arrangement?**

Pricing information is dependent largely on the types of cloud computing arrangements an enterprise enters into. While we agree that for non-complex arrangements, the pricing information may be readily available, for larger more complex contracts where multiple arrangements are being entered into simultaneously, pricing information for each separable arrangement may be difficult to obtain.

**(c) Illustrative Example 1 demonstrates the application of the Guideline when an enterprise chooses to apply the simplification approach. Illustrative Example 2 demonstrates the application of the Guideline when an enterprise does not apply the simplification approach. Are the examples helpful? If not, can you provide a fact pattern that is typical of what vendors offer in a cloud computing arrangement?**

The examples clarify the implementation requirements as they provide simplified scenarios that enterprises may encounter when entering into cloud computing arrangements. Other fact patterns for which examples will be helpful include instances where implementation activities are not linear, such as when different modules of one service go live at different points in time. The examples also assume that the software service and implementation service are both separable. Examples will be helpful for instances where these are not separable.

Within example 2, the amount payable for certain activities is recognized as a prepaid expense. Although not incorrect, we believe it is uncommon for an amount that is payable to also be capitalized as a prepaid expense and are concerned that this may cause confusion, especially amongst smaller enterprises. We suggest that the fact pattern be amended to show that the amount has been paid and is not payable.

We would be pleased to offer our assistance to the AcSB for any future proposed changes to accounting standards and in helping to find solutions which meet the needs of the financial statement users.

Yours truly,

**MNP LLP**



Jody MacKenzie, CPA, CA  
Director, Assurance Professional Standards