

Cloud computing: Accounting for implementation costs in the context of a government partnership

Extract, PSA Discussion Group Report on the Public Meeting – November 10, 2022

The submission referred to the same background as the previous topic but asked the Group to consider how individual partners should account under PSAS for the implementation costs they incur as a result of a cloud computing arrangement that is a service in the context of a government partnership

The submission presented the following scenario for the Group to consider as part of the discussion:

- A contractual arrangement was entered into by 10 hospitals that follow PSAS (without the use of the PS 4200 Series).
- In accordance with the terms of the contractual arrangement, a separate entity has been incorporated that will follow PSAS.
- The contractual arrangement was entered into, and the new entity was formed to design and develop computing software. The new entity will provide each hospital access to the software through the cloud in a long-term licensing arrangement that is part of the original contractual arrangement.
- Each hospital made an initial financial investment in the entity and took back a one-tenth “interest” in the new entity. This financial investment was used to finance the development of the cloud computing software.
- The new entity is run by a board of 10 directors. Each hospital appoints one director who services for a three-year term. The board operates in accordance with the terms of the contractual arrangement and holds meetings on a regular basis. All key decisions must be made by unanimous consent and all other decisions are made by majority vote.
- Each hospital will share the costs associated with continual software maintenance and upgrades through an annual subscription fee and will share on an equitable basis the significant risks and benefits associated the operations of the new entity.
- The new entity has engaged a third-party software developer to develop and upgrade the bespoke software on the new entity’s behalf. The new entity owns the intellectual property and has exclusive rights to the software, including when and how to update or reconfigure the software.
- Each hospital incurs significant implementation costs to access and use the software. These implementation costs include costs to:
 - customize or configure the cloud-based software;
 - develop and implement interfaces between the hospital’s existing systems and the cloud-based software; and
 - convert/migrate existing data for use by the cloud-based software.
- The new entity will not provide access to the software to any entities other than the partners to the contractual arrangement.

Additional it is determined that:

- The new entity meets the definition of a non-business government partnership. In accordance with PSAS, each individual partner will proportionately consolidate its one-tenth interest in the government partnership.
- The cloud computing software is an asset of the government partnership and the government partnership accounts for it as computing software in accordance with [Section PS 3150](#), *Tangible Capital Assets*.
- For each individual partner, the arrangement is a cloud computing arrangement that is a service.

The issue asked the Group to consider two views related to the fact pattern:

View A: The implementation costs incurred by each partner should be capitalized to each partner's one-tenth of the software asset that it proportionally consolidates.

View B: The implementation costs incurred by each partner should be expensed by the individual partner.

Most Group members supported for View A and shared the following:

Unlike the prior submission, the government partnership owns and controls the underlying cloud computing arrangement (which is an asset of the government partnership) for which implementation activities occur at the individual partner level to enable the each partner to use the asset. So, a partner's proportionate consolidation of its share of the partnership would allow capitalization of the implementation costs to occur. The asset to which the implementation costs would relate would be the partner's one-tenth interest in the underlying cloud computing arrangement.

Some Group members noted that if the implementation costs are essential to operating the software and to each partner benefiting from their interest in the partnership, then the costs should be capitalized.

[Section PS 3150](#) would allow the partnership to recognize the cloud computing arrangement as a software asset. As a result, each partner is effectively recognizing one-tenth of the software asset as part of its interest in the partnership.

While structure should not be the deciding factor, two Group members felt that having the partnership incur all the implementation costs might be the most straightforward scenario.

Other members also shared the following perspectives:

A few Group members supported View B. One Group member noted that, notwithstanding the changes in the fact pattern to the previous submission, the same concepts should remain applicable and implementation costs should be expensed.

A Group member gave an example of an asset such as a fishing boat: Would it only hold value if a fishing license were granted? They noted that the inherent cost of cloud computing arrangements, similar to the fishing boat, ought to remain with the software rather than the asset itself. However, the Group member recognized that control over the software must be established.

The Group concluded that PSAB should consider providing additional guidance and clarity for how partners in a government partnership are to account for implementation costs they incur related to a cloud computing arrangement that is a service. Although most Group members supported View A, the Group encouraged PSAB to address the concerns discussed.