August 23, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Project No 38

Dear Mr. Bean,

Thank you for the opportunity to review and comment to the Government Accounting Standards Board (GASB) on its Exposure Draft of a Proposed Statement of the GASB Subscription-Based Information Technology Arrangements (ED).

University of Maryland College Park (UMD) is a state university with nearly $3B in assets and approximately $2B in annual revenues and expenses. Like other public sector organizations, we have increased our adoption of the cloud-based technology available in the market. We therefore appreciate the GASB providing further guidance on the accounting of such arrangements. We would like to offer the following comments for your consideration:

**Materiality** - although all standards issued by the GASB have a materiality box, the application of materiality for this standard may require further clarification. Many of the cloud-based licensing are based on the number of users. For large entity, the software subscription cost for an individual may not be significant, but could be if the number of users are significant. Without clarity in the standards, we may be required to prove to our external auditor that something is not material. Depending on the extent of the use, trying to identify the total population to prove why something is not material could be burdensome and not cost effective. As a result, having some threshold or additional principles in the standard would be helpful.

**Recognition and Measurement** - The ED does not appear to address the recognition and measurement of a subscription asset that have not been implemented or have multi-year implementation. Paragraph 15 notes,

- “At the commencement of the subscription term, a government should recognize a subscription liability and an intangible right-to-use asset (a capital asset hereinafter referred to as the subscription asset)”;

Also, paragraph 25 notes,

- “A government initially should measure the subscription asset as the sum of the following:
a. The amount of the initial measurement of the subscription liability (see paragraph 16)
b. Subscription payments made to the SBITA vendor at or before the commencement of the subscription term, less any SBITA vendor incentives (as discussed in paragraphs 40 and 41) received from the SBITA vendor at or before the commencement of the subscription term
c. Capitalizable implementation costs as described in paragraphs 28–38.”

If a government is required to recognize a subscription liability and asset at the commencement of the subscription term and the subscription asset is required to include “capitalizable implementation costs”, is the government required to estimate the “capitalizable implementation costs”? If so, how would the difference in actual after the costs are incurred be accounted for? This is a practical scenario, especially for large cloud-based ERP implementation which could span multiple years.

Similarly, paragraph 26 notes,

● “A subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying hardware or software. The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.”

If the implementation period takes multiple years, the asset would not be in use even though the subscription period may have started. If we start amortizing an “incomplete” subscription asset, the useful life could be subject to change depending on how long the implementation would take. Also, this would not be consistent with the convention to depreciate assets only after they are put in use and generating business value.

Paragraph 29 notes:

● “Data conversion should be considered an activity of the initial implementation stage only to the extent it is determined to be necessary to make the subscription asset operational—that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.”

In general, data conversion effort for system implementation is often one of the most critical success factors and often are costly, especially for a large system modernization project that many governments are undergoing. The system could not be considered operational without successful data conversion. As a result, we believe that data conversion costs should be included as part of the “Initial Implementation Stage” (par 28b).

Paragraph 38 notes:
“If outlays are a result of contract modifications as described in paragraphs 50–52, the outlays should be accounted for in accordance with paragraphs 50–52. There also may be outlays that are incurred in addition to subscription payments and associated with a SBITA already in operation. Generally, those outlays should be expensed as incurred. However, outlays that are not a result of contract modifications but that result in either of the following should be capitalized as an addition to an existing subscription asset:

a. An increase in the functionality of the subscription asset; that is, the subscription asset allows the government to perform tasks that it previously was incapable of performing.
b. An increase in the efficiency of the subscription asset; that is, an increase in the level of service provided by the subscription asset without the ability to perform additional tasks.”

The paragraph above as well as paragraphs 50-52 provide the conditions when the initial recordation of the subscription asset and liability should be re-measured. In some cases, the startup phase costs would have already been amortized, please provide further clarity on the accounting treatment in this scenario.

**Incremental Licensing** - If a SBITA has a flat fee and license component that changes with the number of license used, are we to capitalize the estimated annuity for the number of licenses expected to be used, or only capitalize the fixed cost portion? If the SBITA only has a per user license over the term, how is this calculated, and capitalized? When and how should any variance in the number of licenses actually used versus planned to be used be reconciled? If we capitalize the licenses, do we have to rebalance the capitalized cost of the licenses based on the number actually put into place? We currently have cloud-based software that we get charged a variable fees (e.g. per page). Can the Board provide further guidance in this area?

Thank you again for the opportunity to comment and for your effort to increase transparency and stewardship of governments. If you have any questions, please feel free to contact me.

Sincerely,

C. Christina Ho

University Controller