

STAFF PAPER

April 2021

IASB® meeting

Project	Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)		
Paper topic	Finalisation of agenda decision		
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Introduction and purpose

1. At its March 2021 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about the customer's accounting for costs of configuring or customising the supplier's application software in a Software as a Service (SaaS) arrangement. The Committee instead decided to finalise an agenda decision that would include material explaining how the applicable principles and requirements in IFRS Standards apply to the fact pattern described in the submission.
2. In the fact pattern described in the submission:
 - (a) a customer enters into a SaaS arrangement with a supplier. The contract conveys to the customer the right to receive access to the supplier's application software over the contract term. That right to receive access does not provide the customer with a software asset and, therefore, the access to the software is a service that the customer receives over the contract term.
 - (b) the customer incurs costs of configuring or customising the supplier's application software to which the customer receives access and receives no other goods or services.

3. In analysing the submission, the Committee considered:
 - (a) whether, applying IAS 38 *Intangible Assets*, the customer recognises an intangible asset in relation to configuration or customisation of the application software (Question I).
 - (b) if an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs (Question II).
4. The Committee published a [tentative agenda decision](#) in December 2020 on the topic, having concluded that the principles and requirements in IFRS Standards provide an adequate basis for a customer to determine its accounting for configuration or customisation costs incurred in relation to the SaaS arrangement described in the submission.
5. The Committee considered feedback on the tentative agenda decision at its March 2021 meeting and decided to finalise the agenda decision. The purpose of this meeting is to ask Board members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Overview of the feedback on the tentative agenda decision

6. The Committee received 19 comment letters on its tentative agenda decision by the comment deadline of 15 February 2021.
7. Five respondents agreed with the Committee's analysis and observations in the tentative agenda decision; a few of these respondents suggested some clarifications.
8. Several other respondents disagreed with, or expressed concerns about, aspects of the Committee's technical analysis and observations. In particular:
 - (a) some respondents disagreed with the Committee's observation that, in the SaaS arrangement described in the submission, the customer often would not recognise an intangible asset;
 - (b) several respondents commented on the reference to the requirements in IFRS 15 in the Committee's analysis of Question II; and

- (c) some respondents asked whether and how the Committee’s analysis and observations regarding Question II would differ if the configuration or customisation services were performed by the supplier of the application software or a third-party supplier.
9. Many of these respondents suggested adding a standard-setting project to the work plan because, in their view, the principles and requirements in IFRS Standards do not provide an adequate basis for a customer to determine its accounting in the fact pattern described in the submission. Some suggested adding a standard-setting project because they disagree with the outcome of applying IAS 38 (as explained in the tentative agenda decision). Others suggested aligning the requirements in IFRS Standards in respect of this topic with those in US GAAP, and a couple of respondents suggested a wider review of IAS 38.
 10. The Committee considered this feedback at its March 2021 meeting¹. Having done so, the Committee confirmed the technical analysis and observations in the tentative agenda decision. The Committee made some changes to the wording of the tentative agenda decision to address respondents’ comments. Those changes in wording did not change the overall structure or content of the tentative agenda decision, but rather were editorial or clarifying in nature.
 11. Thirteen of 14 Committee members voted to finalise the agenda decision.
 12. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

Questions for the Board

Do Board members object to the Committee’s:

- (a) decision that a standard-setting project should not be added to the work plan; and
- (b) conclusion that the agenda decision does not add or change requirements in IFRS Standards?

¹ [Agenda Paper 2](#) to the Committee’s March 2021 meeting analyses comments received.

Report to the Board

13. As noted above, some respondents to the tentative agenda decision highlighted shortcomings in the requirements of IAS 38 in their application to intangible asset arrangements linked to digitalisation. As previously reported to the Board, respondents to the tentative agenda decision ([Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud \(IAS 38\)](#)) also made similar comments. While voting to finalise the agenda decision, the Committee suggested that the Board consider such feedback as part of its Third Agenda Consultation.

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its meeting in March 2021.

Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)

The Committee received a request about how a customer accounts for costs of configuring or customising a supplier’s application software in a Software as a Service (SaaS) arrangement. In the fact pattern described in the request:

- a. a customer enters into a SaaS arrangement with a supplier. The contract conveys to the customer the right to receive access to the supplier’s application software over the contract term. That right to receive access does not provide the customer with a software asset and, therefore, the access to the software is a service that the customer receives over the contract term.
- b. the customer incurs costs of configuring or customising the supplier’s application software to which the customer receives access. The request describes configuration and customisation as follows:
 - i. configuration involves the setting of various ‘flags’ or ‘switches’ within the application software, or defining values or parameters, to set up the software’s existing code to function in a specified way.
 - ii. customisation involves modifying the software code in the application or writing additional code. Customisation generally changes, or creates additional, functionalities within the software.
- c. the customer receives no other goods or services.

In analysing the request, the Committee considered:

- a. whether, applying IAS 38, the customer recognises an intangible asset in relation to configuration or customisation of the application software (Question I).
- b. if an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs (Question II).

Does the customer recognise an intangible asset in relation to configuration or customisation of the application software (Question I)?

Applying paragraph 18 of IAS 38, an entity recognises an item as an intangible asset when the entity demonstrates that the item meets both the definition of an intangible asset and the recognition criteria in paragraphs 21–23 of IAS 38. IAS 38 defines an intangible asset as ‘an identifiable non-monetary asset without physical substance’. IAS 38 notes that an asset is a resource controlled by an entity and paragraph 13 specifies that an entity controls an asset if it has ‘the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits’.

In the fact pattern described in the request, the supplier controls the application software to which the customer has access. The assessment of whether configuration or customisation of that software results in an intangible asset for the customer depends on the nature and output of the configuration or customisation performed. The Committee observed that, in the SaaS arrangement described in the request, the customer often would not recognise an intangible asset because it does not control the software being configured or customised and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software. In some circumstances, however, the arrangement may result in, for example, additional code from which the customer has the power to obtain the future economic benefits and to restrict others’ access to those benefits. In that case, in determining whether to recognise the additional code as an intangible asset, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38.

If an intangible asset is not recognised, how does the customer account for the configuration or customisation costs (Question II)?

If the customer does not recognise an intangible asset in relation to configuration or customisation of the application software, it applies paragraphs 68–70 of IAS 38 to account for those costs. The Committee observed that:

- a. the customer recognises the costs as an expense when it receives the configuration or customisation services (paragraph 69). Paragraph 69A specifies that ‘services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service’. In

assessing when to recognise the costs as an expense, IAS 38 therefore requires the customer to determine when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services.

- b. IAS 38 includes no requirements that deal with the identification of the services the customer receives in determining when the supplier performs those services in accordance with the contract to deliver them. Paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require the customer to refer to, and consider the applicability of, the requirements in IFRS Standards that deal with similar and related issues. The Committee observed that IFRS 15 *Revenue from Contracts with Customers* includes requirements that suppliers apply in identifying the promised goods or services in a contract with a customer. For the fact pattern described in the request, those requirements in IFRS 15 deal with issues similar and related to those faced by the customer in determining when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services.
- c. if the contract to deliver the configuration or customisation services to the customer is with the supplier of the application software (including cases in which the supplier subcontracts services to a third party), the customer applies paragraphs 69–69A of IAS 38 and determines when the supplier of the application software performs those services in accordance with the contract to deliver them as follows:
- i. if the services the customer receives are distinct, then the customer recognises the costs as an expense when the supplier configures or customises the application software.
 - ii. if the services the customer receives are not distinct (because those services are not separately identifiable from the customer’s right to receive access to the supplier’s application software), then the customer recognises the costs as an expense when the supplier provides access to the application software over the contract term.
- d. if the contract to deliver the configuration or customisation services to the customer is with a third-party supplier, the customer applies paragraphs 69–69A of IAS 38 and determines when the third-party supplier performs those services in accordance with

the contract to deliver them. In applying these requirements, the customer recognises the costs as an expense when the third-party supplier configures or customises the application software.

- e. if the customer pays the supplier of the configuration or customisation services before receiving those services, it recognises the prepayment as an asset (paragraph 70 of IAS 38).

Paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* require the customer to disclose its accounting policy for configuration or customisation costs when that disclosure is relevant to an understanding of its financial statements.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a customer to determine its accounting for configuration or customisation costs incurred in relation to the SaaS arrangement described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.