



STAFF PAPER

March 2021

IFRS® Interpretations Committee meeting

Project	Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)		
Paper topic	Comment letters on tentative agenda decision		
CONTACT	Wei Shun Tan	wtan@ifrs.org	+81 (0) 3 5205 7282
	Jawaid Dossani	jdossani@ifrs.org	+44 (0) 20 7332 2742

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. In December 2020, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) 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.
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 at the contract commencement date. Therefore, the access to the software is a service that the customer receives over the contract term.
 - (b) the customer incurs upfront costs of configuring or customising the supplier's application software to which the customer receives access. The submission 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.
3. In analysing the submission, 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); and
- (b) if an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs? (Question II)
4. Based on its analysis, 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 a SaaS arrangement described in the submission. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the [tentative agenda decision](#).
5. The objectives of this paper are to:
- (a) analyse comments on the tentative agenda decision; and
- (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.
6. There are two appendices to this paper:
- (a) Appendix A—proposed wording of the agenda decision; and
- (b) Appendix B—analysis of comments on other matters.

Comment letter summary

7. We received 19 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our [website](#)¹. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 2A.
8. Five respondents (the Institute of Chartered Accountants of Nigeria, the Malaysian Accounting Standards Board, the Accounting Standards Committee of Germany (ASCG), Deloitte and the Association of National Accountants of Nigeria (ANAN)) agree with the Committee's analysis and observations in the tentative agenda decision. A few of these respondents suggest clarifications to the tentative agenda decision.
9. Several other respondents disagree with, or express concerns about, aspects of the Committee's technical analysis and observations in the tentative agenda decision. In particular:
 - (a) some respondents disagree 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 raise concerns about the reference to the requirements in IFRS 15 in the Committee's analysis of Question II; and
 - (c) some respondents ask whether and how the Committee's analysis and observations regarding Question II would differ between situations in which the supplier of the application software provides configuration or customisation services and situations in which a third party provides those services.
10. Many of these respondents say the principles and requirements in IFRS Standards do not provide an adequate basis for a customer to determine its accounting in the fact

¹ At the date of posting this agenda paper, there were no late comment letters.

pattern described in the submission and suggest adding a standard-setting project to the work plan. Some suggest adding a standard-setting project because they disagree with the outcome of applying IAS 38 (as explained in the tentative agenda decision). A few respondents suggest aligning the requirements in IFRS Standards in respect of this matter with those in US GAAP and a couple of respondents suggest undertaking a wider review of IAS 38.

11. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

12. We have separately analysed comments related to:
 - (a) the Committee’s analysis and observations regarding Question I (paragraphs 13–20);
 - (b) the Committee’s analysis and observations regarding Question II (paragraphs 21–40); and
 - (c) requests for standard-setting (paragraphs 41–49).
13. Appendix B to this paper analyses comments on other matters.

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

Committee’s analysis and observations

14. The tentative agenda decision states:

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 activities do not create an asset 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, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38 in determining whether to recognise the additional code as an intangible asset.

Respondents' comments

15. Respondents do not disagree with the Committee's technical analysis of Question I. However, three respondents (Alberta-Pacific Forest Industries Inc. (AFI), the International Air Transport Association's Industry Accounting Working Group (IAWG) and Seven Group Holdings (SGH)) disagree with the Committee's observation that, in the SaaS arrangement described in the submission, the customer often would not recognise an intangible asset because it does not control the software being configured or customised and those activities do not create an asset that is separate from the software.
16. These respondents say any configuration or customisation is generally identifiable through legal and contractual rights, and the customer is able to obtain future economic benefits from that configuration or customisation and restrict others' access

to those benefits. The customer would therefore control an intangible asset that arises from the configuration or customisation. For example:

(a) AFI says:

The configuration and customisation are exclusive in benefit of our company and cannot be used by other company (i.e. a competitor in the same industry). Also, our company cannot use configuration or customisation of the application in SaaS that was done for a competitor using the same business application in the SaaS. Therefore, there is a real restriction to obtain the benefits of the configuration and customisation.

(b) IAWG says:

We would expect that in many cases only the customer and supplier would have access to the configuration and customisation. We do not see in those scenarios that the supplier would benefit from using the configuration or customisation as they are services provided by the supplier. If a third party provided these services, we still do not see how the supplier could benefit from using these services.

(c) SGH says ‘the customer controls the software being configured or customised for the period of the [arrangement]....’

17. In addition:

(a) IAWG says, applying IAS 38, the configuration or customisation need not result in an asset that is separate from the underlying software for the customer to recognise the configuration or customisation costs as an intangible asset.

(b) Deloitte suggests referring to the Committee’s March 2019 Agenda Decision ‘[Customer’s Right to Receive Access to the Supplier’s Software Hosted on the Cloud \(IAS 38\)](#)’. Deloitte notes that that Agenda Decision provides additional guidance about how to assess whether a customer in a SaaS arrangement recognises an intangible asset.

- (c) Deloitte suggests clarifying in the fact pattern that the right to receive access to the supplier’s application software does not provide the customer with a software asset at any point during the contract; the tentative agenda decision refers only to the contract commencement date.

Staff analysis

18. We continue to agree with the Committee’s observation that the customer often would not recognise an intangible asset because it does not control the software being configured or customised and those activities do not create an asset that is separate from the software.

19. We agree with respondents who say that configuration and customisation would generally be identifiable as described in paragraph 12 of IAS 38—this is because it would arise from contractual rights. However, we continue to think the customer often would not recognise an intangible asset in relation to the configuration or customisation—this is because the customer would not have the power to obtain the future economic benefits flowing from the underlying resource (ie the software being configured or customised) and to restrict the access of others (including the supplier) to those benefits. We understand that the customer would expect to obtain benefits from the configuration or customisation in the same way that a customer would expect to obtain benefits from any good or service it receives. However, the ability to obtain benefits from the configuration or customisation does not mean that the customer has the power to obtain the future economic benefits flowing from the underlying resource and to restrict others’ access to those benefits.

20. We acknowledge that, in some arrangements, the customer might obtain control of the configured or customised software itself. However, the fact pattern described in the submission specifies that the right to receive access to the supplier’s application software over the contract term *does not* provide the customer with a software asset—considering situations in which the customer controls the configured or customised software is beyond the scope of the fact pattern submitted to the Committee. Nonetheless, we agree it would be beneficial to clarify in the fact pattern that the right to receive access to the supplier’s application software does not provide the customer

with a software asset at any point during the contract. Appendix A to this paper includes our suggested edits to the wording of the tentative agenda decision in this respect.

21. We also note that:

- (a) the tentative agenda decision does not say configuration or customisation would never give rise to an intangible asset for the customer. The Committee’s observation is qualified by ‘often’ and the tentative agenda decision goes on to provide an example of a situation in which the arrangement may result in the customer recognising an intangible asset that arises from customisation activities.
- (b) paragraph 12 of IAS 38 specifies that an asset is identifiable if it either is separable or arises from contractual or other legal rights. The statement in the tentative agenda decision ‘...those activities do not create an asset that is separate from the software’ is in the context of assessing control and not identifiability. We agree that, to be identifiable, the configuration or customisation need not be ‘separable’ from the underlying software. Appendix A to this paper includes a suggested edit to the wording of the tentative agenda decision to clarify this.
- (c) the March 2019 Agenda Decision discusses a customer’s accounting for fees paid to access the supplier’s application software and, in doing so, explains how the customer assesses whether it obtains a software asset at the contract commencement date. Because that Agenda Decision focuses on assessing whether the customer obtains control of the underlying software, we think it is not particularly helpful to refer to it in this agenda decision for which the fact pattern assumes that the customer does not obtain control of the underlying software.

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

Committee's analysis and observations

22. The tentative agenda decision states:

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 does not include requirements that deal with the identification of the services the customer receives and 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 and when those promised goods or services are transferred to the customer. In 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) in referring to the requirements in IFRS 15 to determine when the supplier performs the configuration or customisation services in accordance with the contract to deliver them:
- (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 customer pays the supplier before receiving the services, it recognises the prepayment as an asset (paragraph 70 of IAS 38).

Application of IFRS 15

23. Several respondents raise concerns about the reference to the requirements in IFRS 15 in the tentative agenda decision.

Respondents' comments

Inappropriate/ unnecessary to apply IFRS 15

24. Petróleo Brasileiro (Petrobras) and the IAWG express concerns about referring to the requirements in IFRS 15 because, in their view, the principles and requirements in IFRS 15 differ from those in paragraphs 68–70 of IAS 38. Petrobras says, applying

paragraph 69A of IAS 38, the terms of the contract with the supplier determine whether the supplier has performed the service and thus determine the timing of recognition of the related expense. However, paragraph 31 of IFRS 15 has different requirements (emphasis added):

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) *the customer obtains control of that asset*.

25. The Saudi Organization for Certified Public Accountants (SOCPA) says the configuration or customisation is necessary to allow the customer to access the supplier’s software. Because access to the software is a service the customer receives over the contract term, the customer also receives the configuration or customisation services over the contract term—it is unnecessary to refer to IFRS 15 in applying paragraphs 68–70 of IAS 38.

Should a customer always refer to IFRS 15?

26. Although agreeing that a customer might refer to IFRS 15 in applying paragraph 69A of IAS 38, a few respondents say it is inappropriate to suggest the customer must refer to IFRS 15. For example:

- (a) PwC says:

IFRS 15 will not be helpful or appropriate in all circumstances. In particular, the guidance on multiple element arrangements in IFRS 15 was designed to identify and separate performance obligations of a (single) supplier. It was not developed to determine whether a multiple element arrangement exists for the customer nor how to account for such an arrangement when multiple interrelated services are provided to a customer by more than one supplier.

- (b) EY suggests clarifying that the customer should develop an accounting policy applying IAS 8, which may (or may not) be based on the requirements in IFRS 15:

We believe that management in its own judgement may determine that IFRS 15 deals with similar and related issues to those included in the [tentative agenda decision] or conclude that IFRS 15 is not applicable, because it provides accounting guidance for the supplier/vendor in a revenue arrangement, not the customer.

Broader implications of the reference to IFRS 15

27. EY and the Accounting Standards Board of Japan (ASBJ) express concerns that the tentative agenda decision could imply that customers should always look to IFRS 15 in the absence of specific requirements for a particular transaction. The ASBJ suggests clarifying that this would not be the case. EY says:

Furthermore, we believe that the [tentative agenda decision] could be interpreted to imply that all customers should apply IFRS 15 to determine whether elements in a multiple-element arrangement should be accounted for separately because IFRS standards do not include general guidance for customers in service arrangements or other multiple-element arrangements. We understand that many customers do not apply IFRS 15, in practice, to determine separate elements of a multiple-element arrangement with a vendor/supplier. That is because IFRS 15 provides accounting guidance for the supplier/vendor in a revenue arrangement, and the customer does not have access to the same information as the supplier/vendor (and the information they do have may not be sufficient) to apply the requirements in IFRS 15.

Other comments

28. Some respondents (the ASBJ, the IAWG and the Accounting Standards Board of the Institute of Chartered Accountants of India) say the reference to IFRS 15 could imply

that the customer’s accounting must mirror that applied by the supplier, which in their view is inappropriate. The ASCG suggests clarifying whether such mirror (or symmetrical) accounting would be appropriate for all fact patterns or only in particular circumstances.

29. The IAWG suggests expanding the IFRS 15 analysis to discuss how a customer assesses whether services are distinct. Similar to SOCPA’s comment in paragraph 24 above, it says configuration or customisation of the supplier’s software is not distinct because it modifies the software, to which the customer receives access only over the contract term.

30. Petrobras says IAS 38 was issued before IFRS 15. In its view, explaining that entities should refer to IFRS 15 in applying paragraph 69A of IAS 38 could have unintended consequences for accounting policies related to the application of that paragraph developed before the publication of the agenda decision.

Staff analysis

31. As explained in paragraphs 32–34 of the [December 2020 agenda paper](#), when a customer does not recognise an intangible asset in respect of the configuration or customisation costs, it applies the requirements in paragraphs 68–70 of IAS 38 to account for those costs. Applying paragraph 69, the customer recognises the expenditure—the configuration or customisation costs—as an expense when it receives the related service. Paragraph 69A specifies that an entity receives a service *when that service is performed by a supplier in accordance with a contract to deliver the services to the entity*—and not necessarily when the entity benefits from that service. Accordingly, the customer must determine when a supplier performs the configuration or customisation services in accordance with the contract to deliver those services to the customer.

32. In a SaaS arrangement, a customer might often receive a bundle of services from the supplier—configuration or customisation services as well as access to the supplier’s application software and possibly other services, such as training or data migration. In applying paragraph 69A of IAS 38, it is first necessary for a customer to identify which services it receives in exchange for amounts paid (or payable) in order to

determine when the supplier performs those services in accordance with the contract to deliver them. IAS 38 does not include requirements on the identification of the services received. In the absence of specific requirements in IAS 38, the customer applies paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop and apply an accounting policy.

33. Because paragraph 69A of IAS 38 requires the customer to consider when a *supplier* performs a service in accordance with a contract to deliver the service, we continue to think the requirements in IFRS 15 relating to identifying the services promised in a contract include requirements dealing with similar and related issues to those faced by the customer when identifying the services it receives in a SaaS arrangement. Once the customer has identified the service(s) it receives, we would expect the assessment of when the supplier performs the service(s) in accordance with the contract to deliver them to be relatively straightforward.

34. We acknowledge IFRS 15 applies to contracts with customers from the perspective of the seller, and not to the customer’s accounting for goods or services received. In concluding that IFRS 15 includes requirements dealing with similar and related issues to those faced by the customer in applying paragraph 69A of IAS 38, we are not saying a customer would always look to IFRS 15 in the absence of specific requirements relating to a particular transaction. Rather, we continue to think that in this particular fact pattern, IFRS 15 includes requirements dealing with similar and related issues because the applicable requirements in IAS 38 require the customer to assess when the *supplier* has performed the services in accordance with the contract to deliver them. We think this is sufficiently clear in the tentative agenda decision (and the proposed wording for the final agenda decision set out in Appendix A to this paper).

35. In addition:
 - (a) we think it would be inappropriate to conclude that a customer would always recognise any configuration or customisation costs as an expense over the contract term. This assessment would necessarily depend on facts and circumstances.

- (b) we disagree that the reference to IFRS 15 implies that the customer’s accounting should mirror that of the supplier. A customer applies the requirements in IAS 38 and, in doing so, refers to particular requirements in IFRS 15—the customer would independently apply those requirements (without reference to the supplier’s accounting) based on the facts and circumstances.
- (c) assessing whether the services received by a customer in a SaaS arrangement are distinct would necessarily depend on the facts and circumstances. We therefore recommend not discussing this further in the agenda decision.
- (d) we think considering the consequences of accounting policies related to the application of paragraph 69A of IAS 38 developed before the publication of the agenda decision is beyond the scope of the Committee’s discussions.

36. We have refined the proposed wording of the agenda decision in Appendix A having considered the comments received on Question II.

Configuration or customisation services performed by a third party

Respondents’ comments

37. Some respondents ask whether and how the Committee’s analysis and observations would differ between situations in which the supplier of the application software configures or customises the software and situations in which a third party provides those services. In particular:

- (a) some respondents (the ASCG, the Canadian Accounting Standards Board (AcSB) and EY) suggest clarifying how the tentative agenda decision applies to configuration or customisation services performed by a third party. EY suggests clarifying that, if the customer refers to IFRS 15 and the configuration or customisation services are performed by a third party, the contract with the third party cannot be combined with the SaaS arrangement and, consequently in this situation, the configuration or customisation services are always distinct. Similarly, the AcSB says it would be difficult

to support that third-party services are not distinct. In contrast, PwC suggests clarifying that the assessment of distinct would be the same regardless of who performs the services. It says:

We think this is consistent with the IFRS 15 principle relating to identifying distinct goods or services in this fact pattern. In many cases, the customisation or setup risk and SaaS service risk are inseparable and the customisation significantly modifies or customises the service that will be provided (IFRS 15 paragraph 29(b), BC105). We believe that it would be appropriate for the customer to conclude that no distinct service has been delivered if the requirement of IFRS 15 paragraph 27(b) is not met. This assessment would be the same regardless of the party that supplied the customisation from the customer's perspective.

- (b) Petrobras suggests clarifying in the fact pattern whether it is the supplier of the application software or a third party who configures or customises the application software.
- (c) David Hardidge says third-party configuration and customisation services would be distinct but that is not always the case when the supplier of the application software provides the services—he disagrees with this outcome, which he describes as ‘nonsensical’.

Staff analysis

38. In considering these comments, we have assumed that a third-party supplier of configuration or customisation services has entered into a contract with the customer to deliver the configuration or customisation services to the customer and is not an agent (for example, a subcontractor) of the supplier of the application software. Paragraph 69A of IAS 38 requires an entity to assess when a supplier has performed services in accordance with a contract to deliver those services. The customer therefore assesses a supplier's performance in the context of the contract to deliver the services, and thus would determine when a third-party supplier performs configuration or customisation services only when it has a contract with that third party to deliver those services.

39. As explained in paragraph 45 of the [December 2020 agenda paper](#), we continue to think the customer’s assessment would not differ solely based on whether the supplier of the application software or a third party provides the configuration or customisation services. That said however, we think:
- (a) in situations in which a third party provides configuration or customisation services, it will generally be straightforward to identify the services the customer receives and determine when that third party performs those services in accordance with the contract.
 - (b) as explained in paragraph 37 above, paragraph 69A of IAS 38 requires the customer to consider when a supplier performs a service *in accordance with a contract to deliver the services to the customer*—in our view, there is no basis to consider a third-party contract for configuration or customisation services together with the SaaS arrangement in applying the requirements in paragraph 69A. Consequently, if the contract to deliver the configuration or customisation services is with a third party, the customer would recognise the related costs as an expense when that third party configures or customises the application software.
 - (c) in situations in which the supplier of the application software configures or customises the software, more judgement is likely to be required in determining whether the customer receives configuration or customisation services that are distinct (and therefore separately identifiable from the service of receiving access to the supplier’s application software), or instead receives a combined service of access to configured or customised software.
40. We disagree with characterising the outcome of applying the requirements in IAS 38 (as explained in the tentative agenda decision) as differing solely based on whether the supplier of the application software or a third party provides the configuration or customisation services. In applying paragraph 69A of IAS 38 (and in doing so referring to the requirements in IFRS 15), the customer might conclude that the configuration or customisation services are distinct even when provided by the supplier of the application software. In situations in which a customer concludes that

those services are not distinct (because they are not separately identifiable from the customer's right to receive access to the supplier's application software), this conclusion reflects the nature of the service being provided.

41. We have updated the proposed wording of the agenda decision (see Appendix A to this paper) to explain more fully how the customer applies the applicable requirements both (a) in situations in which the supplier of the application software provides the configuration or customisation services, and (b) in situations in which a third party provides those services.

Requests for standard-setting

Respondents' comments

42. Many respondents suggested adding a standard-setting project to the work plan to address the matter for the following reasons:

Inadequate principles and requirements in IFRS Standards

43. Several respondents disagree with the Committee's analysis and observations set out in the tentative agenda decision for the reasons discussed elsewhere in this paper. Many of these respondents say 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. The need to develop an accounting policy using the IAS 8 hierarchy, in their view, demonstrates that the requirements in IAS 38 provide an inadequate basis for an entity to determine its accounting.

Outcome of the tentative agenda decision

44. Some respondents disagree with the outcome of applying the requirements in IAS 38 (as explained in the tentative agenda decision). In particular:
- (a) a few respondents say the agenda decision would result in recognising configuration and customisation costs as an expense upfront, which would change existing practice of capitalising those costs. Some of these respondents say this could influence business practices by discouraging

entities from entering into SaaS agreements and could have other unintended consequences.

- (b) some respondents say a customer would capitalise configuration or customisation costs incurred during the development phase of an internally developed software asset or in relation to licensed software; however a customer would recognise as an expense similar costs incurred in relation to a SaaS arrangement. In their view, the nature of the costs incurred in both situations is economically similar and the accounting for the costs should therefore be aligned.

Suggestions for standard-setting

- 45. US GAAP includes specific requirements that apply to a customer's accounting for implementation costs incurred in a hosting arrangement². Some respondents suggest aligning the accounting for configuration and customisation costs with the requirements in US GAAP to increase comparability between IFRS and US GAAP financial statements and to prevent IFRS reporters being at a disadvantage.
- 46. Both IAWG and Nutrien suggest undertaking a wider review of IAS 38. IAWG says the significance and types of intangible assets have changed substantially since IAS 38 was issued. Nutrien says this is another example of IAS 38 not being adaptive to emerging technologies and producing information that may not be useful. While not commenting on the Committee's analysis in the tentative agenda decision, Syamantak Saha outlines an alternative model of accounting for configuration or customisation costs in a SaaS arrangement.

² Accounting Standards Update (ASU) 2018-15 provides guidance on the customer's accounting for implementation costs incurred in a hosting arrangement that is a service contract. Applying ASU 2018-15, the customer applies the guidance in Subtopic 350-40 to determine which implementation costs related to the service contract to capitalise as an asset and which costs to expense—applying this guidance, the customer (a) capitalises costs for implementation activities in the application development stage (depending on the nature of the costs); (b) expenses the capitalised implementation costs over the term of the hosting arrangement; and (c) presents capitalised implementation costs in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

Staff analysis

Inadequate principles and requirements in IFRS Standards

47. Based on our analysis of respondents' comments (discussed elsewhere in this paper), we continue to agree with the Committee's conclusion 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. Requiring entities to apply paragraphs 10–12 of IAS 8 and, in some situations, look to requirements in IFRS Standards dealing with similar and related issues is, in our view, an integral part of a principles-based framework—it does not automatically indicate a need for standard-setting.
48. That said, we have previously reported to the Board that respondents to the March 2019 Agenda Decision on cloud computing arrangements highlighted shortcomings in the requirement of IAS 38 in their application to intangible asset arrangements linked to digitalisation. When asked for input to help prepare the Request for Information on the Board's Third Agenda Consultation, Committee members also suggested a project on IAS 38.

Outcome of the tentative agenda decision

49. We disagree that the requirements in IFRS Standards (as explained in the tentative agenda decision) require the customer, in all situations, to recognise an expense when the application software is configured or customised. The tentative agenda decision does not conclude on the accounting for such costs but, instead, explains how the customer walks through the applicable requirements in IFRS Standards in determining the required accounting—that accounting necessarily depends on the facts and circumstances. As explained in the tentative agenda decision, depending on the facts and circumstances the customer might recognise such costs as (a) an intangible asset, (b) an expense over the contract term (with any payment made before receiving the services being recognised as a prepayment asset), or (c) an expense when the application software is configured or customised.

50. Any difference in the accounting for configuration or customisation costs incurred in relation to different arrangements is a consequence of the differing rights and obligations of the parties in these arrangements. For example, in the SaaS arrangement described in the submission, the customer does not control the supplier's application software whereas it would generally control any internally developed software.

Staff recommendation

51. Based on our analysis, we recommend finalising the agenda decision, with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the Board whether it objects to the agenda decision at the first Board meeting at which it is practicable to present the agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 51 of this paper?

Appendix A—proposed wording of the agenda decision

- A1. We propose the following wording for the final agenda decision (new text is underlined, and deleted text is struck through).

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

The Committee received a request about the customer's accounting for costs of configuring or customising the 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 ~~at the contract commencement date~~. Therefore, the access to the software is a service that the customer receives over the contract term.
- b. the customer incurs ~~upfront~~ 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.

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 activities do not create ~~an asset~~ 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, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38 in determining whether to recognise the additional code as an intangible asset.

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 does not include requirements that deal with the identification of the services the customer receives ~~and~~ 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 ~~and when those promised goods or services are transferred to the customer~~. ~~In 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. the contract to deliver the configuration or customisation services to the customer might be with the supplier of the application software. In applying paragraphs 69–69A of IAS 38 and determining referring to the requirements in IFRS 15 to determine when the supplier performs the configuration or customisation services in accordance with the contract to deliver them:
- 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. the contract to deliver the configuration or customisation services to the customer might be with a third-party supplier. In applying paragraphs 69–69A of IAS 38 and determining when the third-party supplier performs the configuration or customisation services in accordance with the contract to deliver them, 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 before receiving the 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.

Appendix B—analysis of comments on other matters

B1. The following table summarises respondents’ comments on other matters together with our analysis of those comments.

Respondents’ comments	Staff analysis and conclusions
<p><i>1. Paragraph 27 of IAS 38</i></p> <p>A few respondents say configuration or customisation costs are directly attributable costs of preparing the supplier’s application software for its intended use and accordingly should be capitalised applying paragraph 27 of IAS 38³. The ANAN says such costs should be recognised as part of the intangible asset subject to materiality considerations.</p> <p>David Hardidge says the intangible asset is not the supplier’s application software itself but the service contract with the supplier. The configuration or customisation costs are directly attributable costs of <i>preparing that service contract</i> for its intended use.</p>	<p>The configuration and customisation costs relate to the supplier’s application software. Paragraph 27 is irrelevant because, in the fact pattern described in the submission, the customer’s right to receive access to the application software does not provide the customer with a software asset.</p>
<p><i>2. Additional aspects</i></p> <p>The AcSB suggests considering additional aspects of the accounting for cloud</p>	<p>Considering these additional aspects goes beyond the scope of the question asked by the submitter.</p>

³ Paragraph 27 of IAS 38 requires an entity to include in the cost of an intangible asset any directly attributable cost of preparing the asset for its intended use.

Respondents' comments	Staff analysis and conclusions
<p>computing arrangements. These include, for example, the contract term (eg whether renewal options should be considered), and whether any prepayment asset recognised by the customer should be subject to impairment.</p>	
<p><i>3. Timing of implementation of agenda decisions</i></p> <p>The Confederation of Swedish Enterprise says entities may need to change their accounting policy as a result of this agenda decision. It says there is a lack of clarity on what constitutes 'sufficient time' to implement any change that results from an agenda decision. It recommends amending the IFRS Foundation's <i>Due Process Handbook</i> to clarify this and, in the meantime, that the Committee make such a clarification in the agenda decision.</p>	<p>The timing of implementation of agenda decisions has been considered by the Board and the Trustees when the <i>Due Process Handbook</i> was revised in August 2020.</p>