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Statement No. 96 of the
Governmental Accounting
Standards Board

Subscription-Based Information Technology
Arrangements



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- **Preliminary Project Stage**, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- **Initial Implementation Stage**, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage**, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

Effective Date and Transition

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

How the Board Considered Costs and Benefits in the Development of This Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more consistent accounting and financial reporting, and more comparable information about SBITAs—are significant and justify the perceived costs of implementation and ongoing compliance.

Certain decisions made by the Board were intended to provide cost relief. For example, the scope of this Statement excludes contracts with stand-alone tangible capital assets and contracts with a combination of a tangible capital asset and an insignificant software component. In addition, this Statement includes an exception for short-term SBITAs. This Statement also requires governments to report an entire multiple-component contract as a single SBITA when determining that a best estimate to allocate the contract price to multiple components is not practicable. Additionally, this Statement permits, but does not require, governments to include capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage in the measurement of the subscription asset recognized at transition.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

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Subscription-Based Information Technology Arrangements

May 2020



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
of the Financial Accounting Foundation
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INTRODUCTION

1. It has become common for governments to enter into subscription-based contracts to use vendor-provided information technology (IT). Subscription-based information technology arrangements (SBITAs) provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. Prior to the issuance of this Statement, there was no accounting or financial reporting guidance specifically for SBITAs.

2. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement apply to financial statements of all state and local governments.

4. This Statement does not apply to:

- a. Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)
- b. Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- c. Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- d. Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended.

5. This Statement supersedes *Implementation Guide No. 2015-1*, Questions Z.51.21 and Z.51.38. This Statement amends Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraphs 116 and 117; Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 10; Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 11 and 12; Statement 51, paragraph 3; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 135; Statement 87, paragraph 8; *Implementation Guide 2015-1*, Questions 5.77.1, Z.51.18, Z.51.22, and Z.51.23; *Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Question 4.61; and *Implementation Guide No. 2019-3, Leases*, Questions 4.22, 4.25, 4.64, and 4.67.

Definition

6. For purposes of applying this Statement, a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like¹ transaction.

7. To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both of the following:

- a. The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- b. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

8. SBITAs include contracts that, although not explicitly identified as a SBITA, meet the definition of a SBITA in paragraph 6. That definition excludes contracts that solely provide IT support services but includes contracts that contain *both* a right-to-use IT asset component and an IT support services component.

Subscription Term

9. The subscription term is the period during which a government has a noncancellable right to use the underlying IT assets (referred to as the noncancellable period), plus the following periods, if applicable:

- a. Periods covered by a government's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the government will exercise that option

¹The scope of this Statement includes both exchange and exchange-like transactions. Footnote 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, states, "The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a 'pure' exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition."

- b. Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will *not* exercise that option
- c. Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will exercise that option
- d. Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will *not* exercise that option.

Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term. For example, a rolling month-to-month SBITA, or a SBITA that continues into a holdover period until a new SBITA contract is entered into, would not be enforceable if both the government and the SBITA vendor have an option to terminate and, therefore, either could cancel the SBITA at any time. Provisions that allow for termination of a SBITA as a result of either payment of all sums due or default on subscription payments are *not* considered termination options.

10. A fiscal funding or cancellation clause allows a government to cancel a SBITA, typically on an annual basis, if the government does not appropriate funds for the subscription payments. That type of clause should affect the subscription term only if it is reasonably certain that the clause will be exercised.

11. At the commencement of the subscription term, a government should assess all factors relevant to the likelihood that the government or the SBITA vendor will exercise the options identified in paragraphs 9a–9d, whether those factors are contract based, underlying IT asset based, market based, or government specific. The assessment often will require the consideration of a combination of interrelated factors. Examples of factors to consider include, but are not limited to, the following:

- a. A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- b. A potential change in technological development that significantly affects the technology used by the underlying IT assets
- c. A potential significant change in the government's demand for the SBITA vendor's IT assets

- d. A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
- e. The history of exercising options to extend or terminate
- f. The extent to which the underlying IT assets in the SBITA are essential to the provision of government services.

12. A government should reassess the subscription term only if one or more of the following occur:

- a. The government or SBITA vendor elects to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would not exercise that option.
- b. The government or SBITA vendor elects not to exercise an option even though it was previously determined that it was reasonably certain that the government or SBITA vendor would exercise that option.
- c. An event specified in the SBITA contract that requires an extension or termination of the SBITA takes place.

Short-Term SBITAs

13. A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. As discussed in paragraph 9, periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties have to agree to extend) are cancellable periods and should be excluded from the maximum possible term. For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancellable period, including any notice periods.

14. A government should recognize short-term subscription payments as outflows of resources (for example, expense) based on the payment provisions of the SBITA contract. A government should recognize an asset if subscription payments are made in advance or a liability if subscription payments are to be

made subsequent to the reporting period. A government should not recognize an outflow of resources for the period for which the SBITA vendor grants the right to use the underlying IT assets to the government free of charge (for example, one or more months free).

Recognition and Measurement for SBITAs Other Than Short-Term SBITAs—Economic Resources Measurement Focus

15. 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), except as provided in paragraphs 13 and 14 (short-term SBITAs). The commencement of the subscription term occurs when the initial implementation stage is completed, as described in paragraphs 29 and 30, at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

Subscription Liability

16. A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA:

- a. Fixed payments
- b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term
- c. Variable payments that are fixed in substance, as discussed in paragraph 17
- d. Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
- e. Any subscription contract incentives (as discussed in paragraphs 42 and 43) receivable from the SBITA vendor
- f. Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors.

17. Variable payments other than those that depend on an index or a rate, such as variable payments based on future performance of a government, usage of the underlying IT assets, or number of user seats, should not be included in the measurement of the subscription liability. Rather, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the subscription liability.

18. The future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA. If the interest rate cannot be readily determined by the government, the government's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used. A government is not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62, as amended, but may do so as a means of determining the interest rate implicit in the SBITA.

19. In subsequent financial reporting periods, a government should calculate the amortization of the discount on the subscription liability and report that amount as an outflow of resources (for example, interest expense) for those periods. Any subscription payments made should be allocated first to the accrued interest liability and then to the subscription liability.

20. A government should remeasure the subscription liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before those financial reporting dates, based on the most recent SBITA contract before the changes,² and the changes individually or in the aggregate are expected to significantly affect the amount of the subscription liability since the previous measurement:

- a. There is a change in the subscription term.
- b. There is a change in the estimated amounts for subscription payments already included in the measurement of the subscription liability (except as provided in paragraph 21).

²Changes arising from amendments to a SBITA contract should be accounted for in accordance with the provisions in paragraphs 54–57 for SBITA modifications and terminations.

- c. There is a change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate.
- d. A contingency, upon which some or all of the variable payments that will be made over the remainder of the subscription term are based, is resolved such that those payments now meet the criteria for measuring the subscription liability in accordance with paragraph 16. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying IT assets to become fixed for the remainder of the subscription term.

21. If a subscription liability is remeasured for any of the changes in paragraph 20, the liability also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A subscription liability is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.

22. A government also should update the discount rate as part of the remeasurement if there is a change³ in the subscription term and that change is expected to significantly affect the amount of the subscription liability.

23. A subscription liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in a government's incremental borrowing rate.

24. If the discount rate is required to be updated based on the provisions in paragraph 22, the discount rate should be based on the revised interest rate the SBITA vendor charges the government at the time the discount rate is updated. If that interest rate cannot readily be determined, the government's estimated incremental borrowing rate at the time the discount rate is updated should be used.

³See footnote 2.

Subscription Asset

Measurement

25. A government initially should measure the subscription asset as the sum of the following, less any SBITA vendor incentives (as discussed in paragraphs 42 and 43) received from the SBITA vendor at the commencement of the subscription term:

- a. The amount of the initial measurement of the subscription liability, as discussed in paragraph 16
- b. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable
- c. Capitalizable initial implementation costs as described in paragraph 29b.

26. Payments before the commencement of the subscription term associated with the SBITA contract made to the SBITA vendor, as well as payments made for the capitalizable initial implementation costs before the commencement of the subscription term, should be reported as a prepayment (an asset). A prepayment to a SBITA vendor should be reduced by any incentives received from the same SBITA vendor before the commencement of the subscription term, if a right of offset exists (as described in paragraph 501 of Statement 62, as amended). That prepayment should be reclassified as an addition to the initial measurement of the subscription asset at the commencement of the subscription term. If the SBITA vendor incentives are greater than the SBITA vendor prepayments made to the same vendor, the difference should be reported as a liability until the commencement of the subscription term, at which time that amount should reduce the initial measurement of the subscription asset.

27. 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 IT assets. 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. Amortization should begin at the commencement of the subscription term as described in paragraph 15.

28. A subscription asset generally should be adjusted by the same amount as the corresponding subscription liability when that liability is remeasured based on paragraphs 20–24. However, if that change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

Outlays Other Than Subscription Payments, including Implementation Costs

Stages of implementation

29. Activities associated with a SBITA—other than a government making subscription payments to the SBITA vendor for the right to use the underlying IT assets—should be grouped into the following stages:

- a. *Preliminary Project Stage.* Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA.
- b. *Initial Implementation Stage.* Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government’s access to the underlying IT assets. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service.
- c. *Operation and Additional Implementation Stage.* Activities in this stage include maintenance, troubleshooting, and other activities associated with the government’s ongoing access to the underlying IT assets. Activities in this stage also may include additional implementation activities, such as those related to additional modules as discussed in paragraph 30, that occur after the subscription asset is placed into service.

30. If a SBITA has more than one module and the modules are implemented at different times, the initial implementation stage for the SBITA is completed, and, therefore, the subscription asset is placed into service when initial implementation is completed for the first independently functional module or for the first set of interdependent modules, regardless of whether all remaining modules

have been completely implemented. For the remaining modules of that SBITA, all additional implementation activities should be considered subsequent implementation outlays and should be accounted for in accordance with paragraphs 38–40.

31. Data conversion should be considered an activity of the initial implementation stage only to the extent that it is determined to be necessary to place the subscription asset into service—that is, in condition for use. Otherwise, data conversion should be considered an activity of the operation and additional implementation stage.

Accounting for outlays incurred

32. Other than subscription payments for the right to use the underlying IT assets, outlays incurred prior to completing all of the following should be expensed as incurred:

- a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the subscription asset
- b. Demonstration of the technical or technological feasibility such that the subscription asset will provide its expected service capacity
- c. Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract.

33. The requirements in paragraph 32 should be considered to be completed only when both of the following occur:

- a. The activities noted in the preliminary project stage as described in paragraph 29a are completed.
- b. Management implicitly or explicitly authorizes and commits to funding the SBITA, at least for the current fiscal year in the case of a multiyear project.

Preliminary project stage

34. Outlays associated with activities in the preliminary project stage should be expensed as incurred.

Initial implementation stage

35. Outlays associated with activities in the initial implementation stage generally should be capitalized as part of the subscription asset.

36. If no subscription asset is recognized (for example, if the contract is a short-term SBITA), activities in the initial implementation stage should be expensed as incurred.

Operation and additional implementation stage

37. Outlays in this stage that are associated with operational activities should be expensed as incurred, except for those that meet one of the capitalization criteria in paragraph 40. Outlays in this stage that are associated with additional implementation activities should be accounted for in accordance with paragraph 40.

Accounting for certain outlays, including subsequent implementation outlays

38. The activities of implementation of a SBITA described in paragraph 29 may overlap or occur in multiple cycles. Regardless of whether a SBITA is composed of one module, more than one module implemented at the same time, or more than one module implemented at different times, the recognition guidance for outlays other than subscription payments should be applied based on the nature and timing of the activity. Although both factors should be considered, the nature of the activity should be the determining (that is, more influential) factor. Subscription payments should be accounted for in accordance with the recognition and measurement requirements in paragraphs 16–28.

39. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

40. If outlays are a result of SBITA modifications as described in paragraphs 52–55, the outlays should be accounted for in accordance with those paragraphs. There also may be outlays associated with a SBITA already in operation that are incurred in addition to subscription payments. For example, after the subscription asset is placed into service, a government may incur outlays associated with converting its legacy data on an old server to the

vendor's cloud storage. Generally, those outlays should be expensed as incurred. However, additional outlays that are not a result of SBITA 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 could not previously perform with the subscription asset
- 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.

Impairment

41. The presence of impairment indicators (described in paragraph 9 of Statement 42, as amended) with respect to the underlying IT assets may result in a change in the manner or duration of use of the subscription asset. Such a change in the manner or duration of use of the subscription asset may indicate that the service utility of the subscription asset is impaired. The length of time during which the government cannot use the underlying IT assets, or is limited to using them in a different manner, should be compared to their previously expected manner and duration of use to determine whether there is a significant decline in the service utility of the subscription asset. If a subscription asset is impaired, the amount reported for the subscription asset should be reduced first for any change in the corresponding subscription liability. Any remaining amount should be recognized as an impairment.

Incentives Provided by a SBITA Vendor

42. As used in this Statement, incentives provided by a SBITA vendor (SBITA vendor incentives) are (a) payments made to, or on behalf of, a government for which the government has a right of offset with its obligation to the SBITA vendor or (b) other concessions granted to the government. A SBITA vendor incentive is equivalent to a rebate or discount and includes an agreement to pay a government's preexisting subscription obligations to a third party, other reimbursements of end user costs, free subscription periods, and reductions of interest or principal charges by the SBITA vendor.

43. SBITA vendor incentives reduce the amount that a government is required to pay for a SBITA. SBITA vendor incentives that provide payments to, or on behalf of, a government at or before the commencement of a subscription term should be included in initial measurement by directly reducing the amount of the subscription asset. (See paragraphs 25 and 26.) SBITA vendor incentives that provide payments after the commencement of the subscription term should be factored into the present value of the subscription payments for the periods in which the incentive payments will be provided, when initially measuring the subscription liability, as described in paragraph 16e. Accordingly, SBITA vendor incentive payments to be provided after the commencement of the subscription term are included in the initial measurement and any remeasurement of the subscription liability if the incentive payments are fixed or fixed in substance, whereas variable or contingent incentive payments are not included.

Contracts with Multiple Components

44. A government may enter into contracts that contain multiple components, such as (a) a contract that contains both a subscription component (that is, the right to use the underlying IT assets) and a nonsubscription component or (b) a contract that contains multiple underlying IT asset components. Examples of nonsubscription components include a separate perpetual licensing arrangement (which is excluded from this Statement as described in paragraph 4d) and maintenance services for the IT assets.

45. If a government enters into a contract that contains both a subscription component and a nonsubscription component, the government should account for the subscription and nonsubscription components as separate contracts unless the contract meets the exception in paragraph 48.

46. If a SBITA involves multiple underlying IT asset components and the IT asset components have different subscription terms, the government should account for each underlying IT asset component as a separate subscription component. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 48.

47. To allocate the contract price to the different components, a government first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable

stand-alone prices). Stand-alone prices are those that would be paid if the right to use the same or similar IT asset components were contracted individually or if the right to use the same or similar nonsubscription components were contracted individually. Some contracts provide discounts for bundling multiple subscription components or bundling subscription and nonsubscription components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are discounted by the same percentage from normal market prices, the discount included in those component prices would not appear to be unreasonable.

48. If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 47, a government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA. In addition, a government should account for a SBITA with multiple modules in which the subscription term commences at the same time for all modules (as described in paragraph 30) as a single SBITA.

49. If multiple components are accounted for as a single SBITA as provided in paragraph 48, the accounting for that SBITA should be based on the primary subscription component within that SBITA. For example, the primary subscription component's term should be used for the SBITA if those components have different terms.

Contract Combinations

50. Contracts that are entered into at or near the same time with the same SBITA vendor should be considered part of the same contract if either of the following criteria is met:

- a. The contracts are negotiated as a package with a single objective.
- b. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.

51. If multiple contracts are determined to be part of the same contract, that contract should be evaluated in accordance with the guidance for contracts with multiple components in paragraphs 44–49.

SBITA Modifications and Terminations

52. The provisions of a SBITA contract may be amended while the contract is in effect. Amendments change the provisions of the SBITA contract. Examples of amendments to SBITA contracts include changing the contract price of the arrangement, lengthening or shortening the subscription term, adding or removing underlying IT assets, and changing the index or rate upon which variable payments depend. An amendment should be considered a SBITA modification unless the government’s right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination. By contrast, exercising an existing option, such as an option to extend or terminate the SBITA as discussed in paragraphs 12a and 12b, is subject to the guidance for remeasurement.

53. If variable payments of a SBITA contract depend on an interbank offered rate (IBOR), an amendment of the contract solely to replace the IBOR with another rate (that is adjusted, if necessary, to essentially equate the replacement rate and the original rate) by either changing the rate or adding or changing fallback provisions related to the rate, is not a modification to the SBITA contract.

SBITA Modifications

54. A government should account for an amendment during the reporting period resulting in a modification to a SBITA contract as a separate SBITA (that is, separate from the most recent SBITA contract before the modification) if both of the following conditions are present:

- a. The SBITA modification gives the government an additional subscription asset by adding access to more underlying IT assets that were not included in the original SBITA contract.
- b. The increase in subscription payments for the additional subscription asset does not appear to be unreasonable based on (1) the terms of the amended SBITA contract and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

55. Unless a modification is reported as a separate SBITA as provided in paragraph 54, a government should account for a SBITA modification by remeasuring the subscription liability. The subscription asset should be adjusted by the difference between the remeasured liability and the liability immediately before the SBITA modification. However, if the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

SBITA Terminations

56. A government should account for an amendment during the reporting period resulting in a decrease in the government's right to use the underlying IT assets (for example, the subscription term is shortened or the underlying IT assets are reduced) as a partial or full SBITA termination.

57. A government generally should account for the partial or full SBITA termination by reducing the carrying values of the subscription asset and subscription liability and recognizing a gain or loss for the difference.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus

58. If a SBITA is expected to be paid from general government resources, the SBITA should be accounted for and reported on a basis consistent with governmental fund accounting principles.

59. An expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 16–18. Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt.

Notes to Financial Statements

60. A government should disclose in notes to financial statements the following information about its SBITAs (which may be grouped for purposes of disclosure) other than short-term SBITAs:

- a. A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
- b. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
- c. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability
- d. The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
- e. Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter
- f. Commitments under SBITAs before the commencement of the subscription term
- g. The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability, as discussed in paragraph 41).

61. For disclosure purposes, subscription liabilities are not considered debt that is subject to the disclosure requirements in Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

EFFECTIVE DATE AND TRANSITION

62. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

63. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. If restatement for prior fiscal years is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest fiscal year restated. In the first fiscal year that this Statement is applied, the notes to financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior fiscal years presented should be disclosed.

64. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. If applied to earlier fiscal years, those assets and liabilities should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest fiscal year restated. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

David A. Vaudt, *Chairman*
Jeffrey J. Previdi, *Vice Chairman*
James E. Brown
Brian W. Caputo
Michael H. Granof
Kristopher E. Knight
Carolyn Smith

Appendix A

BACKGROUND

A1. Subscription-based information technology arrangements (SBITAs) have become prevalent in the government environment as state and local governments continue to migrate away from traditional information technology (IT) arrangements based on a purchasing and perpetual licensing model. A SBITA conveys control of the right to use a SBITA vendor's IT assets, and the arrangement commonly includes provisions such as remote access to software applications or cloud data storage. A SBITA differs from a traditional technology arrangement covered by existing guidance in that it allows temporary use that ends when the subscription expires. Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended, does not address accounting for SBITAs. Section Z.51 in *Implementation Guide No. 2015-1*, as amended, addressed only certain aspects of accounting for purchased computer software. The scope of Statement No. 87, *Leases*, as amended, excludes leases of intangible assets, such as SBITAs that provide governments with the right to use vendors' IT software.

A2. The Financial Accounting Standards Board (FASB) issued Accounting Standards Updates No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, and No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The FASB guidance treats arrangements that are similar to a SBITA as either a licensing arrangement or a service contract but requires the capitalization of certain implementation costs. No specific guidance for SBITAs was identified in other authoritative literature. In the absence of specific guidance for SBITAs in GASB literature, accounting and financial reporting for SBITAs has been inconsistent. One outcome of that inconsistency has been an increase in the number of technical inquiries the GASB has received in recent years regarding accounting for SBITAs.

A3. At their March 2017 meeting, members of the Governmental Accounting Standards Advisory Council (GASAC) ranked IT arrangements, including cloud computing, in the top four among all pre-agenda research activities and potential standards-setting topics in the GASB's technical plan. The GASAC mem-

bers who specifically commented on the possibility of performing pre-agenda research on those types of transactions were favorable to that potential addition. The Board approved the start of pre-agenda research in April 2017.

A4. Pre-agenda research was conducted to determine whether specific guidance was needed for SBITAs and to identify key accounting issues relating to them. The GASB conducted interviews with government IT officials and industry IT experts and administered surveys to financial statement preparers and auditors. That research found diverse opinions as to the classification and accounting treatment of SBITAs. Survey results showed that preparers and auditors were analogizing to Statement 51, as amended, Statement 87, as amended, Concepts Statement No. 4, *Elements of Financial Statements*, and FASB Update 2015-05. Diversity in practice also was exhibited in the accounting for implementation costs related to SBITAs.

A5. Based on findings from the pre-agenda research, the Board added the SBITA project to the current technical agenda in April 2018. The purpose of the project was to provide stakeholders with specific guidance related to the accounting and financial reporting for SBITAs. The Board began deliberations in August 2018. Additional outreach was conducted throughout the project to better understand different aspects of the transactions and needs of the stakeholders. Feedback received from the GASAC members at their November 2018 and March 2019 meetings also was considered during the Board's deliberations.

A6. In May 2019, the Board issued an Exposure Draft, *Subscription-Based Information Technology Arrangements*. The Board received 35 written responses to the Exposure Draft from organizations and individuals. As discussed in Appendix B, comments and suggestions from stakeholders contributed to the Board's deliberations in developing the requirements of this Statement. In addition, further feedback was provided by GASAC members at their October 2019 and March 2020 meetings. The Board's consideration of the individual feedback from the GASAC members throughout the development of this Statement is incorporated throughout Appendix B. When project issues are discussed with the GASAC members, they do not take formal positions, either in support or opposition, with regard to those issues.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

General Approach and Relationship with Other Statements

B2. The Board developed the guidance in this Statement based on the GASB's conceptual framework and relevant accounting standards and, when needed, developed additional guidance to address specific issues identified by stakeholders through pre-agenda research and outreach activities. Paragraph 4 of Statement 87 defines a lease as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction" (footnote reference omitted). The Board noted that in a SBITA, the contract (a) grants a government control of the right to use a SBITA vendor's IT assets for a period of time and (b) requires the government to pay the SBITA vendor a subscription fee for that right. The Board believes that because the key characteristics of a SBITA resemble those of a lease, the most appropriate and efficient approach to developing guidance for SBITAs is to incorporate into the SBITA standards all relevant guidance from Statement 87, as amended. Statement 87, as amended, was based on the foundational principle that leases are financings, and the Board believes that SBITA transactions also meet this principle.

B3. Based on that approach, the Board reviewed the topics covered in Statement 87, as amended, and established three criteria as indicators of whether guidance for a particular topic also should be included in this Statement. The three criteria evaluated were whether a topic is (a) relevant to SBITAs, (b) prevalent in practice, and (c) a key issue identified by stakeholders in the pre-agenda research.

B4. One of the key issues identified by stakeholders in the pre-agenda research for SBITAs was accounting for implementation costs and other associated outlays. Stakeholders' views differed on whether to capitalize those outlays. Statement 51, as amended, provides guidance for whether and when to capitalize outlays incurred at different stages when a government internally generates computer software. Accordingly, the Board considered whether those capitalization criteria should be incorporated into the SBITA standards and decided it was appropriate to do so, as discussed in paragraphs B36–B48.

Scope and Applicability

B5. This project initially was intended to address all IT arrangements, including cloud computing. However, informed by feedback from the additional outreach activities conducted after the project started, the Board decided it was necessary to reconsider the scope of the project.

B6. Two primary factors informed the Board's decision to limit the scope of the project to SBITAs only, rather than to all IT arrangements. First, even though this project provides an opportunity to develop comprehensive standards for all IT arrangements, the Board believes that new guidance is not needed for all types of IT arrangements. Statement 51, as amended, and related implementation guidance already provide comprehensive guidance for internally generated computer software and commercially available software acquired through perpetual licensing agreements. Second, stakeholders generally view SBITAs differently from traditional perpetual licensing or purchasing arrangements because SBITAs only grant a government the right to use a vendor's IT assets for a limited period specified in a SBITA contract and do not allow a government to own or to use a vendor's IT assets indefinitely. Therefore, much of the guidance in Statement 51, as amended, cannot easily be applied to SBITAs. During the GASB's additional outreach, some stakeholders asserted that this project

should focus on SBITAs because diversity in practice implies a need for specific guidance. Some stakeholders also were concerned that if the scope of the project was too broad, the final standards would not be available for an extended period of time.

B7. Some respondents to the Exposure Draft questioned the exclusion of perpetual licensing arrangements from the scope of this Statement, as described in paragraph 4d. The Board believes that perpetual licensing arrangements do not satisfy the definition of a SBITA. Perpetual licensing arrangements are indefinite, whereas SBITAs are for a finite period of time in a contract. Some arrangements may be labeled by vendors as *subscriptions* because they involve an installment plan, but those arrangements do not, in fact, meet the definition of a SBITA because they grant a perpetual license for the right to use software indefinitely rather than for a finite period of time. Therefore, the Board concluded that the scope of this Statement should exclude perpetual licensing arrangements.

B8. Another issue considered by the Board was whether there is a need to establish guidance for governments that act as vendors in SBITAs. The Board noted that certain governments may become SBITA vendors that provide the right to use their own IT assets for other entities. However, research conducted by the GASB for IT arrangements, including cloud computing, did not find that governments acting as vendors were prevalent in practice at this time. Therefore, the Board concluded that this Statement applies to government end users but does not apply to governments that provide the right to use their IT assets to other entities through SBITAs.

B9. Some stakeholders expressed concern about the cost of applying the guidance to “small ticket” SBITAs that have a low dollar value relative to other capital assets. The Board concluded that a threshold should not be set to specifically exclude small ticket SBITAs from the scope of this Statement. The Board believes that the determination of whether the provisions of this Statement apply to the accounting and financial reporting of a particular SBITA should be left to professional judgment, taking into consideration materiality guidance provided in Questions 7.4.1 and 7.9.8 in Implementation Guide 2015-1. Similarly, some stakeholders questioned whether there should be a minimum number of user seats before a SBITA is recognized. Although more user seats may result in higher payments, the Board believes that significance should not be based on the number of user seats alone.

B10. Some respondents to the Exposure Draft requested clarification of a perceived overlap in scope between Statement 87, as amended, and the SBITA guidance. The Board originally proposed in the Exposure Draft an additional exclusion to Statement 87, as amended. The proposal provided that contracts that meet the definition of a SBITA, which include IT hardware, would be excluded from the scope of Statement 87, as amended. However, after considering stakeholder feedback, the Board acknowledged that there was confusion about whether certain arrangements, such as leases of tangible capital assets with IT functions, would remain in the scope of Statement 87, as amended, or whether they would be excluded from the scope of Statement 87, as amended, and be subject to this Statement. Research and outreach conducted suggests that even though *IT* is a generally understood term, because IT or IT hardware is not defined in existing GASB literature, governments rely on their own professional judgment and capital assets policies to determine whether a tangible capital asset is IT related. Additionally, as “smart” technology becomes increasingly ubiquitous, many capital assets that generally have not had IT functions in the past have been transformed into or replaced with smart equipment, such as smart copiers and smart heating and air conditioning systems. The Board noted that, without clarifying what IT hardware is, there would continue to be confusion about whether leases of certain capital assets, such as smart copiers and laptops with operating systems, would be considered IT hardware and, therefore, would be within the scope of this Statement. However, defining an engineering term, like *IT hardware*, would be challenging from an accounting standards-setting perspective. To minimize the potential confusion, reduce complexity, and provide cost relief to governments, the Board decided to modify the SBITA definition and scope provisions proposed in the Exposure Draft.

B11. Those modifications consist of two clarifications. The first modification clarifies that all contracts that convey control of the right to use another party’s tangible capital assets without a software component are not included in the SBITA definition by eliminating the reference to IT hardware and, therefore, keeps those contracts within the scope of Statement 87, as amended. In the Exposure Draft, the definition of a SBITA included *IT infrastructure*. The Board decided that the term *IT infrastructure* also should be removed to eliminate ambiguity around whether that terminology encompasses both IT software and tangible capital assets. The second modification clarifies that tangible capital assets that are part of a contract that also includes IT software, in which the cost of the software component is insignificant when compared to the cost of the underlying tangible capital assets, is outside the scope of this Statement and, therefore, keeps those arrangements within the scope of Statement 87, as

amended. In addition, because of the challenges and complexities associated with defining IT hardware, the Board concluded that the term *IT hardware* in the proposed definition of a SBITA in the Exposure Draft should be replaced with the term *tangible capital assets*.

B12. Because the definition of a lease covers all nonfinancial assets including tangible capital assets, the Board believes that the revised definition of a SBITA, which does not include stand-alone tangible capital assets, would reduce governments' burden to determine which of their stand-alone tangible capital assets should be classified as IT hardware and included in the scope of this Statement. The Board acknowledges that many tangible capital assets contain a pre-installed software component (such as an operating system) or are connected to an IT system (such as smart equipment). Therefore, the Board believes it is necessary to exclude from the scope of this Statement those contracts with a combination of both IT software and tangible capital assets, in which the cost of the software component is insignificant relative to the cost of the underlying tangible capital assets. The Board noted that assessing whether the cost of a software component is insignificant still requires professional judgment. However, that assessment is an accounting issue, whereas determining whether specific tangible capital assets are IT related is an engineering issue. With those two modifications to the SBITA definition and scope provisions, tangible capital assets with either no software component or an insignificant one would remain subject to the leases guidance. As a result of those modifications, software becomes the main focus of this Statement.

SBITA Definition

B13. Based on the research conducted, the Board noted that all SBITAs have the following defining characteristics: (a) they are for the temporary use rather than ownership of IT assets, (b) they grant a government control of the right to use a SBITA vendor's IT assets, and (c) they are exchange or exchange-like transactions. Those characteristics are similar to those of a lease, a contract that also is based on the right to use an underlying asset. Therefore, the Board decided that the definition of a SBITA should resemble that of a lease. An arrangement that does not grant control of the right to use the underlying IT assets and, thus, does not meet the conceptual definition of an asset, also would not meet the definition of a SBITA. The Board concluded that this Statement is not intended to clarify the treatment for arrangements that do not meet the definition of a SBITA. Similarly, the Board believes that a contract should be evaluated for accounting as a SBITA based on the substance of the

arrangement rather than the label on the contract. For example, a contract may be called a lease, but the underlying asset is primarily IT software. While that contract may not use the term *subscription*, it would be accounted for as a SBITA if it meets the definition.

B14. One example of a typical SBITA is a cloud computing arrangement. The three most common deployment models for cloud computing are Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). All three models involve a SBITA vendor providing the customer with the right to use the SBITA vendor's IT resources, including its software application and cloud infrastructure (including network, servers, operating systems, storage, and other tools). SaaS provides a customer with the ability to use a SBITA vendor's applications (software) through a cloud infrastructure. PaaS allows a customer to use a SBITA vendor's tools or coding language (software) to create applications that will run on the SBITA vendor's cloud infrastructure. IaaS allows a customer to remotely access the SBITA vendor's network, server, and other fundamental computing tools to process, store, and operate the customer's data. Although those cloud computing deployment models are referred to by many as "as a Service," the economic substance of those arrangements is, in fact, the right to use vendors' IT assets. The reference to "services" in those models highlights the fundamental difference between the subscription models and the traditional purchasing and perpetual licensing models.

B15. Many SBITAs also include service components, such as routine maintenance and minor updates. However, the primary component of those SBITAs is the right to use the underlying IT assets, rather than the service components. The presence of the service components does not change the fundamental nature of those SBITAs.

B16. Some firms contract with governments solely to provide IT support services. Those services typically aim to streamline or enhance overall user experience, to provide training for end users' employees, or to provide off-site live troubleshooting for end users of the IT assets provided by a specific SBITA vendor. Those firms sometimes are referred to as the "partners" in the cloud computing "eco-system." Some SBITA vendors also rely on those service firms to provide after-sale IT support to SBITA end users.

B17. If a firm solely provides IT support services, those support services may be analogized to maintenance services provided for the benefit of a lessee. Paragraph 6 of Statement 87 specifically excludes contracts for services from the definition of a lease, unless those contracts contain both a lease component

and a service component. The Board concluded that this Statement should take the same approach as Statement 87, as amended. Thus, the definition of a SBITA excludes contracts that solely provide IT support services. However, the contracts that contain both a right-to-use IT asset component and an IT support services component are included in the scope of this Statement.

B18. Some arrangements may involve another party instead of a one-to-one relationship between the government and the SBITA vendor. Some respondents to the Exposure Draft sought clarification on whether this Statement would apply to arrangements in which the government does not have direct rights to the underlying IT assets from the SBITA vendor. The Board concluded that the applicability of this Statement to those situations would depend on the specific facts and circumstances to determine whether the various criteria in the definition of a SBITA are met.

Subscription Term

B19. This Statement provides that a fiscal funding or cancellation clause in a SBITA should affect the subscription term only if it is reasonably certain that the clause will be exercised. Some respondents to the Exposure Draft requested clarification about whether such a clause should be evaluated only at the commencement of the subscription term or at commencement and periodically thereafter. The Board noted that a fiscal funding or cancellation clause is equivalent to a cancellation option in a SBITA. This Statement requires that a government, at the commencement of the subscription term, assess all factors relevant to the likelihood that the government or the SBITA vendor will exercise an option. Furthermore, this Statement requires that a government reassess the subscription term only if one or more of the three scenarios described in paragraph 12 of this Statement subsequently occur. Therefore, the Board concluded that additional clarification was not necessary.

Short-Term SBITAs

B20. Pre-agenda research indicated that the length of a SBITA term may vary from several months to 10 years but generally is from 1 to 5 years. The length of the term may be affected by the size of the SBITA vendor, the needs of the government, and the intended function of the subscribed IT assets.

B21. In Statement 87, as amended, an exception to the recognition, measurement, and disclosure requirements is provided for short-term leases. That

exception was intended to provide cost relief based on the Board's considerations that the financing component would be much less significant in lease contracts of 12 months (or less). Statement 87, as amended, defines a short-term lease using the term *maximum possible term* rather than *lease term*. As discussed in paragraph B29 of Statement 87, "The use of *maximum possible term* in the definition removes the effect of potential options to extend or terminate the lease on the classification of a lease as short term. Maximum possible term assumes that all options to extend would be exercised and inherently would exclude all options to terminate." In accordance with the provisions for short-term leases in Statement 87, as amended, no capital asset or long-term liability should be recognized by a lessee. Instead, the short-term lease payments are required to be recognized as outflows of resources based on the payment provisions of the lease contract. In addition, there are no specific disclosure requirements for short-term leases, providing further cost relief.

B22. The Board believes a SBITA with a maximum possible term of 12 months (or less) is similar to a short-term lease, and, therefore, a similar exception is provided for those SBITAs based on similar cost-benefit considerations. Consistent with the provisions in paragraph 17 of Statement 87, this Statement requires that a government in a short-term SBITA recognize subscription payments as outflows of resources (for example, expense) based on the payment provisions in the SBITA contract, rather than recognizing a subscription asset and subscription liability.

B23. Some respondents to the Exposure Draft expressed concerns about the provisions that distinguished cancellable periods from noncancellable periods and described the maximum possible term. Those respondents questioned the determination of the subscription term if both the government and the SBITA vendor have the option to cancel the contract. The same concern was raised about paragraph 16 of Statement 87, which led to the issuance of Question 4.19 in Implementation Guide No. 2019-3, *Leases*. That question clarifies the provisions for the lease term regarding cancellable periods (paragraph 12 of Statement 87), which states, "Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term." Based on the concerns raised by respondents and the additional clarification provided by the leases Implementation Guide question, the Board concluded that similar guidance was needed for SBITAs and, therefore, decided to provide language in paragraph 13 of this Statement that clarifies the maximum possible term provisions for a short-term SBITA.

Recognition of a Subscription Asset and a Subscription Liability

B24. A key issue identified in the pre-agenda research was whether a SBITA should result in recognition of an asset and a liability or an expense for the government. In paragraph 8 of Concepts Statement 4, assets are defined as “resources with present service capacity that the government presently controls.” Paragraph 10 of Concepts Statement 4 also states that “an asset may be tangible and have physical form, such as buildings and equipment, or may be intangible, such as the right to use intellectual property. It remains an asset only so long as it is still capable of providing services.” At the commencement of a SBITA subscription term, a government obtains control of the right to use a SBITA vendor’s IT assets by paying a subscription fee for access to those IT assets. The “right to use” is a resource that provides present service capacity to the government. That right to use may be the right to access the SBITA vendor’s computing tools, or the right to run the SBITA vendor’s cloud-based application (software) via internet access, or both. Paragraph 12 of Concepts Statement 4 explains that a government has control of the asset if it “has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit.” Within the confines of the contract, it is at the discretion of the government to decide whether, and to what extent, it will use the SBITA vendor’s IT assets. In other words, the government has control over the nature and manner of the right to use the underlying IT assets, despite the SBITA vendor owning the IT assets. The Board noted that either the government or the SBITA vendor could have possession of the underlying IT assets associated with a SBITA. The Board concluded that a government’s right to use the underlying IT assets resulting from a SBITA meets the definition of an asset in Concepts Statement 4 and, therefore, should be recognized as a *subscription asset*.

B25. Paragraph 17 of Concepts Statement 4 defines liabilities as “present obligations to sacrifice resources that the government has little or no discretion to avoid.” Paragraph 18 of Concepts Statement 4 provides that liabilities generally cannot be avoided because they are legally enforceable, meaning that a court can compel the government to fulfill its obligation. That paragraph also states that “Generally, legally enforceable liabilities arise from legislation of other levels of government or contractual relationships, which may be written or oral. . . . For exchange transactions, the obligation becomes a liability and

legally enforceable when the underlying exchange takes place.” In addition, paragraph 22 of Concepts Statement 4 states that “For an obligation to be a liability, it should be a present obligation. The event that created the liability has taken place.”

B26. This Statement requires that a government recognize a subscription liability and subscription asset at the commencement of the subscription term, which occurs when the subscription asset is placed into service. The commencement of the subscription term may be later than the date on which the SBITA contract takes effect (the inception of the SBITA contract) because of the time needed for implementation. That provision is similar to Question 4.12 in Implementation Guide 2019-3, which indicates that the commencement of the lease term for a building that is under construction is when the certificate of occupancy is issued. The Board believes that a government does not have present service capacity of a SBITA until the initial implementation stage is completed because the government does not have control of the right to use the underlying IT assets until that time. Additionally, in some cases, a SBITA has multiple modules and the modules are not placed into service at the same time. In those instances, a subscription asset is placed into service when the first independent module or the first set of interdependent modules is implemented, as described in paragraph 30 of this Statement. The Board believes that a government has present service capacity for the subscription asset even though not all modules have been placed into service at that point, which is a scenario similar to a tangible capital asset under a lease that is under construction.

B27. Payments to a SBITA vendor may begin at the inception of a SBITA contract, when the SBITA vendor provides the government with access to the underlying IT assets, rather than when the government begins to use those IT assets. That is because a government often needs to complete an implementation process to make its own tangible capital assets or software compatible with the SBITA vendor’s IT assets. As previously noted, the Board believes that it is not until that implementation process is complete that the government obtains control of the right to use the underlying IT asset, at which time the subscription asset is placed into service. Even though a government can start making payments to the SBITA vendor prior to the completion of the initial implementation stage, the Board believes that only when the subscription asset is placed into service does the obligation to make payments to the SBITA vendor become a present obligation. Accordingly, the Board concluded that the

government's present obligation to make payments to a SBITA vendor at or after the commencement of the subscription term meets the definition of a liability in Concepts Statement 4 and, therefore, should be recognized as such.

B28. Some respondents to the Exposure Draft requested clarification regarding the initial implementation stage as it relates to when a subscription asset is placed into service. The Board believes that the subscription asset is not placed into service until the SBITA is configured, tested, and made compatible with a government's existing IT assets to allow the government to obtain control of the right to use the underlying IT assets. The threshold for when initial implementation for a SBITA is considered complete determines when the subscription asset is considered to have been placed into service, at which time the subscription term commences. Therefore, the Board included language in paragraph 15 that clarifies the measurement and amortization of the subscription asset.

Subscription Liability

B29. Provisions for the measurement of a subscription liability generally are based on those of a lease liability in paragraph 21 of Statement 87. However, items that the Board determined are not applicable to SBITAs are excluded. Specifically, SBITAs do not include provisions for residual value guarantees or purchase options and, consequently, such features are not included in the measurement of a subscription liability.

B30. Some respondents to the Exposure Draft requested clarification regarding measurement of the subscription liability if payment amounts depend on the number of licensees or user seats, which are indications of how many of a government's employees can use the underlying IT assets. The Board believes that those types of payments are like variable payments based on usage of the underlying IT assets. Therefore, the Board decided to specifically refer to user seats in the description of variable payments that are not included in the initial measurement of the subscription liability. Additionally, there could be other factors on which variable payments are based. The Board decided to clarify that other types of variable payments, except those that depend on an index or a rate, should not be included in the initial measurement of the subscription liability.

B31. Some respondents to the Exposure Draft suggested that the SBITA liability be measured based on undiscounted payment amounts instead of at present value. Although that suggestion would eliminate some costs associated with applying this Statement, the Board believes that measuring the SBITA liability at present value is consistent with the foundational principle of a SBITA as a financing, and the expected benefit of recognizing the cost of financing justifies the cost of calculating the present value. Other respondents to the Exposure Draft requested additional alternatives for the discount rate, such as a municipal bond index rate. Regarding SBITAs, the Board believes that using a uniform rate for all governments in this situation would not be a faithful representation of the actual arrangements that are entered into by governments with different risk profiles and credit standings.

B32. This Statement requires that in subsequent reporting periods, a government's subscription payment be allocated first to the accrued interest liability and then to the subscription liability. That requirement is consistent with Statement 87, as amended. This Statement does not specify how payments allocated to the accrued interest liability should be classified in the statement of cash flows because the Board believes that guidance already is provided in Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended. A SBITA other than a short-term SBITA results in the government recording an intangible subscription asset.

Subscription Asset

Measurement

B33. A SBITA vendor often requires a government to make payments associated with the SBITA contract before the commencement of the subscription term, even though the subscription asset has not been placed into service. Additionally, a government might make payments for capitalizable initial implementation costs prior to commencement of the subscription term. The Board believes such payments are similar in nature to the payments made by a lessee prior to the commencement of a lease, as addressed in Question 4.32 in Implementation Guide 2019-3. Given the similar nature of leases and SBITAs, the Board believes that in the context of a SBITA, payments made to the SBITA

vendor as well as payments made for capitalizable initial implementation costs prior to the commencement of the subscription term should be accounted for as prepayments in the same manner as leases, as described in paragraph 26 of this Statement.

B34. Paragraph 501 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, states that “assets and liabilities should not be offset in the statement of net assets except where a right of offset exists” (footnote reference omitted). The Board believes that prepayments to, and incentives from, different vendors is not a circumstance “where a right of offset exists.” To avoid a misunderstanding of the provision in paragraph 26, which requires a prepayment to be reduced by an incentive, the Board concluded that a prepayment made by a government only can be reduced by an incentive received from the same SBITA vendor, that is, when a right of offset exists.

B35. Some respondents to the Exposure Draft requested clarification on the measurement and amortization of a subscription asset if the implementation period for a SBITA spans multiple years. The Board believes the addition of clarifying language regarding when the subscription asset is placed into service, as discussed in paragraph B28, adequately addresses SBITAs for which implementation spans multiple years.

Outlays Other Than Subscription Payments, including Implementation Costs

B36. Accounting for implementation costs was another key issue identified by stakeholders during the pre-agenda research. Such costs may include configuration, coding, data conversion, data migration, testing, and other ancillary charges that are necessary for the government to prepare its system for accessing the subscribed IT assets. The Board considered providing a definition or description of implementation costs in this Statement. However, stakeholders interviewed during the pre-agenda research generally had a common understanding of what implementing a SBITA entails and what the costs of implementation may include. The Board is concerned that a definition or description of implementation costs would have to be broad enough to encompass all types of SBITAs and to continue to be relevant as technology evolves. In addition, the Board noted that this Statement provides guidance on the

stages of implementing a SBITA and believes that guidance is sufficient for a government to identify its implementation costs. Therefore, the Board concluded that it is not necessary to provide a definition or description of implementation costs in this Statement.

B37. Statement 51, as amended, groups activities associated with internally generated computer software into three stages: (a) preliminary project stage, (b) application development stage, and (c) post-implementation/operation stage. The Board believes it also is necessary to consider all activities in the life cycle of a SBITA, other than making subscription payments, and group them into stages similar to the stages in Statement 51, as amended. The types of activities undertaken to internally generate computer software can be different from the types of activities needed to prepare a government's own system for a SBITA. However, despite the differences, the three stages help depict the general chronological order of the typical activities undertaken in both circumstances.

B38. Analogizing to the guidance in Statement 51, as amended, the Board decided that the first stage for a SBITA also should be referred to as the *preliminary project stage*, which includes those activities that ultimately lead to the final selection of the technology and SBITA vendor. The second stage of implementing a SBITA, however, reflects a difference from the second stage for internally generated computer software. Therefore, the Board believes the term *initial implementation stage* more appropriately reflects the activities in this stage for a SBITA. In the Board's view, the third stage is similar for both internally generated software and a SBITA because activities in this stage would include those associated with a government's ongoing operations. Those operations occur either after the computer software has been generated or after a SBITA has been placed into service. However, a government may conduct additional implementation activities to enhance the efficiency or functionality of a subscription asset that has been placed into service, as described in paragraph 40. In instances in which a SBITA has multiple modules, a government also may incur subsequent implementation outlays related to additional modules, as described in paragraph 30. Based on the nature of the different types of activities that can be undertaken at this stage, the Board concluded that using the term *post-implementation* from Statement 51, as amended, in the stage title could be confusing in the context of SBITAs. For the same reason, the Board also concluded that the phrase *additional implementation* should be added to the stage title to indicate that this stage includes both

operational and additional implementation related activities. As a result of these differences, the Board decided that the most appropriate title for the third stage of SBITAs should be *operation and additional implementation stage*.

B39. In Statement 51, as amended, the costs of activities performed in the preliminary project stage are required to be expensed as incurred because it is not until the activities in that stage are completed and management commits to funding the SBITA that the outlays meet the definition of an asset. The Board believes the same logic applies to a SBITA and, therefore, concluded that the costs of activities in the preliminary project stage of a SBITA should be expensed as incurred. Similarly, Statement 51, as amended, requires expensing the costs of activities that occur in the post-implementation/operation stage as they are incurred, unless they meet the capitalization criteria described in paragraph 15 of that Statement. The Board believes that a similar approach with clarifications is appropriate for SBITAs and, therefore, provides guidance in this Statement based on that provision in Statement 51, as amended.

B40. Statement 51, as amended, requires capitalization of the costs associated with activities in the application development stage. Paragraph 18 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, states that “The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use.” Additionally, paragraph 30 of Statement 87 requires that “initial direct costs that are ancillary charges necessary to place the lease asset into service” be included in the initial measurement of a lease asset. The Board believes the costs of the activities in the second stage of a SBITA life cycle—the initial implementation stage—are similar in nature to ancillary charges for a capital asset as described in Statement 34, as amended, and for a lease asset as described in Statement 87, as amended. The costs of those activities often are referred to as implementation costs for SBITAs. The Board believes implementation costs add to the value of a subscription asset because, like ancillary charges, they are necessary for the government to place the subscription asset into service. The Board noted that implementation costs can be part of a SBITA’s main contract with the SBITA vendor or included in a separate contract with another outside party unrelated to the SBITA vendor. Additionally, implementation costs could include staff costs of the government other than training. Regardless of who is associated with the implementation activities, the Board believes the nature of

implementation costs is the same and the accounting should not differ. Based on those considerations, the Board concluded that costs incurred in the initial implementation stage of a SBITA should be capitalized as part of the subscription asset.

B41. Some respondents to the Exposure Draft requested clarification of the initial implementation stage for SBITAs with more than one module. As previously noted, the Board decided that the commencement of the subscription term, as well as the beginning of the amortization period, is the point at which the initial implementation is completed for the first independently functional module or for the first set of interdependent modules, regardless of whether implementation of the entire SBITA has been completed. The Board believes that is the point at which the SBITA vendor has delivered control of the right to use the underlying IT assets. Additionally, the Board noted that is the point at which the SBITA vendor generally would start charging the full amount of subscription payments.

B42. The Board acknowledges that if a SBITA has more than one module, activities in the three stages of implementation described in paragraph 29 of this Statement may occur in a different sequence for each module. Additionally, a government may decide to implement another module that was included in the original SBITA contract, enter into a new SBITA contract for an additional module, or add another module through a modification of the original SBITA contract, after all three stages of the original SBITA have been completed. In those situations, the provisions described in paragraphs 38–40 of this Statement also should apply because there could be significant additional costs that increase the functionality or efficiency of the subscription asset.

B43. Paragraph 10c of Statement 51 includes *application training* as an example of activities in the post-implementation/operation stage, the last stage of developing and installing internally generated computer software. As previously noted, Statement 51, as amended, provides that outlays that are incurred in the first and last stages should be expensed, and outlays incurred in the second stage—the application development stage—should be capitalized. However, paragraph 14 of Statement 51 states that “outlays associated with application training activities that occur during the application development stage should be expensed as incurred.” This effectively requires all application training costs to be expensed as incurred, regardless of the stage in which the training costs were incurred.

B44. In addition, the answer to question Z.51.15 in Implementation Guide 2015-1 provides that the training of employees involved with developing internally generated computer software should not be considered an activity of the application development stage, and, therefore, the related outlays should be expensed as incurred. The explanation provided in that answer states that “although the skills obtained by the employees through the training may facilitate the development of the computer software, the training itself does not further the development of the software and does not otherwise contribute to putting the software in condition for use.”

B45. The Board noted that some governments may incur significant outlays associated with training during the initial implementation stage and the operation and additional implementation stage of SBITAs. The Board considered whether it would be appropriate to separate those training-associated outlays into two types: (a) outlays associated with developing or acquiring training materials and (b) outlays associated with all other training activities, in order to determine whether it would be appropriate to capitalize the first type and expense the second type. However, the Board noted that training-associated outlays are not unique to SBITAs. Rather, governments can incur training-associated outlays under many other circumstances, and the respective accounting treatments are part of a broader topic: capitalization criteria for training costs and other similar costs. The Board also noted that there is no conceptual basis to treat training-associated outlays for SBITAs differently from those for internally generated computer software covered in Statement 51, as amended. Therefore, the Board does not believe it is appropriate to address the topic of capitalization criteria for training costs in this Statement. As a result, the Board concluded that the guidance for training-associated outlays in the context of SBITAs should be consistent with that guidance in Statement 51, as amended.

B46. Some respondents to the Exposure Draft disagreed with the requirement to expense training costs regardless of the stage in which they are incurred. A respondent suggested that the initial training costs be capitalized as an ancillary charge because initial training is required by some SBITA contracts as part of the initial implementation for the SBITA. The Board acknowledges that scenario could be an issue for governments. However, in the context of a SBITA, even though certain employees may be required by the contract to obtain training and show a certain aptitude with the SBITA vendor’s IT assets before the vendor considers the government to have obtained the necessary skills to use its IT assets, the training itself does not contribute to the present service capacity of the subscription asset. Another issue raised was that in some SBITAs, initial training costs are included in a lump sum price for the vendor’s

set of deliverable services and those costs cannot be separated from the other initial implementation costs; therefore, initial training costs should be capitalized rather than expensed. After considering those comments, the Board believes that the guidance to address those scenarios is provided in the provisions addressing contracts with multiple components.

B47. Some respondents to the Exposure Draft questioned whether data conversion costs should be capitalized as part of the initial implementation of a SBITA if they are necessary to place the subscription asset into service. The Board noted that a similar issue was addressed in paragraph 10 of Statement 51, which states, “Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational. . . .” The Board considered the differences between *placed into service* and *operational* and believes a SBITA is operational when the subscription asset is placed into service. Similar to the consideration in paragraph 68 of Statement 51, the determination of whether data conversion activities are necessary to make the subscription asset operational and, therefore, are an activity of the initial implementation stage, may require professional judgment and may depend on the nature of the subscription asset and its intended use. Additional data conversion that is needed after the initial implementation stage may not be of the same nature as the data conversion necessary for the initial implementation of a SBITA. Data conversion can be part of the government’s routine operation, once the new system under the SBITA has been set up to process noncritical data left in the government’s legacy system. After considering the questions raised by those respondents, the Board included language in paragraph 31 of this Statement to more clearly address when costs associated with data conversions should be capitalized.

B48. As discussed in paragraph B23 of this Statement, some respondents to the Exposure Draft expressed concerns about expensing implementation costs for SBITAs that are determined to be short term because either party has the option to cancel the SBITA contract without notifying the other party. However, as previously discussed, this Statement provides that no capital asset or long-term liability should be recognized for a short-term SBITA. The Board believes it would be inappropriate to capitalize ancillary charges necessary to place a subscription asset into service if a subscription asset is not recognized. Consequently, the Board concluded that implementation costs for a short-term SBITA should be expensed as incurred.

Impairment

B49. The Board considered whether and how to provide comprehensive guidance for identifying, assessing, and measuring impairment of a subscription asset. Based on the pre-agenda research conducted about the nature of SBITAs, the Board believes it is uncommon for a subscription asset to be considered permanently impaired. As already discussed, for many governments, one of the advantages of the subscription model over the traditional purchasing or perpetual licensing models is the convenience of being able to rely on the SBITA vendor to ensure continuous access to the subscribed IT assets with minimum interruption. Even if there is a temporary interruption or system downtime for a government, contract provisions in SBITAs generally require the SBITA vendor to restore access to the system within a short period of time. Based on those considerations, the Board believes providing comprehensive guidance for impairment, including developing specific examples of impairment indicators, in the SBITA standards is not necessary. Statement 87, as amended, references Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, as amended, and, therefore, provides minimal additional guidance for impairment of a lease asset. The Board concluded that the same approach is appropriate for this Statement.

Incentives Provided by a SBITA Vendor

B50. Similar to subscription payments, incentives provided by a SBITA vendor may be fixed or variable. Paragraph 43 of this Statement provides that variable or contingent incentive payments are not included in the measurement of the subscription liability, just as variable subscription payments (other than those that depend on an index or a rate) are not included. Some respondents to the Exposure Draft requested further guidance on the treatment of those payments when they occur. After considering those comments, the Board clarified paragraph 43 to indicate which incentive payments generally should be factored into the present value of the subscription payments for the periods in which the incentive payments will be provided, when initially measuring the subscription liability.

Contracts with Multiple Components

B51. As previously noted from pre-agenda research and subsequent outreach activities, the Board recognized that many SBITA contracts have multiple components. Similar to a lease contract with multiple components, a SBITA contract may include a subscription component for the right to use a SBITA vendor's IT assets and a nonsubscription component, such as a separate perpetual licensing arrangement attached to a SBITA (which is excluded from this Statement as described in paragraph 4d), or SBITA vendor-provided IT support services. For example, a SBITA vendor may provide remote live troubleshooting services to a government's employees. Sometimes, a SBITA contract may include an itemized pricing schedule to reflect the price for each component. Other times, a SBITA contract does not provide itemized pricing and charges a single price for all components in the contract. In addition, the level of itemization in pricing schedules can vary significantly. Statement 87, as amended, generally requires that the components of leases be accounted for separately. However, an exception provided in paragraph 67 of Statement 87 allows a government to account for some or all components in the contract as a single lease unit "if it is not practicable to determine a best estimate for price allocation for some or all components in the contract. . . ."

B52. A SBITA with multiple modules may be considered to have multiple subscription components for the purposes of applying paragraphs 44–49 of this Statement. However, because the subscription term commences at the same time for all modules regardless of whether all modules are implemented at the same time (as described in paragraph 30 of this Statement), the Board concluded that separation of those components should not be required.

B53. In applying the rationale of Statement 87, as amended, the Board believes that even though there will be incremental costs associated with separating multiple components and allocating the contract price to those components, not separating multiple components may cause period expenses to be capitalized and a subscription liability to be recognized for services that have not been provided. However, the Board also acknowledges that there will be circumstances in which it is not practicable for governments to allocate prices due to the complex nature of SBITA contracts. Therefore, similar to Statement 87, as amended, the Board concluded it is appropriate to provide cost relief and a practical exception by allowing a government to report multiple-component contracts as a single SBITA if determining a best estimate to allocate the contract price is not practicable.

SBITA Modifications and Terminations

B54. The Board developed the modification and termination guidance for SBITAs based on the lease modification and termination guidance in Statement 87, as amended. Similar to leases, SBITA contracts may be modified during the subscription term. The parties may agree to extend the SBITA contract if, initially, there is no option to extend, payment amounts could be revised, or another underlying IT asset might be added to the SBITA contract. Additionally, a government and SBITA vendor might agree to terminate the contract prior to its scheduled end date, even if such a provision was not included in the SBITA contract before the modification. This Statement provides guidance for accounting for SBITA modifications and terminations because the Board believes the accounting for a SBITA contract should reflect changes in the provisions of the prior SBITA contract.

B55. Statement No. 93, *Replacement of Interbank Offered Rates*, amended Statement 87 to provide an exception to the lease modification guidance for contracts amended only to replace an IBOR with another rate by either changing the rate upon which variable payments depend or adding or changing rate fallback provisions. This Statement also provides measurement guidance for SBITAs that include variable payments that depend on an index or a rate; therefore, the Board concluded that SBITAs should have the same exception to the modification guidance. While the elimination of the IBORs is expected to occur before this Statement is effective, the Board concluded that this provision should be provided for governments that choose to early implement this Statement.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus

B56. Statement 87, as amended, requires leases expected to be paid from general governmental resources to be accounted for and reported on a basis consistent with governmental fund accounting principles. The Board concluded that the same accounting and reporting principles should apply to SBITAs expected to be paid from resources of governmental funds.

Notes to Financial Statements

B57. The Board developed the disclosure requirements for SBITAs based on the disclosure requirements for lessees in Statement 87, as amended. During the development of the leases standards, GASB outreach with users regarding the usefulness of proposed lessee disclosures suggested that all of the lessee disclosure requirements were considered to be essential to users' overall understanding and analyses of governmental financial statements. The similarities between the fundamental nature of SBITAs and leases suggest that information essential for users regarding leases also would be essential with respect to SBITAs. The Board believes that requiring similar disclosures for SBITAs will not add significant incremental costs because, at the time of implementation of this Statement, many governments already will have implemented the requirements in Statement 87, as amended, and will be familiar with the similar required note disclosures for SBITAs.

B58. The disclosures required for a government include a general description of its SBITAs and information about variable payments. The Board believes that information about variable payments is essential for financial statement users to understand that a government may be required to pay more for the use of the subscription asset than the amount recognized as a subscription liability. To provide users with information about the full cost of the SBITA, a government also is required to disclose the amount of outflows recognized in the period for variable subscription payments and other payments not previously included in the measurement of the subscription liability.

B59. Some respondents to the Exposure Draft suggested that certain disclosures may be overly burdensome. The Board acknowledges those concerns but believes that the disclosures of the total amount of the subscription assets and the principal and interest requirements to maturity both provide valuable information about the magnitude of the right-to-use asset recognized in a SBITA and the timing of the government's obligations to make subscription payments. Disclosure of outflows, such as termination penalties, that were not included in the measurement of the subscription liability provides information about the full cost of the SBITA. Additionally, the Board believes that any impairment loss components would infrequently occur, but disclosure of the impairment loss would be essential in explaining the resulting changes in the measurement of the subscription liability.

B60. Some respondents to the Exposure Draft raised concerns about the potential for their SBITA contracts to include a confidentiality provision that may prevent them from disclosing information required by this Statement about their SBITAs. Outreach by the Board indicated that standard contracts may include some confidentiality provisions for pricing and discount information and that the purpose of those terms typically is to prevent publicizing line item prices or discounts. The Board noted that the disclosure requirements for SBITAs apply only at the aggregated level and not to each individual SBITA contract. For example, only the total subscription liability for all of a government's SBITAs is required to be disclosed in the form of principal and interest requirements to maturity. The subscription liability is the present value of future subscription payments of all of a government's SBITA contracts, which is not the same as line item pricing for each individual SBITA contract. If a government has only one SBITA, the Board believes that because only the present value of the future subscription payments—the subscription liability—is required to be disclosed, rather than the allocation of the contract price to individual line items or discounts, there would not be conflicts between the disclosure requirements in this Statement and what the confidentiality provisions generally would cover, nor would the transparency of essential information about SBITAs be sacrificed.

B61. The Board considers the information included in the required disclosures essential. Nevertheless, in an effort to reduce the length of the disclosures for governments with many SBITAs, the Board believes that preparers will consider the significance of their SBITAs and use their professional judgment to decide whether it is appropriate to aggregate disclosures.

B62. The Board considered providing guidance in this Statement regarding the placement, aggregation, and display of the disclosures, specifically in relation to the leases and capital asset note disclosures. However, the Board previously has refrained from providing authoritative guidance on the placement of information within notes to financial statements. The Board also believes the note disclosures related to a subscription asset as an intangible asset should be provided in a similar manner as other major classes of assets that are similar in nature; however, the Board concluded that the location of SBITA information, whether presented with lease disclosures, capital asset disclosures, or separately, should be left to professional judgment.

Disclosures Considered but Not Required

B63. The Board considered all lessee disclosure requirements in Statement 87, as amended, but decided not to require certain disclosures that are not applicable to SBITAs. As previously mentioned, the Board decided not to require disclosures related to residual value guarantees or purchase options because they are irrelevant to SBITAs. The Board also decided not to require a government to disclose the amounts of the subscription assets by major classes of underlying assets, separately from other capital assets. For example, the amount of the subscription asset associated with the underlying tangible capital asset is not required to be separate from the amount of the subscription asset associated with the underlying IT software. The Board believes such disclosure is not essential to users' understanding of the subscription asset. The Board believes that the requirement to disclose the total amount of the subscription assets and the related accumulated amortization, separately from other capital assets, is sufficient information for users of financial statements.

Considerations Related to Benefits and Costs

B64. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B65. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B66. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B67. The primary source of information on the expected benefits of this Statement is the pre-agenda research, which showed diversity in practice in accounting and financial reporting for SBITAs due to the lack of specific guidance for those transactions. Diversity in practice diminishes the comparability and, therefore, usefulness of reported financial information. The Board believes that this Statement reduces diversity in practice by providing specific, uniform guidance for SBITAs.

B68. During the pre-agenda research, stakeholders not only expressed a general concern about the lack of guidance for SBITAs but also identified key issues that the new guidance for SBITAs should address. The guidance in this Statement provides (a) a definition of a SBITA, (b) recognition and measurement guidance for SBITAs, (c) accounting guidance for implementation costs associated with SBITAs, and (d) note disclosure requirements for SBITAs. The Board believes the provisions in this Statement address key issues identified by stakeholders.

B69. Information that the Board considered regarding the perceived costs of implementing and complying with the provisions in this Statement came primarily from the anticipated costs of implementation and ongoing compliance of Statement 87, as amended. In developing Statement 87, the Board considered information on the perceived costs received from the Statement 87 task force, GASAC members, due process comments, public hearing testimony, and results from a field test of the proposed leases standards. In developing this Statement, the Board considered information on the perceived costs received from GASAC members and due process comments on the Exposure Draft. The Board recognizes that there will be costs incurred to implement and continue complying with the provisions of this Statement; however, the Board believes that preparers, auditors, and users familiar with the guidance in Statement 87, as amended, will be unlikely to incur significant incremental costs to understand and implement the provisions of this Statement. The Board believes the costs

likely will result from reviewing existing SBITAs, staff training, and system changes to track each SBITA contract. The Board believes that governments generally have fewer SBITA contracts than lease contracts, so governments generally will incur less cost to review existing SBITA contracts. Also, as previously noted, because many governments with leases already will have implemented the requirements in Statement 87, as amended, at the time of implementation of this Statement, the Board believes some governments may be able to use similar systems from their implementation of Statement 87, as amended, to implement this Statement.

B70. This Statement requires capitalization of certain implementation costs. The Board acknowledges the costs associated with identifying, analyzing, and capitalizing certain implementation outlays and considered respondent comments to the Exposure Draft regarding this requirement. However, the Board continues to believe that this accounting treatment is the most conceptually consistent and representative of the underlying transactions. The Board noted that the costs of complying with this requirement would include tracking implementation outlays and determining the nature of those outlays and in which stage they occur. Benefits include consistency with current capital asset guidance in which ancillary charges necessary to place an asset into service are capitalized. Additionally, because implementation costs can be significant relative to the subscription payments in a SBITA, recognition of those outlays communicates information to users about the total “initial amount” incurred associated with the subscription asset. The Board believes that the expected benefits of capitalizing certain implementation costs justify the perceived costs of implementing and complying with that requirement.

B71. Certain decisions made by the Board in developing this Statement were intended to provide some measure of cost relief for governments. The Board decided to incorporate exceptions similar to those in Statement 87, as amended, to reduce costs of implementation and ongoing compliance. Those include the provisions regarding:

- a. The short-term SBITA exception, including not requiring disclosures related to short-term SBITAs
- b. Allowing the stated contract prices to be used when allocating the contract price to multiple components of a SBITA, if those prices do not appear to be unreasonable
- c. Allowing best estimates to be used for allocating the contract price to multiple components, if no separate prices are included in the contract or if stated prices appear to be unreasonable

- d. The requirement to treat an entire multiple-component contract as a single SBITA if determining a best estimate is not practicable.

In addition, the transition provisions are similar to the transition provisions in Statement 87, as amended, and are intended to mitigate costs of implementation.

B72. The Board also made other decisions that were intended to provide cost relief. For example, based on respondent comments to the Exposure Draft, the Board modified the definition of a SBITA and the scope of this Statement, as discussed in paragraphs B10–B12, to keep both contracts with stand-alone tangible capital assets and contracts with a combination of a tangible capital asset and an insignificant software component within the scope of Statement 87, as amended, rather than in this Statement. Another example, discussed in paragraph B63 of this Statement, is the Board’s decision not to require the disclosure of the amount of the subscription assets by major classes of underlying assets. In addition, as discussed in paragraph B77 of this Statement, the Board does not require initial implementation stage and operation and additional implementation stage capitalizable outlays incurred prior to transition to be capitalized as part of the subscription asset upon implementation of this Statement.

B73. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements in this Statement. The Board is cognizant that the costs of implementing the changes required by this Statement are unavoidable and may be burdensome for some governments. However, the Board believes that the expected benefits that will result from the information provided through implementation of this Statement are significant and justify the perceived costs of implementation and ongoing compliance.

Effective Date and Transition

B74. The effective date proposed in the Exposure Draft was for fiscal years beginning after June 15, 2021. Some respondents to the Exposure Draft suggested that the effective date for this Statement be delayed. However, the Board noted that the primary impetus for this Statement was to address arrangements that did not previously have guidance and were the cause of stakeholder inquiries. The Board believes that the original effective date would have allowed the new guidance to fill a gap in the previous literature and would have led to greater consistency in practice for those types of arrangements in

a timely manner. However, as a result of the COVID-19 pandemic, the Board decided that a one-year postponement for the effective date of many pronouncements was appropriate, as included in the newly issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. After considering the effects of Statement 95, the Board also decided to add one year to the originally proposed effective date of this Statement. This also is consistent with the effective date for Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, because the pandemic was factored into the establishment of the effective date for that pronouncement.

B75. This Statement encourages early application. The Board believes that some preparers, especially those familiar with Statement 87, as amended, and Statement 51, as amended, might elect to apply the requirements to fiscal years before the effective date. That would provide better information to financial statement users and allow other governments to learn from the experience of the early adopters. The Board considered that there could be comparability issues in the interim if some governments adopt early application but believes that the benefits of early application justify the potential interim comparability issues.

B76. This Statement requires that SBITAs be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year of implementation. That is the same transition requirement used in Statement 87, as amended. The Board believes that it would not be practical to require governments to return to the commencement of each SBITA term and determine what the balances would have been if this Statement had been in effect from that time. The subscription liability should be measured using the remaining subscription term and discount rate as of the beginning of the fiscal year of implementation or the beginning of the earliest fiscal year restated. The subscription asset should be measured based on the subscription liability at that date.

B77. Some respondents to the Exposure Draft requested clarification about whether costs of certain stages that were incurred before implementation of this Statement, which otherwise would be capitalizable as part of the subscription asset, should be included in the measurement of the subscription asset at transition. Such costs could be significant for some governments. However, the Board was concerned about data availability and the potential cost to retrieve that data, particularly for SBITAs that commenced prior to the issuance of this Statement. Therefore, the Board decided to permit, but not require, govern-

ments to include capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage in the measurement of the subscription asset at transition. The Board believes that the benefit of allowing those governments that have the information available to capitalize those costs outweighs concerns about comparability during the transition period. In regard to transition, the Board also considered whether to provide guidance on how to address prepaid subscription payments that occurred prior to the implementation of this Statement but concluded that the provisions associated with prepayments as described in paragraph 26 of this Statement provided adequate guidance.

B78. The provisions of this Statement, including transition provisions in paragraph 64, should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. The Board generally believes that retroactive application provides more useful and comparable information than prospective application but realizes that a practical approach would be more cost beneficial without completely sacrificing comparability. Therefore, if restatement of prior fiscal years is not practicable, this Statement allows for restatement as of the implementation date.

B79. The phrase *if practicable* has been used in other GASB standards in a similar context as used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The Board believes that reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable*.

Appendix C

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—June 2022 Update

C1. The instructions that follow update the December 31, 2019 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), as amended by Statements 87, 94, and 95 and Implementation Guide 2019-1, for the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE

SECTION 1200

.115 [Insert new subparagraph (f) as follows.] Section S80, “Subscription-Based Information Technology Arrangements,” paragraph .107 discusses the effects of legal restrictions on GAAP for transactions related to subscription-based information technology arrangements.

* * *

REPORTING CAPITAL ASSETS

SECTION 1400

Sources: [Add GASBS 96.]

See also: [Add Section S80, “Subscription-Based Information Technology Arrangements.”]

.123 [Insert new subparagraph (d) as follows.] Assets resulting from subscription-based information technology arrangements, which are addressed in Section S80. [GASBS 51, ¶3, as amended by GASBS 69, ¶39, GASBS 72, ¶64, GASBS 87, ¶20, GASBS 94, ¶37–¶39, and GASBS 96, ¶15]

[Insert new paragraph .142 and heading as follows; renumber subsequent paragraphs.]

Capital Assets Resulting from Subscription-Based Information Technology Arrangements

.142 Paragraphs .122–.156 of Section S80 provide guidance on accounting and financial reporting for capital assets resulting from subscription-based information technology arrangements. [GASBS 96, ¶25–¶61]

.172 [Revise footnote 27 as follows:] Paragraph .131 of Section L20, paragraph .148 of Section P90, and paragraph .138 of Section S80 provide additional guidance for assessing impairment of lease assets, intangible right-to-use assets of an operator in a public-private or public-public partnership, and subscription assets, respectively. [GASBS 42, ¶11, as amended by GASBS 87, ¶34, GASBS 94, ¶52, and GASBS 96, ¶41]

.173 [Revise footnote 28 as follows:] Paragraph .131 of Section L20, paragraph .148 of Section P90, and paragraph .138 of Section S80 provide additional guidance for assessing impairment of lease assets, intangible right-to-use assets of an operator in a public-private or public-public partnership, and subscription assets, respectively. [GASBS 42, ¶12, as amended by GASBS 87, ¶34, GASBS 94, ¶52, and GASBS 96, ¶41]

[Delete Question .713-8; renumber subsequent question.]

.717-8 [Revise the question as follows:] How should outlays associated with the internal modification of an existing internally generated computer software system that makes it able to interface with a new internally generated computer software system be reported? [GASBIG 2015-1, QZ.51.18, as amended by GASBS 96, ¶4]

.717-10 [Revise the question as follows:] This section provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. Section S80 provides guidance for treatment of such outlays associated with subscription-based

information technology arrangements. How should such outlays be accounted for if the activities are associated with the acquisition of computer software that is not considered internally generated and is not a subscription-based information technology arrangement? [GASBIG 2015-1, QZ.51.22, as amended by GASBS 96, ¶13]

.717-11 [In the first sentence of the question, replace *A government* with *Associated with a purchased perpetual software license, a government*. In the first sentence of the answer, replace *of computer software* with *of purchased computer software*.] [GASBIG 2015-1, QZ.51.23, as amended by GASBS 96, ¶14]

[Delete Question .717-13.]

[Insert new heading .723 and associated text as follows; renumber subsequent headings and questions.]

.723 Capital Assets Resulting from Subscription-Based Information Technology Arrangements

No questions assigned.

* * *

REPORTING LIABILITIES

SECTION 1500

.129 [Revise the third sentence as follows:] For this purpose, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, an operator's liability for installment payments associated with a public-private or public-public partnership, subscription liabilities arising from subscription-based information technology arrangements, or accounts payable. [GASBS 38, ¶10, as amended by GASBS 88, ¶14 and ¶16, GASBS 94, ¶58, and GASBS 96, ¶61]

* * *

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

Sources: [Add GASBS 96.]

[Insert new heading and paragraph .129 following current paragraph .128 as follows; renumber subsequent paragraphs.]

Subscription-Based Information Technology Arrangement Transactions

.129 For subscription-based information technology arrangements, an expenditure and other financing source should be reported in the period the subscription asset is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs .113–.115 of Section S80, “Subscription-Based Information Technology Arrangements.” Subsequent governmental fund subscription payments should be accounted for consistent with principles for debt service payments on long-term debt. [GASBS 96, ¶159]

[Insert new heading .718 and associated text as follows; renumber subsequent headings and questions.]

.718 Subscription-Based Information Technology Arrangement Transactions

No questions assigned.

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add GASBS 96.]

.106 [Revise current subparagraph (l) as follows:] Required disclosures about capital assets, including lease assets and subscription assets arising from subscription-based information technology arrangements. (See paragraphs .117–.119 and .121 of this section.)

[In the sources, add GASBS 96, ¶160 to the amending sources of GASBS 34, ¶116 and ¶117.]

.107 [Insert new subparagraph (hhh) as follows; renumber subsequent subparagraphs.] Subscription-based information technology arrangements. (See Section S80, “Subscription-Based Information Technology Arrangements,” paragraphs .157 and .158.) [In the sources, add GASBS 96, ¶160 and ¶161.]

.117 [Revise the second sentence as follows:] The information disclosed should be divided into major classes of capital assets, with separate presentation of totals for (a) lease assets and (b) subscription assets arising from subscription-based information technology arrangements, and major classes of long-term liabilities, as well as between those associated with governmental activities and those associated with business-type activities. [GASBS 34, ¶116, as amended by GASBS 63, ¶18, GASBS 87, ¶37, and GASBS 96, ¶60 and ¶61]

.118 [Replace *with lease assets presented separately*, with *with the total for lease assets and the total for subscription assets arising from subscription-based information technology arrangements, each presented separately.*] [GASBS 34, ¶117, as amended by GASBS 87, ¶37 and GASBS 96, ¶60]

* * *

DEBT EXTINGUISHMENTS AND TROUBLED DEBT RESTRUCTURING

SECTION D20

.136 [Revise the first sentence as follows:] For purposes of applying paragraphs .129–.165, troubled debt restructurings do not include changes in lease agreements (the accounting is prescribed by Section L20, “Leases”), subscription-based information technology arrangements (the accounting is prescribed by Section S80, “Subscription-Based Information Technology Arrangements”), public-public partnership arrangements (the accounting is prescribed by Section P90, “Public-Private and Public-Public Partnerships”), or employment-related agreements (for example, pension or other postemployment benefit plans and deferred compensation contracts). [GASBS 62, ¶135, as amended by GASBS 87, ¶3–¶8 and ¶10–¶91, GASBS 94, ¶68–¶75, and GASBS 96, ¶54–¶57]

* * *

LEASES

SECTION L20

.106 [Insert new subparagraph (e) as follows; renumber subsequent subparagraphs.] Contracts that are in the scope of Section S80, “Subscription-Based Information Technology Arrangements.” [GASBS 87, ¶8, as amended by GASBS 91, ¶19 and ¶20, GASBS 94, ¶9 and GASBS 96, ¶3 and ¶4]

.706-2 [In the first sentence of the question, replace *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.22, as amended by GASBS 96, ¶4]

.708-3 [In the first sentence of the question, add (*with an insignificant software component*) after *copy machines*.] [GASBIG 2019-3, Q4.25, as amended by GASBS 96, ¶4]

.724-2 [In the first sentence of the question, replace *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.64, as amended by GASBS 96, ¶4]

.727-1 [In the first sentence of the question, replace both instances of *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.67, as amended by GASBS 96, ¶4]

* * *

[Insert new Section S80, “Subscription-Based Information Technology Arrangements,” as follows:]

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY SECTION S80 ARRANGEMENTS

Source: GASBS 96

See also: Section 1400, “Reporting Capital Assets”
 Section 2300, “Notes to Financial Statements”

Scope and Applicability of This Section

.101–.102 [GASBS 96, ¶3–¶4; in paragraph .101, replace *SBITAs* with *subscription-based information technology arrangements (SBITAs)* and in subparagraph (a) replace the first use of *IT* with *information technology (IT)*.]

.103–.158 [GASBS 96, ¶6–¶61, including headings and footnotes]

* * *

Sources: [Add GASBS 96.]

[Revise heading .107, as follows:] Replace *Leases and Public-Public Partnership Arrangements* with *Leases, Public-Public Partnership Arrangements, and Subscription-Based Information Technology Arrangements*.

[Replace paragraph .107 with the following:]

.107 If the provisions of a lease, a public-public partnership arrangement, or a subscription-based information technology arrangement are modified in a way that changes the amount of the remaining lease liability, operator's liability for installment payments or liability for the underlying public-public partnership asset, or subscription liability, respectively, and the modification either (a) does not give rise to a new agreement or (b) does give rise to a new agreement but such agreement also meets the definition of a lease, a public-public partnership arrangement, or a subscription-based information technology arrangement, respectively, then the present balances of the lease asset and the lease liability, or the intangible right-to-use asset and the liability for installment payments or liability for the underlying public-public partnership asset, or the subscription asset and the subscription liability, respectively, should be adjusted by an amount equal to the difference between the lease liability, liability for installment payments or for the underlying public-public partnership asset, or subscription liability, respectively, under the revised or new agreement and the carrying amount of the pre-petition lease liability, liability for installment payments or for the underlying public-public partnership asset, or subscription liability, respectively. The lease liability, liability for installment payments or for the underlying public-public partnership asset, or subscription liability under the revised or new agreement should be computed using the rate of interest used to report the lease, liability for installment payments or for the underlying public-public partnership asset, or subscription-based information technology agreement initially. A termination of a lease, a public-public partnership arrangement, or a subscription-based information technology arrangement should be accounted for by removing the lease asset and lease liability, or the intangible right-to-use asset and liability for installment payments or liability for the underlying public-public partnership asset, or the subscription asset and subscription liability, respectively, with a gain or loss recognized for the difference. [GASBS 58, ¶18, as amended by GASBS 87, ¶173, ¶174, and ¶178; GASBS 94, ¶171–¶173; GASBS 96, ¶154–¶157]

* * *

**PENSION PLANS ADMINISTERED THROUGH TRUSTS SECTION Pe5
THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT**

.713-1 [In the question and in the answer, replace *subscriptions* with *subscriptions to industry publications*.] [GASBIG 2015-1, Q5.77.1, as amended by GASBS 96, ¶16–¶18]

* * *

**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN SECTION Po50
PENSION PLANS) ADMINISTERED THROUGH TRUSTS
THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT**

.716-1 [In the question and in the answer, replace *subscriptions* with *subscriptions to industry publications*.] [GASBIG 2017-2, Q4.61, as amended by GASBS 96, ¶16–¶18]

* * *

***Comprehensive Implementation Guide—June 2022*
Update**

C2. The instructions that follow update the December 31, 2019 *Comprehensive Implementation Guide*, as amended by Statement 95 and Implementation Guide 2019-3, for the provisions of this Statement.

* * *

[Update cross-references throughout.]

* * *

5.77.1. [In the question and in the answer, replace *subscriptions* with *subscriptions to industry publications*.] [GASBIG 2015-1, Q5.77.1, as amended by GASBS 96, ¶16–¶18]

8.117.1. [In the question and in the answer, replace *subscriptions* with *subscriptions to industry publications*.] [GASBIG 2017-2, Q4.61, as amended by GASBS 96, ¶6–¶8]

12.20.2. [In the first sentence of the question, replace *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.22, as amended by GASBS 96, ¶4]

12.23.2. [In the first sentence of the question, add *(with an insignificant software component)* after *copy machines*.] [GASBIG 2019-3, Q4.25, as amended by GASBS 96, ¶4]

12.105.2. [In the first sentence of the question, replace *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.64, as amended by GASBS 96, ¶4]

12.109.1. [In the first sentence of the question, replace both instances of *computers* with *computers with an insignificant software component*.] [GASBIG 2019-3, Q4.67, as amended by GASBS 96, ¶4]

Z.51.18. [Revise the question as follows:] How should outlays associated with the internal modification of an existing internally generated computer software system that makes it able to interface with a new internally generated computer software system be reported? [GASBIG 2015-1, QZ.51.18, as amended by GASBS 96, ¶4]

[Replace Question Z.51.21 with the following:]

Z.51.21. [Question number not used]

Z.51.22. [Revise the question as follows:] Statement 51 provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance for treatment of such outlays associated with subscription-based information technology arrangements. How should such outlays be accounted for if the activities are associated with the acquisition of computer software that is not considered internally generated and is not a subscription-based information technology arrangement? [GASBIG 2015-1, QZ.51.22, as amended by GASBS 96, ¶3]

Z.51.23. [In the question, replace *A government has* with *Associated with purchased software, a government also has*. In the first sentence of the answer, replace *computer software* with *purchased computer software*.] [GASBIG 2015-1, QZ.51.23, as amended by GASBS 96, ¶4]

[Replace Question Z.51.38 with the following:]

Z.51.38. [Question number not used]

* * *