

# IFRS Today

Our series on the most topical issues in IFRS® Standards and financial reporting

25 March 2021



**“If you’re thinking about cloud, you should be thinking about this.”**

## VIDEO TRANSCRIPT

### IFRIC agenda decisions – Cloud computing

Brian O’Donovan  
KPMG partner and IFRS Interpretations Committee member

Hello – I’m Brian O’Donovan. I’m a partner at KPMG; I’m a member of the IFRS Interpretations Committee – the IFRIC.

In its March meeting, the Committee voted to finalise a key agenda decision. It’s about the costs of implementing a cloud computing solution that is itself a service. Now, this agenda decision: it could really improve consistency of application – but it could require your company to reconsider its current accounting policy.

If you’re thinking about cloud, you should be thinking about this.

## What’s the issue?

So suppose you’re implementing a big cloud computing solution. You’ve looked at the main contract and you’ve decided it’s a service contract – you’re not purchasing a software asset. It’s ‘Software as a Service’ – it’s a SaaS arrangement.

But what about the costs of getting the solution up and running? Must you expense them as incurred? Or can you capitalise them and carry them forward, expensing them over the life of the arrangement?

Well, there’s a lot of diversity on this question at the moment.

The Committee looked specifically at configuration and customisation costs – and it came up with a two-step framework to analyse those costs.

## The two-step framework

The Committee’s first step is to assess whether the costs can be capitalised as an intangible asset. Now, that could be difficult given that you’ve already concluded that the main contract is a service contract. The second step, assuming there’s no intangible asset, is to assess whether the costs can be carried forward as a prepayment of the service fees under the main contract.

Crucially, the Committee concluded that in making this assessment as a customer you should look to the separation guidance – the distinct test in IFRS 15. Now it's unusual – it's very unusual – to require a customer to look to the revenue guidance in this way. The Committee felt that was appropriate – in this case – because of the way the standards fit together.

Some of you may already think about this question in this way; I suspect a lot of you don't.

---

## Next steps

The Committee voted to finalise the agenda decision. The Committee's own due process is complete. The next step is that the IASB – the Board – will review this agenda decision. That will probably happen in the Board's April meeting. Assuming the Board has no objections, this will be published as a final agenda decision shortly after that.

Remember – if you have a fact pattern similar to one considered by the Committee, then you're expected to consider the explanatory material in final IFRIC agenda decisions when preparing IFRS financial statements.

As I said, if you're thinking about cloud, you should be thinking about this.

## home.kpmg/ifrs

Publication name: *IFRIC agenda decisions – Cloud computing*

Publication date: March 2021

© 2021 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit <https://home.kpmg/xx/en/home/misc/governance.html>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

*This publication contains copyright © material and trademarks of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit [www.ifrs.org](http://www.ifrs.org).*

**Disclaimer:** To the extent permitted by applicable law the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

*'IFRS®', 'IASB®', 'IFRIC®', 'IFRS for SMEs®', 'IAS®' and 'SIC®' are registered Trade Marks of the IFRS Foundation and are used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.*