March 10, 2023

Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

RE: Comments on GASB Project No. 24-16g-s, Exposure Draft – *Additional Proposal for Implementation Guidance Update - 2023*

The Financial Management Standards Board (FMSB) of the AGA appreciates the opportunity to provide comments on the Governmental Accounting Standards Board's exposure draft.

Due to the nature of cloud computing arrangements, it may be confusing to some users about how to apply criteria in GASB 96 paragraph 7 regarding control of the right to use the underlying IT assets. This distinction is only meaningful in determining whether the arrangement would be classified as a SBITA subject to GASB 96, or a lease subject to GASB 87 - if the software component is insignificant when compared to the cost of the underlying IT assets. However, if users are confused about how to apply criteria, it may lead not only to inconsistent classification but also to inconsistency in recognizing cloud computing arrangements at all. For this reason, we affirm the value of an implementation guide question to provide a clear explanation that a government would be considered to have control over underlying IT assets in these arrangements.

In GASB 96, the Basis for Conclusions included helpful explanation about how to apply criteria to cloud computing arrangements. Paragraph B14 describes cloud computing arrangements as a typical example of a SBITA. It also lists the three deployment models (i.e., SaaS, PaaS and IaaS) and explains the rationale for concluding that these models would be considered a "right to use" software and/or hardware. Paragraph B24 further describes the rationale for concluding that the government has control of the right to use the software and/or hardware in these arrangements.

However, the proposed exposure draft does not seem to provide any clear answers or explanation on the subject. Our group was forced to speculate inconclusively on what issue the Board was trying address, what the answer might mean, and what situations might not be considered a SBITA. For example, we were unsure whether the answer was intending to imply that cloud computing situations that don't meet the definition of a SBITA would be considered a lease, or whether the answer implies that there may be cloud computing arrangements that are neither a lease nor SBITA. Furthermore, the answer is seemingly in conflict with explanations in the GASB 96 Basis for Conclusions paragraphs B14 and B24 in that the proposed answer states that cloud computing arrangements "may or may not" meet the definition of a SBITA.

We recommend that the Board clarify the answer. Specifically, it would be helpful to include an example of an arrangement that does not meet the definition of SBITA and to further address whether or not the example would then be considered a lease. It would also be helpful to include enough information to explain or resolve the apparent conflict with the GASB 96 Basis for Conclusions.

Sincerely,

Scott DeViney, CPA
Chair, Financial Management Standards Board

AGA
Financial Management Standards Board

The FMSB is comprised of the following 22 members with accounting and auditing backgrounds in federal, state, and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. The purpose of the FMSB is to advocate for the improvement of accounting and financial reporting standards at all levels of government and thus advance government accountability. The views of the FMSB do not necessarily represent those of AGA. Local AGA chapters and individual members are also encouraged to comment separately.

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