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| Purpose | To implement Governmental Accounting Standards Board Statement (GASBS) 96, *Subscription-Based Information Technology Arrangements* (SBITA) by identifying, collecting, and reporting the required information necessary for implementation of the standard. |
| Background | The objective of GASBS 96 is to better meet the information needs of financial statement users by establishing the definition of a SBITA and enhancing accounting and financial reporting by governments. |
| Effective Date | New York State is planning to implement this Statement in the fiscal year 2022-23 annual financial statements. |
| Materiality and AEV | The materiality threshold is set at $1 million Annual Exchange of Value (AEV). The AEV represents the dollar value anticipated to be exchanged between NYS and the SBITA vendor during a 12-month period.  The AEV is computed using the sum of **all payments required under the subscription agreement** for the use of the vendor’s information technology (IT) software **divided by the number of months the government has the right to use the asset during the period the agreement is reasonably certain to be in effect** multiplied by **12 months**. The payment value and number of months for all agreement renewal periods reasonably certain to be executed should be included and/or payments and months for termination clauses reasonably certain to be executed should be excluded. Payments for software maintenance services, user training, perpetual licensing arrangements, and any other payments not directly related to the right to use the asset should not be included in this calculation.  AEV = (∑ reasonably certain right to use payments/reasonably certain term in months) \* 12  There may be implementation costs related to putting the subscription asset into service.   * Implementation costs incurred prior to 4/1/22 **should not be** included in the calculation of AEV. * Capitalizable implementation costs incurred 4/1/22 and after **should be** included in the calculation of AEV. Refer to the Implementation Stages section of this document for information on capitalizable implementation costs. |
| SBITA Definition | A SBITA is a contract that conveys control of the right to use another party’s IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction[[1]](#footnote-1).  Per paragraph 4 of GASB 96, the standard does not apply to:   * 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 * Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs * Contracts that meet the definition of a public-private or public-public partnership as defined in GASBS No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* * Licensing arrangements that provide a perpetual license to governments to use a vendor’s computer software.   Short-Term SBITAs  Short-term SBITAs are excluded from this new reporting requirement. A SBITAis considered short-term if, at commencement of the subscription term, it 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.  Contracts with Multiple Components  Agencies may enter into contracts that contain both a subscription component and a non-subscription component, such as a separate perpetual licensing arrangement or IT maintenance services.  For contracts with subscription and non-subscription components, each component should be accounted for as separate contracts, unless it is not practicable to separate and estimate the costs of those services.  For contracts with multiple underlying IT asset components with different subscription terms, each underlying IT asset component should be accounted for as a separate subscription component. |
| Subscription Term | Per paragraph 9 of GASBS 96, the subscription term is the period during which a government has a noncancellable right to use the underlying IT asset, plus the following periods (if applicable):   * Periods covered by a government’s option to extend the SBITA if it is reasonably certain that the government will exercise that option * Periods covered by a government’s option to terminate[[2]](#footnote-2) the SBITA if it is reasonably certain the government will not exercise that option * Periods covered by a SBITA vendor’s option to extend the SBITA if it is reasonably certain the SBITA vendor will exercise that option * Periods covered by a SBITA vendor’s option to terminate the SBITA if it is reasonably certain the SBITA vendor will not exercise that option.   Periods for which both the government and the SBITA vendor have an option to terminate without permission from the other party are cancelable periods and are excluded from the subscription term. Examples include a rolling month-to-month  SBITA or a SBITA that continues into a holdover period until a new SBITA contract is signed.  A fiscal funding or cancellation clause will not affect the subscription term unless it is reasonably certain the clause will be exercised.  It is the responsibility of the agency who is administering the SBITA to determine reasonable certainty. Per paragraph 11 of the standard, examples of factors to consider when determining reasonable certainty include, but are not limited to, the following:   * A significant economic incentive, such as contractual terms and conditions   for the optional periods that are favorable compared with current market  rates   * A potential change in technological development that significantly affects the technology used by the underlying IT assets * A potential significant change in the government’s demand for the SBITA vendor’s IT assets * 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) * The history of exercising options to extend or terminate * The extent to which the underlying IT assets in the SBITA are essential to the provision of government services.   Documentation supporting reasonably certain determinations should be retained and available upon request by OSC or our external auditors. |
| Subscription Asset and Liability | Governments should recognize a subscription liability and an intangible right-to-use subscription asset.  The State will measure the subscription liability as the present value of subscription payments expected to be made during the subscription term. This will be calculated centrally.  For OSC to calculate the subscription liability, agencies will need to provide the following information:   * Fixed payments * 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 * Variable payments that are fixed in substance * Payments for penalties for terminating the SBITA if the subscription term reflects the government exercising an option to terminate the SBITA or a fiscal funding or cancellation clause * Any subscription contract incentives[[3]](#footnote-3) receivable from the SBITA vendor * Any other payments to the SBITA vendor that are reasonably certain of being required based on an assessment of all relevant factors.   To allow OSC to calculate the subscription asset, in addition to the data used to calculate the subscription liability, agencies will also need to provide the following information:   * Payments made to the SBITA vendor at the commencement of the subscription term and incentives received from the vendor before the commencement of the subscription term * Capitalizable initial implementation costs |
| Implementation Stages | To calculate the subscription asset, OSC will collect information about certain SBITA implementation costs. Per paragraph 29 of the standard, activities associated with the SBITA (other than subscription payments to the SBITA vendor for the right to use the underlying IT assets) should be grouped into three stages. The costs from each stage receive a different accounting treatment as outlined below.   |  |  |  | | --- | --- | --- | | **Stage of Implementation** | **Activity Examples** | **Accounting Treatment** | | Preliminary Project Stage | * Conceptual formulation and evaluation of alternatives * The determination of the existence of needed technology * Final selection of alternatives for the SBITA | * Costs are expensed as incurred * Not reported for inclusion in the calculation of the subscription asset | | Initial Implementation Stage | * Configuration, coding, testing, and installation of IT assets * Other ancillary charges necessary to place the subscription asset into service | * Costs incurred after 4/1/22 should be reported for capitalization as part of the subscription asset[[4]](#footnote-4) | | Operation and Additional Implementation Stage | Operation   * Maintenance * Troubleshooting * Other activities related to the government’s ongoing access to the IT assets | * Costs are expensed as incurred | | Additional Implementation  Modifications that result in either an increase in functionality or efficiency of the subscription asset. | * Costs incurred after 4/1/22 should be reported for capitalization as part of the subscription asset |   Please note that costs related to training, even if it occurs during the initial implementation stage, should be expensed as incurred.  Additionally, these stages do not apply to short-term SBITAs. Costs related to short-term SBITAs should be expensed as incurred. |
| Questions and Additional Resources | If you have any questions, email us at [finrepgasb@osc.ny.gov](mailto:finrepgasb@osc.ny.gov)  For more information and useful resources, refer to OSC’s GASB web page ([https://www.osc.state.ny.us/state-agencies/guidance/new-gasb-standards](https://gcc02.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.osc.state.ny.us%2Fstate-agencies%2Fguidance%2Fnew-gasb-standards&data=05%7C01%7Ccwemette%40osc.ny.gov%7Cc946c2ebf9f64cb2128c08da47ce92d6%7C23b2cc00e77644cba980c7c90c455026%7C0%7C0%7C637901249810426932%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C3000%7C%7C%7C&sdata=2YBS3QV27DtCXknQly7mMAwHzgymIrzZ8Z4qDdLrCbg%3D&reserved=0)) to supplement the above guidance. |

1. A transaction is exchange or exchange-like when each party in the contract receives or gives up essentially equal value. [↑](#footnote-ref-1)
2. Provisions that allow for termination of a SBITA due to (1) payment of all sums due, or (2) default on subscription payments are not considered termination options. [↑](#footnote-ref-2)
3. Contract incentives are (a) payments made to, or on behalf of, the 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. [↑](#footnote-ref-3)
4. Capitalization can only begin once activities in the preliminary project stage are completed and 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). [↑](#footnote-ref-4)