RESCINDED

OCC 1998-29

Subject: Accounting for Computer Software Costs Developed or Obtained for Internal Use
Date: July 9, 1998

To: Chief Executive Officers of all National Banks, Department and Division Heads, all Examining Personnel

Description: Policy statement

OCC 1998-29 has been replaced by FFIEC Call Report Instructions and Bank Accounting Advisory Series.

BACKGROUND

Under Banking Circular 203, national banks were required to expense the cost of computer software developed internally for the bank's own use. Subsequently, with the adoption of Generally Accepted Accounting Principles (GAAP) for call reports in 1997, the OCC allowed the capitalization of certain internally developed computer software expenditures.

On March 5, 1998, the American Institute of Certified Public Accountants (AICPA) provided further guidance through Statement of Position (SOP) 98-1. The SOP identifies the characteristics of internal use software and describes when such costs should be capitalized or expended.

SOP 98-1 guidance does not effect the accounting treatment of costs related to the development of software for other purposes. See Statement of Financial Accounting Standard (FAS) 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed."

POLICY

National banks should account for the costs of computer software developed or obtained for internal use in accordance with the provisions of SOP 98-1. The SOP distinguishes among three stages of computer software development: (1) preliminary project stage; (2) application development stage; and, (3) post-implementation stage. Under SOP 98-1, only internal and external costs incurred during the application development stage are to be capitalized. This application development stage includes costs for software configuration and interfaces, coding, installation to hardware, and testing. In addition, capitalized expenditures include direct payroll costs and interest costs incurred during development. Institutions should also capitalize costs to develop or obtain software that allows access or conversion of old data by new systems.

National banks should continue to expense all costs associated with the first and third stages of software development. The preliminary project stage (first stage) includes expenditures relating to the evaluation and final selection of software alternatives. The post-implementation stage (third stage) includes the costs of training for implementation and application maintenance.

Under SOP 98-1, the capitalized costs of computer software should normally be amortized on a straight-line basis. However, another amortization basis may be available if it is more representative of the software's use. National banks should also recognize and measure possible impairment of the capitalized software asset. See FAS-121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

EFFECTIVE DATE

SOP 98-1 is effective for financial statements with fiscal years that begin after December 15, 1998. Earlier application is encouraged.

ORIGINATING OFFICE

Questions concerning this bulletin should be directed to the Office of the Chief Accountant at (202) 874-5180.

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