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November 14, 2014

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2014-230**

**Re: Proposed Accounting Standards Update, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement***

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.

We support the Board's efforts to quickly make improvements to areas of U.S. GAAP that are unnecessarily complex and costly as part of its simplification initiative. With respect to a customer's accounting for a cloud computing arrangement, we agree with the proposed criteria for distinguishing a service contract from the purchase of a license. However, as noted in our responses to the proposed ASU's questions for respondents (see appendix below), we believe that the Board could further simplify and clarify certain aspects of this project without dramatically increasing its scope.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP  
cc: Robert Uhl

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**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Questions for Respondents**

*Question 1: Should a customer in a cloud computing arrangement evaluate whether the arrangement involves a software license by applying the criteria in paragraphs 350-40-15-4A through 15-4C? If not, what guidance should be applied and why?*

We believe that it is appropriate to apply the proposed criteria to differentiate a purchased license from a service contract and that such differentiation is consistent with the FASB's conceptual framework. Although these criteria are currently applied without significant issue under ASC 985-605, we are aware of some instances in which a customer has the right to take possession of the software during a limited portion, or at the end, of the contract term, in which case questions arise regarding the meaning of the phrase "at any time." Specifically, it is unclear whether an entity must have the right to take possession of the software throughout the duration of the arrangement (i.e., at all times) or simply at some point during the arrangement (e.g., only at the end). We suggest that the Board clarify the intent of this phrase to reduce the possibility of diverse interpretation.

For cloud computing arrangements accounted for as service contracts, questions may arise regarding certain elements of the arrangement to which other applicable guidance applies. For example, the arrangement may include implementation services that are separately within the scope of ASC 350-40 because they modify an entity's own systems. Thus, it may be helpful to acknowledge that the overall arrangement could contain elements for which service contract accounting is not appropriate.

For cloud computing arrangements accounted for as internal-use software, we note that ASC 350-40-25-16 requires entities to apply the lease classification test in ASC 840 by analogy. However, the FASB's May 2013 revised exposure draft on leases would supersede ASC 350-40-25-16. If the Board's intent is to eliminate this requirement, incorporating this change into the project would further the objective of simplifying the accounting for cloud computing arrangements. However, the Board may wish to separately clarify that the accounting for a license in a cloud computing arrangement under ASC 350-40 would result in a capitalized asset.

We have also observed a potential drafting issue in the proposed ASU. ASC 350-40-15-4(e) indicates that software that does not meet the criteria in ASC 350-40-15-4A is outside the scope of ASC 350-40; however, ASC 340-40-15-4C then provides guidance on the accounting for such arrangements (i.e., indicates that such arrangements are service contracts).

*Question 2: Should an entity be permitted to elect prospective or retrospective transition?*

We agree with the proposed transition requirements. However, regarding prospective transition, it may be helpful to clarify whether renewal of an existing contract is considered a new or materially modified contract.

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*Question 3: Should the amendments in this proposed Update be effective for:*

- a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted?*
- b. All other entities for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted?*

We agree with the proposed effective date.