

Technical Director
File Reference No. 2014-230
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

November 13, 2014

Dear Sir/Madam:

Time Warner Cable Inc. (“TWC”) is pleased to offer comments on the Financial Accounting Standards Board’s (“FASB”) draft standard on cloud computing arrangements, which is presented in the Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Internal Use Software – Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (Topic 350-40)* (the “Exposure Draft”). TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas – New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. As of September 30, 2014, TWC served approximately 15.1 million customers who subscribed to one or more of its video, high-speed data and voice services and had total revenues of \$22.1 billion for the latest fiscal year ended December 31, 2013. TWC is a public registrant whose common stock is listed for trading on the New York Stock Exchange under the symbol: TWC.

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?*

As a customer of a significant number of hosted software arrangements, TWC supports the FASB’s goal of reducing the cost and complexity of accounting for these arrangements and supports the FASB’s proposal to evaluate such arrangements by applying the criteria used by providers of such services. In developing TWC’s current accounting policy for accounting for fees paid for hosted software arrangements, we noted that these arrangements can possess a wide range of economic characteristics. For example, some arrangements merely allow TWC to access a vendor’s software via a web portal and do not transfer any other contractual rights that convey the risks or rewards of software ownership. Conversely, other arrangements allow TWC to acquire the software and to separately choose to use the vendor’s optional hosting services. Given the lack of specific guidance in the accounting literature, TWC’s current accounting policy for these arrangements analogizes to paragraphs 985-605-55-121 through 55-123 in Subtopic 985-605, *Software – Revenue Recognition*. In reaching this decision, TWC determined that the factors in Subtopic 985-605 are reasonable indicators for determining whether the economic substance of the arrangement is akin to the acquisition of the underlying software license. We support the expansion of Subtopic 985-605 into Topic 350-40 because it would eliminate the uncertainty and need to analogize to other guidance and will likely reduce the potential for inconsistent accounting treatment among preparers for similar arrangements. Additionally, we believe that the use of cloud computing and similar arrangements will continue to grow, which will increase the potential for inconsistent accounting treatment among preparers without specific accounting guidance for the customers of such arrangements.

In addition to supporting the expansion of Subtopic 985-605 into Topic 350-40, we also believe that it would be beneficial for the FASB to provide additional guidance surrounding the determination of “significant cost” and “significant diminution in utility or value” as used in paragraph 350-40-15-4B. For example, we have observed that some hosting arrangements include financial penalties for taking possession of the software. Such penalties can take many forms including specified monetary penalties or requirements to pay the remainder of the unused hosting fees. We have also encountered situations in which a significant hardware investment and additional IT personnel would

Comment Letter
Page 2

be required in order to properly operate the software separately from the vendor. In both of these instances, we believe it would be reasonable to determine that the existence of these factors represent significant costs whenever the incremental costs represent a substantial portion of the contractual hosting fees. With respect to the determination of “significant diminution in utility or value”, we have observed that some vendors are uniquely qualified to host their own software such that separating the software from the vendor’s hosting service would reduce the customer’s ability to utilize all of its functionality. We also believe that there are situations in which the software vendor would not be contractually obligated to provide future software upgrades unless the vendor also hosts the software. In both circumstances, we believe it would be reasonable to determine that these factors represent a significant diminution in utility. We believe that providing additional examples of “significant cost” and “significant diminution in utility or value” in the standard, such as those described above, will assist with the implementation of the standard and reduce the potential for inconsistent accounting treatment among preparers. Additionally, in developing TWC’s accounting policy for hosted software arrangements, we noted that many of the situations described above are listed as examples of “significant cost” and “significant diminution in utility or value” in the interpretive guidance of several Big 4 accounting firms. We believe these examples are better suited for inclusion in the FASB’s accounting literature than in such interpretive guidance because they will be more broadly available to financial statement preparers.

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

With respect to question 2, we believe that entities should have the option to elect prospective or retrospective adoption. In TWC’s circumstance, the adoption of the Exposure Draft will not impact TWC’s accounting for hosted software arrangements because TWC already analogizes to Subtopic 985-605 in accounting for these arrangements. However, we believe that entities with different accounting policies could encounter difficulties in applying the Exposure Draft retrospectively such that that the costs of retrospective adoption would exceed the benefit.

Question 3: *Effective dates?*

With respect to question 3, we believe that the proposed effective date is reasonable if companies are allowed the option to elect prospective or retrospective adoption.

We appreciate the opportunity to provide comments to the Exposure Draft.

Sincerely,



William F. Osbourn, Jr.
Senior Vice President, Chief Accounting Officer and Controller
Time Warner Cable Inc.