

November 14, 2014

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via e-mail – [director@fasb.org](mailto:director@fasb.org)

Re: File Reference No. 2014-230. Proposed Accounting Standards Update: Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*

Plante & Moran PLLC (Plante Moran) is the 13<sup>th</sup> largest public accounting firm in the United States and serves a wide range of public and private entities in multiple industries. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft.

**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?

**Response 1:** Yes, we agree customers should evaluate fees paid in a cloud computing arrangement by applying the criteria in paragraphs 350-40-15-4A through 15-4C. We believe customers and cloud service providers should apply the same criteria to determine whether an arrangement includes a software license.

One area of potential concern we have relates to the changes that will be made upon implementation of ASU 2014-09. Under the new revenue recognition guidance in Topic 606, cloud service providers will determine whether a software license is present by applying the performance obligation identification guidance in 606-10-25-14 through 25-22. A software license will be accounted for as a separate performance obligation if it is considered distinct, which generally means that the customer can benefit from the software without the related hosting services. If the amendments in this proposed Update are approved, cloud service providers and customers will apply different criteria to determine whether an arrangement includes a software license or is a service contract.

We understand that as part of the amendments in ASU 2014-09 the guidance for cloud service providers related to determining whether a hosting arrangement includes a license of software has been moved to Subtopic 985-20. However, this guidance only applies to the accounting for costs of software to be sold, leased, or marketed and would not supersede the performance obligation guidance in Topic 606.

If the Board concludes the criteria for customers in this proposed Update will generally result in similar classification conclusions as cloud service providers under Topic 606, when effective, it may be helpful to clarify this in the Basis for Conclusions to the proposed Update.

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

**Response 2:** Yes, we agree that an entity should be permitted to elect prospective or retrospective transition. The choice of election allows flexibility based on the needs of the users of the financial statements and the availability of information that would be required for retrospective transition.

**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?

**Response 3:** Yes, we agree with the proposed effective dates. We expect that many private companies to which the changes are applicable will early adopt the proposed amendments.

Thank you for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Christa LaBrosse at [christa.labrosse@plantemoran.com](mailto:christa.labrosse@plantemoran.com) or 313-496-7228.

Very truly yours,

**PLANTE & MORAN, PLLC**