



Via Email

November 18, 2014

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

Re: File Reference No. 2014-230

Request for comments on Exposure Draft of Proposed Accounting Standards Update on Intangibles – Goodwill and Other – Internal-Use Software (Topic 350-40), or “the proposed update”

Visa Inc. is a global payments technology company that connects consumers, businesses, financial institutions and governments in more than 200 countries and territories to fast, secure and reliable electronic payments. We operate one of the world’s most advanced processing networks which facilitates authorization, clearing and settlement of payment transactions worldwide.

We appreciate the opportunity to comment on the proposed update and the FASB’s effort to simplify a customer’s accounting for fees paid in a cloud computing arrangement. While we are supportive of the FASB’s proposal for how to evaluate the arrangement to determine if it is a software license or a service contract, we respectfully request that the FASB consider expanding the proposed standard to include guidance on the accounting for one-time set-up fees incurred by a customer under a cloud computing arrangement that is accounted for as a service contract.

Below are our responses to the specific questions asked in the exposure draft, followed by our request for additional guidance.

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-C? If not, what guidance should be applied and why?

We agree with the FASB’s proposal to evaluate whether a cloud computing arrangement involves a software license by applying the criteria in paragraphs 350-40-15-4A through 15-C to determine whether to account for the arrangement as a software license or as a service contract. This aligns with how Visa has been accounting for cloud computing arrangements. We believe that the determining factor is based on whether the customer gains control of the software and has the ability to direct the use of the software, as under a license model. Under a cloud model, the customer merely has access to the software and does not gain control over the use of the software as it sits on the vendor’s hardware. We agree that in this case, the arrangement is considered a service contract.

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

We believe that a company should be able to elect prospective or retrospective transition based on the impact to their financial statements to allow for comparability.

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?

We have no objection to the proposed effective date for public entities.

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 have no objection to allowing a different implementation date for all other entities.

As stated above, we request that the FASB consider expanding the guidance in this proposed standard. While we agree with the proposed method in which a cloud-computing arrangement is to be evaluated, we believe that companies would benefit from additional guidance when a customer incurs one-time set-up/integration costs related to a cloud-computing arrangement when it has been determined that the arrangement should be treated as a service contract.

A typical cloud-computing arrangement includes an annual subscription fee, often for a long-term period of time, and one-time set-up/integration fees to connect the customer's system to the cloud-service provider's system. In some cases, these one-time, upfront costs can be substantial. Under the current accounting guidance for service contracts, these fees are expensed as incurred or as the set-up/integration service is provided, which is typically within the first few months of the contract. However, the one-time set-up/integration costs that enable the customer to connect to the service provider continuously over the service period would not have been incurred had the customer not also simultaneously entered into the long-term subscription service arrangement. As such, it appears that the one-time set-up/integration costs provide a future benefit to the customer in the form of continuous connectivity to the service provider and should be considered part of the overall service costs and accounted for as one unit of account.

Further, our understanding is that if the customer is able to negotiate an annual subscription fee that includes the set-up/integration costs, then the customer is essentially able to defer the set-up/integration costs and recognize them over the term of the arrangement. If not, the costs are expensed as the set-up/integration services are provided. We believe that this can be easily addressed in the proposed standard. Specifically, regardless of whether the set-up/integration costs are bundled with the subscription fee or stand-alone within the contract, the accounting treatment should be the same. We believe the set-up/integration costs should be considered part of the total service cost and recognized over the term of the service agreement, regardless of how the vendor contracts with the customer. This accounting treatment would align the customer's accounting to the vendor's accounting, which requires that the vendor defer upfront

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fees and recognize them over the subscription period, because the upfront fees have no stand-alone value (i.e., the customer would not have purchased the set-up services had they not also entered into the subscription service arrangement). If the same criteria are used by customers and vendors to determine if a cloud-computing arrangement is a license or service, then the same criteria should be used to determine if the costs are recognized upfront or deferred.

We appreciate the opportunity to submit our views to you. If you have any questions about our comments, please contact me at (650) 432-8165.

Sincerely,

/s/ James H. Hoffmeister
Corporate Controller

cc: Byron H. Pollitt, Chief Financial Officer
Tom M'Guinness, SVP, Chief Counsel, Corporate