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April 27, 2018

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

File Reference No. 2018-230

Re: Proposed Accounting Standards Update, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

Dear Ms. Cospier:

HP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*.

We are a leading global provider of personal computing devices, imaging and printing products, and related technologies, solutions, and services. Based on our review of the proposed ASU and the FASB's basis for conclusions, we strongly support the FASB's effort to provide additional guidance with respect to the accounting for implementation costs incurred in a cloud computing arrangement that is considered a service contract.

Overall, we support the FASB's proposed amendments to Subtopic 350-40 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We believe the amendments proposed achieve this goal of alignment, simplifies the application of the guidance in Subtopic 350-40 to include certain types of cloud-based software arrangements previously scoped out by ASU No. 2015-05, and better reflects the economic substance of implementation costs, some of which can be significant and benefitting future periods. However, we do have concerns and do not support the FASB's proposal to provide certain incremental disclosures and transition disclosures with respect to both internal-use software acquired or developed and hosting arrangements.

The appendix below contains our responses to the proposed ASU's questions for respondents.

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We appreciate the opportunity to comment on the proposed ASU and would be pleased to discuss our comments with the FASB or its staff at your convenience. If you have any questions concerning our comments, please feel free to contact Nikki Samuelson, Assistant Controller and Head of Corporate Financial Reporting, at (281) 927-8170.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Marie Myers', with a long horizontal stroke extending to the right.

Marie Myers
Global Corporate Controller
Marie.Myers@hp.com

**Appendix
HP, Inc.
Responses to Questions for Respondents**

Question 1: Should eligible implementation costs of a hosting arrangement that is a service contract be capitalized using the guidance on internal-use software, recognized in profit or loss over the term of the hosting arrangement as defined in this proposed Update, and presented in the same line item in the statement of income as the fee associated with the hosting arrangement? If not, what accounting is more appropriate and why?

Yes. We agree that eligible implementation costs incurred in a hosting arrangement that is a service contract should be capitalized consistent with the existing internal-use software guidance. We agree with the FASB's conclusion that the broadening of the scope of Subtopic 350-40 to include eligible implementation costs of a hosting arrangement that is a service contract results in improved consistency. While we recognize there are technological differences in internal-use software applications installed physically on premise versus those provided through a cloud-based computing environment, the investments and resources required in order to make the software ready for its intended use is generally consistent despite the method of software delivery and whether the arrangement does or does not contain a software license. We agree with the position of the EITF that entities may incur significant costs when implementing a hosting arrangement that is a service contract. These costs incurred by entities do in most instances represent a future benefit to the entity beyond the period over which the implementation services are performed.

We agree that eligible implementation costs should be recognized in profit or loss over the term of the hosting arrangement and presented in the same line item in the statement of income as the fee associated with the hosting arrangement. In addition to the statement of income considerations, we also encourage the FASB to consider the statement of cash flow classification associated with these costs. We encourage the FASB to require classification of these implementation costs within cash flows from investing activities consistent with internal use assets. For example, for entities that are investing in a global enterprise resource planning software solution, we would view this very similarly to other long-term assets classified as property, plant, and equipment and reflected in the investing section of the cash flow statement.

Question 2: This proposed Update includes an amendment to the definition of hosting arrangement in the Master Glossary. Do you agree with the amendment, and do you have any other concerns with the definition, as amended?

Yes. We agree with the proposed amendment to the definition of a hosting arrangement. Without the amended definition of a hosting arrangement, this would limit the number of arrangements for which the revised guidance in Subtopic 350-40 would apply. We do not have any other concerns with respect to the definition.

Question 3: Is additional guidance needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement?



We do not hold a strong opinion with respect to this issue, but do encourage the FASB to consider additional guidance within Subtopic 350-40 to address situations wherein an entity enters into a service agreement which includes a hosting element that is considered minor. Our position with respect to this topic is predicated on the avoidance of both diversity of practice as well as a potential future need to issue clarifying narrow scope amendments. Specifically, we support additional implementation guidance which prescribes that entities can elect, as a policy election, to not treat hosting arrangements within the scope of Subtopic 350-40 if those hosting arrangements are both minor and do not represent a predominant element of a contract (i.e. they are ancillary in nature). We surmise that most entities apply a capitalization threshold to internal-use software. As a result, even with expansive implementation guidance to address these minor hosting elements, entities likely will, through application of their internal accounting policies, scope out these minor hosting elements on the basis of materiality.

Question 4: Can the guidance for determining the project stage (that is, preliminary project stage, application development stage, or postimplementation stage) in Subtopic 350-40 be consistently applied to a hosting arrangement? Why or why not?

Yes. We believe the guidance can be consistently applied to a hosting arrangement. While we recognize there will be unavoidable elements of professional judgment involved in these situations, the current guidance prescribed within paragraphs 1 through 6 of ASC 350-40-25 and the implementation guidance in ASC 350-40-55-3 provide sufficient guidance for determining the respective project stage. As previously noted in our response to Question 1, while there are technological differences in the use of an on premise versus cloud-based software solutions, the implementation / development lifecycle and resource requirements to make the software ready for its intended use are more often than not consistent across software delivery methods. Furthermore, ASC 350-40-25-12 also provides a clear understanding of when a preparer has reached the application development stage and can commence capitalizing certain eligible costs. As the software development lifecycle continues, ASC 350-40-25-14 along with the implementation guidance in ASC 350-40-55-3 also assists entities in distinguishing costs between the application development stage and postimplementation stage.

Question 5: Should an entity apply an impairment model to implementation costs of a hosting arrangement that is a service contract that is different from the impairment model included in Subtopic 350-40? Why or why not?

No. We believe the impairment model with respect to implementation costs of a hosting arrangement that is a service contract should not be different from the model currently included in Subtopic 350-40. The impairment model prescribed by paragraphs 1 through 3 of ASC 350-40-35 is well understood by entities and the impairment indicators outlined can be considered without significant effort to those hosting arrangements accounted for as a service contract where eligible implementation costs have been capitalized.

Question 6: Do you agree with the disclosures included in the proposed amendments? If not, what additional disclosures do you recommend, or what disclosures should be removed and why?

No. We do not support the incremental disclosures prescribed, principally from the standpoint that the information being provided does not provide investors with decision-useful information. While we support



the FASB's goal of creating disclosures for all transactions within the scope of Subtopic 350-40 in order to create consistency between information provided for internal-use software as well as hosting arrangements, the proposed targeted disclosures for these implementation costs may inadvertently suggest to investors that there is more subjectivity, importance, or inherent risk related to these types of costs. We believe that this would be an incorrect assumption. We believe the current disclosures required in Topics 235 and 275 and Subtopics 360-10 and 730-40 provide sufficient information to users of the financial statements about implementation costs related to internal-use software or hosting arrangements that are a service contract.

Included within Issue Summary No. 1, Supplement No. 1 issued September 28, 2017 in advance of the EITF's meeting on October 12, 2017, we note in paragraph 107 that the staff of the FASB believes that no additional disclosures should be required with respect to Alternative C. We agree with this position principally because we do not view internal-use software as a major class of assets separate from other classes of assets. We also base our position on the substance of what internal-use software represents to most entities (i.e. it may not represent activity which is fundamental to an entity's revenue generating activities) and that users of the financial statements would not be provided with decision-useful information through disclosures of implementation costs that are expensed and those that are capitalized. With the FASB's current Disclosure Framework Project in mind, the objective and primary focus being that to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most pertinent to users of the entity's financial statements, we believe that decision-useful information can be best achieved through the use of current disclosure requirements outlined within ASC 350-40.

Question 7: Should the disclosures included in the proposed amendments be applied to internal-use software and hosting arrangements that include a software license? Why or why not?

No. For the reasons we outlined in question 6 above, we do not agree with the proposed disclosures and do not think they should be applied to either internal-use software or hosting arrangements.

Question 8: Should an entity be permitted to elect prospective transition or retrospective transition? If not, please explain what transition method should be required and why. If an entity elects prospective transition, should the entity apply the transition requirements to each hosting arrangement, each module or component within a hosting arrangement, or costs of the hosting arrangement?

Yes. We agree with the FASB's proposed options of allowing the entity to choose either a prospective or retrospective transition method. We agree with the staff of the FASB that entities appreciate the flexibility of choosing between retrospective and prospective transition, and can decide based on what makes the most sense for the entity and its users. We also note, similar to the staff's position, that the transition methods suggested would be consistent with transition requirements of ASU No. 2015-05.

With respect to entities that elect prospective transition, we believe that these entities should apply the transition requirements based on the costs of the hosting arrangement and not to each hosting arrangement, module, or component. We base our position on the fact that some entities may be engaged in multi-year projects and if the amendments are not prospectively based on costs of the arrangement, this may result in entities not applying the revised guidance for a significant period of time.



We believe this would be an unintended consequence of transition and would significantly reduce comparability across entities.

Question 9: Should an entity be required to provide the transition disclosures specified in the proposed amendments? If not, please explain what transition disclosures should be required and why?

There are certain proposed amendments we agree with and others with which we do not agree. We agree that an entity should provide certain transition related disclosures including the nature of and reason for the change in accounting principle, the transition method, as well as a qualitative description of the financial statement line items affected by the change. However, we respectfully disagree with the proposed quantitative disclosures for those entities that elect the retrospective transition method.

Our basis for this position is that prior to this proposed ASU, the accounting and recognition requirements for implementation costs incurred in a hosting arrangement accounted for as a service contract was not explicit within GAAP. Given the historic diversity in practice in accounting for these implementation costs, there would be lack of comparability across entities with respect to the quantitative impacts of this change. For example, entities that currently analogize to the internal-use software guidance in Subtopic 350-40 for all cloud-based computing arrangements (whether they include a software license or not) will likely see no financial impacts based on the proposed amendments when adopted. Alternatively, this would be in contrast to those entities that have historically expensed all implementation costs as incurred. Still, other entities that have analogized to other GAAP guidance may find difficulty in quantifying the financial impacts of this change and providing meaningful disclosures for investors.

For these reasons above, we believe the transition disclosures should be consistent for both transition methods and that the qualitative disclosures outlined in the proposed ASU would appropriately serve the needs of users of financial statements.

Question 10: How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Do entities other than public business entities need additional time to apply the proposed amendments? Why or why not?

We believe that the time needed to implement the proposed amendments is minimal as most entities already have long-standing documented policies with respect to accounting for internal-use software and which costs can and cannot be capitalized. Additionally, we also believe the implementation requirements are negligible as the FASB has remained silent on the definition of implementation costs and they are not proposing changes to the activities included within the respective stages of software development that are well known to entities. On account of the changes being minimal for most entities, we believe early adoption should be permitted and is consistent with nearly all ASUs issued by the FASB. We also believe that whether a preparer is a public business entity or is an entity other than a public business entity, the implementation of the proposed amendments would not be significantly more or less costly or require significant additional effort.

Question 11: Should the proposed amendments be more broadly applied to similar transactions beyond hosting arrangements or be limited to transactions based on the scope of the proposed amendments? If



more broadly applied, what transactions are similar to those included in the scope of the proposed amendments?

We believe that the EITF's effort and the FASB's resulting proposed ASU is timely and helps to address an area of concern subsequent to the release of ASU No. 2015-05. We do not offer any suggestions at this time regarding transactions that are similar in nature that should be included within the scope of these proposed amendments.

