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Financial Accounting Standards Board  
Technical Director  
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Dear Sir/Madam:

**Re: Comments on the FASB Exposure Draft *Proposed Accounting Standards Update, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) : Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract***

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on the FASB Exposure Draft entitled *Proposed Accounting Standards Update, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*.

Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l’énergie, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

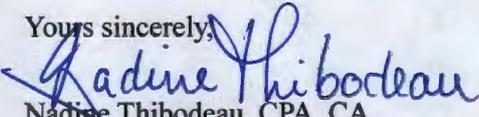
We support the proposal to align the accounting treatment for implementation costs incurred in a cloud computing arrangement that is a service contract with those incurred in a cloud computing arrangement that contains a software license since both types of arrangements are economically similar. Cloud-based solutions are ever more present on the market and generally do not contain a license for accounting purposes, thereby excluding them from the scope of Subtopic 350-40. We hope that the shift toward cloud-based solutions coupled with the lack of clear guidance regarding the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract will result in the speedy publication of a final Accounting Standards Update.

Furthermore, we would suggest that the FASB take on a separate project to review the Recognition Section of Subtopic 350-40, specifically with regards to the project stages. Subtopic 350-40 is based on the “waterfall” approach to software development, an outdated programming methodology. Current software development methodologies rest on the “agile principles”. Unlike the waterfall methodology, agile methodologies are not linear in their approach to software development, making it difficult to track development costs incurred by project stages according to Subtopic 350-40.

Again, we support the Proposed ASU. In the following section, we have provided our responses to the questions on which the FASB staff have asked for feedback.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

  
Nadine Thibodeau, CPA, CA  
Director, Complex Accounting and Tax

**Proposed Accounting Standards Update**  
***Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)***  
***Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract***

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**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?

We agree with the proposed method of accounting for implementation costs of a hosting arrangement that is a service contract.

**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?

We agree with the proposed definition of *hosting arrangement*. However, we worry that it is perhaps too narrow and would apply only to “software as a service” arrangements. Other types of hosting arrangements, such as “infrastructure as a service”, and “platform as a service” do not necessarily provide software as a service. The service provided is rather the hosting of data or of a platform to develop and run software applications. Since significant implementation costs can be incurred to set up these other types of hosting arrangements, we believe they should be included in the scope of the proposed amendments.

**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 believe that additional guidance is required.

**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, in our opinion, it would be possible to apply the current guidance for determining the project stage in Subtopic 350-40 to a hosting arrangement that is a service contract.

However, as we mentioned in our general comments at the beginning of this letter, we would suggest that the FASB take on a separate project to review the Recognition Section of Subtopic 350-40 specifically with regards to the project stages. Subtopic 350-40 is based on the “waterfall” approach to software development, an outdated programming methodology. Current software development methodologies rest on the “agile principles”. Unlike the “waterfall” methodology, agile methodologies are not linear in their approach to software development, making it difficult to track development costs incurred by project stages according to Subtopic 350-40. Thus, this project could be planned as a second phase in the medium term.

**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?

We do not believe that a different impairment model should be applied to implementation costs of a hosting arrangement that is a service contract since the nature of these capitalized costs is the same as other costs capitalized under the guidance of Subtopic 350-40.

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**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?

We do not agree with the disclosures included in the proposed amendments. Although we believe the proposed additional disclosures would not be costly to produce, we question their relevance in a time where regulators are heading various disclosure effectiveness initiatives, such as the FASB's *Disclosure Framework Project*.

Specifically, we question the relevance of the qualitative disclosures required in 350-40-50-2 :

- a. *A general description of the terms and conditions of the software acquired or developed for internal use or the hosting arrangement*
- c. *A qualitative and quantitative description of the implementation costs that were expensed and costs that were capitalized during the period; and*
- d. *A qualitative and quantitative description of the period over which the implementation costs are recognized as an expense in the income statement.*

We do not see how this information will make a difference in the decisions made by users of financial statements<sup>1</sup>. Moreover, this type of qualitative information regarding the nature of set-up costs is not required for other intangible assets nor is it required for fixed assets. We do not believe that implementation costs incurred in a cloud computing arrangement that is a service contract are of a riskier nature than other set-up costs incurred for other assets.

**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, we would kindly refer you to our answer for Question 6.

**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?

We believe that entities should be permitted to elect prospective or retrospective transition. Upon transition, this ASU should be applied consistently to all hosting arrangements. However, we think that it is imperative that implementation costs for current, ongoing projects be eligible for capitalization. As written, this can only be achieved with the retrospective approach. Given that the information required for a full retrospective transition is sometimes difficult to obtain, we suggest adding a modified retrospective transition option that would apply to both ongoing and future cloud computing projects.

**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.

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<sup>1</sup> Statement of Financial Accounting Concepts No. 8, Chapter 3, *Qualitative Characteristics of Useful Financial Information*, par. QC6

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Yes, we believe that entities should be required to provide the transition disclosures specified in the proposed amendments.

**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 implementation of the proposed amendments would not be time consuming. We think that an effective date for public companies within the year would be ideal with the option to early adopt.

**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?

Please refer to our answer for Question 2.