

Alphabet

April 30, 2018

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

Re: File Reference No. 2018-230, 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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements (a consensus of the FASB Emerging Issues Task Force)

Dear Ms. Cospers:

Alphabet Inc. (“Alphabet,” the “Company,” “we,” “us,” or “our”) appreciates the opportunity to provide feedback on the 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; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements (a consensus of the FASB Emerging Issues Task Force) (the “Proposal”), exposed for comment by the Financial Accounting Standards Board (the “Board”).

Alphabet is a collection of businesses, the largest of which is Google, and we generate revenues primarily by delivering relevant, cost-effective online advertising.

As both a provider and a user of cloud computing services, we are interested in the accounting treatment of implementation costs associated with cloud computing arrangements. In our November 2014 comment letter on 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, we observed that the absence of explicit guidance on implementation costs would lead to diversity in practice and as such, we appreciate that the Board has taken on this issue. Consistent with our previous views, we support the Board’s conclusion that eligible implementation costs should be capitalized using the guidance in ASC 350-40. We believe the economics of a hosting arrangement and its future benefits are best represented by aligning the accounting treatment for implementation costs with internal-use software.

We are appreciative of the Board's acknowledgment of the ways in which the delivery and the consumption of software solutions have evolved and we are supportive of the direction of the Proposal. We would like to share the following observations and suggestions with regard to the following Questions for Respondents included in the Proposal.

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 support the conclusion that implementation costs incurred in association with a hosting arrangement that is a service contract should be capitalized using the existing guidance on internal-use software. The capitalization of such costs acknowledges the future benefits to be received by the customer utilizing the cloud computing services.

We agree that capitalized implementation costs should be recognized in the income statement over the term of the hosting arrangement and that options to extend and options to terminate (whether controlled by the customer or the vendor) should be included in the estimation of the term of the hosting arrangement based on the likelihood of exercising those options.

In our experience, the investments made to implement cloud computing arrangements can be significant and as a result, we believe the costs associated with those investments should be recognized over the economic period of benefit. The guidance used to define lease terms in both Topic 840 and Topic 842 requires the consideration of economic incentives and detriments when determining whether the likelihood of exercise of renewal options or termination options is "reasonably certain" (Topic 842) or "reasonably assured" (Topic 840). We believe "reasonably certain" is an appropriate threshold to use when assessing the term of cloud computing arrangements because it underscores the expected period of future economic benefit, which is a concept that extends beyond leasing. For the sake of clarity, we understand "reasonably certain" to be aligned with "probable" as defined in the Master Glossary and as such, we consider "reasonably certain" to be a likelihood of greater than roughly 75%. We believe it would be beneficial for the Board to either include a specific definition of "reasonably certain" in the Master Glossary that indicates alignment with the definition of "probable" or to otherwise clarify in the Proposal.

We support the proposal that the amortization of the implementation costs should be presented in the same income statement line item as the fees associated with the hosting arrangement itself.

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? AND

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?

We are supportive of the qualitative disclosure requirements included in the Proposal, but we believe the quantitative disclosure requirements are too extensive given the nature of the topic. We acknowledge that preparers will apply appropriate materiality thresholds when determining the information to be disclosed in their financial statements, but we strongly believe only a subset of the quantitative disclosures should be considered by the Board. We also note that the existing disclosure requirements in ASC 350-40 point to other Subtopics (e.g., ASC 360-10) and the quantitative disclosures in the Proposal are above and beyond those requirements, although the underlying assets are similar in nature. Additionally, the quantitative disclosure requirements as currently drafted in the Proposal would require process re-designs and additional ongoing resource requirements in order to capture the necessary information. We encourage the Board to consider the costs to preparers versus the benefits to be gained by users.

We believe that the quantification of implementation costs that were expensed rather than capitalized in any given financial reporting period is not decision-useful information to financial statement users. In addition, it may be practically difficult to identify implementation costs that were expensed rather than capitalized. Oftentimes costs that are not eligible for capitalization, such as those incurred in the preliminary assessment phase or maintenance and trainings, are not tracked as part of existing processes.

With respect to the qualitative disclosures as included in the Proposal, we agree that it is helpful for financial statement users to understand the nature of material cloud computing arrangements and the significant judgments or estimates made to determine the appropriate accounting and as such, we are supportive of such disclosures.

Lastly, assuming the disclosure requirements are in line with the above commentary, we are supportive of aligning the disclosure requirements for internal-use software and hosting arrangements that include a software license.

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?

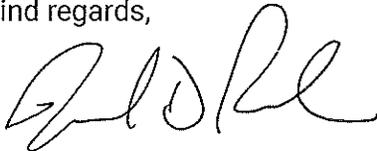
We are supportive of providing flexibility with regard to transition methods as it allows entities to make elections based on their facts and circumstances; however, we strongly recommend that the prospective transition method allow for the capitalization of implementation costs incurred after the adoption date for hosting arrangements entered into prior to the adoption date for which implementation has not yet been completed. Because the implementation timelines for

large projects can be lengthy, we are concerned that the transition methods as currently described in the Proposal could delay the intended financial statement results.

We believe the unit of account (i.e., arrangement, module or component, or costs) determination for a prospective transition method will be addressed by the recommendation above. We also note that SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which was the original basis for ASC 350-40, prescribed a similar approach in its prospective transition method to allow for the capitalization of specific costs incurred after the date of adoption. The inclusion of such a transition method would allow preparers to cleanly address in-progress implementations with minimal effort.

Thank you for the opportunity to respond. We would be pleased to discuss our comments with the Board at your convenience.

Kind regards,

A handwritten signature in black ink, appearing to read "Josh Paul", written in a cursive style.

Josh Paul
Director of Accounting