November 18, 2014

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


Dear Ms. Cosper:

Northeast Utilities (NYSE: NU) operates New England’s largest energy delivery company with more than 3.6 million electric and natural gas customers in Connecticut, Massachusetts and New Hampshire (www.nu.com).

NU appreciates the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. While we acknowledge the potential for diversity in practice in this area and respect the Board’s overall simplification objective, we submit the following suggestions for your consideration.

1. Reevaluate the Distinction between a License and Rights to Software in the Cloud

We believe that there is not a substantive difference between a software license and the right to use software in the cloud. We recommend that the Board consider the assets acquired in a cloud computing arrangement. Both licenses and cloud rights represent intangible assets, and we believe that generally these two economically similar types of arrangements should be given similar accounting treatment. We do not believe an entity’s lack of ownership, title or license to software should preclude capitalization when the contractual relationship between the entity and the software provider creates enforceable rights that meet the definition of an asset (see 2. below). We request that the Board address other substantiative considerations, beyond ownership or location of the server or the ability to transfer software to one’s own server, in determining whether a software user should record an asset. In many cases the functionality and utility of software, including the entity’s ability to customize and integrate it into its information technology environment and to control its use, are substantially the same regardless of whether the software is obtained through a license for use on the entity’s premises or a cloud computing arrangement. Rather than using license criteria or the entity’s ability to physically move software in determining capital or expense accounting treatment, we believe that cloud software as an intangible asset should be evaluated under the conceptual definition of an asset.
2. Evaluate the Software Project and Associated Costs under the Conceptual Definition of an Asset

We believe an entity’s costs incurred in cloud computing projects, including both the cost of the software and associated costs of integration and configuration, should be analyzed to determine whether they meet the conceptual definition of an asset described in Chapter 6, paragraph 26 of the Conceptual Framework:

a. They embody a probable future benefit that involves a capacity, alone or in combination with other assets, to contribute directly or indirectly to the entity’s future net cash inflows (through, for example, efficient processing of business information);
b. The entity (by incurring the various costs) can obtain the benefit of the software and control access (to its individually configured software); and
c. The transaction or other event giving rise to the entity’s right to or control of the benefit (i.e., incurring or contracting for the costs) has already occurred.

Cloud computing arrangements are used to meet a wide variety of business solutions and are often highly complex and configured to the particular needs of each entity. They frequently involve substantial up-front costs, both internally incurred and externally contracted, to integrate the software within the entity’s own processes and to configure the software for the entity’s use, thereby providing additional functionality for the software’s intended purpose. For complex cloud computing arrangements that extend beyond one year, we believe contractually accessed cloud software is itself an asset rather than a service when it is expected to provide benefits over the life of the software and is an integral part of the total technology solution. We believe that the various cloud software project costs should be analyzed and evaluated within a broad conceptual framework to determine which should be accounted for as assets and which should be expensed.

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We appreciate the Board’s efforts to improve and simplify US GAAP. We respectfully request that the Board address the considerations above in order to achieve consistent accounting for economically similar costs and reduce diversity in practice with respect to the various costs entities incur in connection with software projects involving cloud computing arrangements.

Respectfully,

Jay S. Buth
Vice President, Controller and Chief Accounting Officer