May 2, 2018

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Attention: Technical Director


Dear Ms. Cosper:

On behalf of salesforce.com, inc. (salesforce), we appreciate the opportunity to respond to the Financial Accounting Standard Board’s proposed Accounting Standard Update (“ASU”) regarding the Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. We would also like to thank the Board for adding the project to its technical agenda.

We support the Board’s proposed ASU as we believe the nature and future economic benefit of cloud computing implementation costs are the same as capitalized internal-use software implementation costs. The proposed ASU will result in consistent accounting for implementation costs regardless of whether the underlying software resides on-premise, in the cloud, or is a combination of both (“hybrid cloud”).

We also appreciate the Board inviting us to participate in the EITF Working Group for EITF Issue No. 17-A. Joe Allanson, Chief Accounting Officer at salesforce, attended the Working Group session on January 27, 2017. At this meeting, the Working Group discussed the significant diversity in practice in accounting for implementation costs in cloud computing arrangements and the complexity in accounting for implementation costs in hybrid cloud arrangements.

Alexandra Buldrini, SVP Revenue Management, also attended a FASAC meeting in Connecticut on September 11, 2014 to discuss developments in the technology industry and how software is shifting from traditional packaged on-premise software to cloud and hybrid cloud software solutions.
The software industry has drastically evolved and is moving away from on-premise licensed software to cloud and hybrid cloud models. Many traditional on-premise software vendors now offer cloud and hybrid versions of their on-premise software version, such that the lines between on-premise and cloud software are blurred. From the customer’s perspective, where the software resides and how it is accessed and used is irrelevant, as the software and related implementation costs provide the same future economic benefit.

Aligning the accounting for implementation costs for cloud computing arrangements with on-premise arrangements will also reduce complexities with accounting for implementation costs relating to hybrid cloud arrangements. As an example, salesforce recently implemented a hybrid cloud solution to create a new end-to-end sales compensation system, in which certain components of the solution involved on-premise software, internally developed software, and cloud-based software. Significant costs were incurred not only to link disparate systems and processes but also to create new functionality to support interdependencies between these systems. Determining how to account for these implementation costs when the end result was one final hybrid cloud solution with some components (on-premise and internally developed software) for which implementation costs should be capitalized and others (SaaS) for which implementation costs should be expensed was more complicated than it should have been, given that the nature and benefit of the costs is similar regardless of how the software is deployed.

Finally, while we acknowledge the accounting treatment for on-premise software versus cloud is different, we believe this should NOT preclude accounting for implementation costs in the same manner. Having to depreciate the capitalized costs to implement on-premise software vs. immediately expense the costs incurred for implementing cloud solutions creates potentially unnecessary and distortive trends in operating results. There is clearly a future economic benefit for cloud computing implementation costs, and they can be significant – as much or more than two to three times the underlying subscription fees.

Responses to Questions

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?
Response: We agree that eligible implementation costs of a hosting arrangement that is a service contract should be capitalized using the guidance on internal-use software and recognized in profit or loss over the same term of the hosting arrangement as defined in this proposed Update.

However, we don’t agree with specifying that amortization of capitalized cloud implementation costs should be presented in the same line item in the statement of income as the fee associated with the hosting arrangement. Our reasons are described below:

1. The decision on where to present amortized capitalized cloud implementation costs should be based on an entity’s internal policy for allocating costs across different departments.
2. The proposed requirement is not extended to the amortization of capitalized implementation costs related to internal-use software. The vast majority of, if not all, enterprise software purchases have a post-contract customer support (PCS) component, yet the proposed statement of income presentation is not extended to consistency with where the full costs of licensed software are presented.
3. Many large software implementation projects today involve a combination of up to a dozen different pieces of software, some are on-premise, some are internally developed, and some are cloud offerings. The underlying hosting arrangement expenses may be presented in different line items in the statement of income (for example, the cost of one hosting arrangement could be included in Cost of Sales, a separate hosting arrangement included in Marketing and Sales Expenses, and a third hosting arrangement included in General & Administrative Expenses). Paragraph 350-40-45-1 is written very narrowly. Without more clarity in the standard and adequate implementation guidance, we feel that we could be precluded from implementing a simple allocation methodology to allocate the amortization expense.

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?

Response: We agree with the amendment to the definition of hosting arrangement in the Master Glossary since both on-premise licensed software and cloud computing arrangements grant the right to access and use software.

A software “license” is just a legal device that was created to protect intellectual property under US copyright law when the customer takes physical possession of the software. The distinguishing feature of a software license is that the software vendor grants the right to use
one or more copies of the software under the license arrangement but ownership of those copies remains with the software vendor, as well as intellectual property rights. As such, the rights and limitations under a software license and a cloud computing arrangement are virtually the same.

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

**Response:** We do not believe additional guidance is needed to determine whether the amendments in this proposed Update apply to arrangements that include a minor hosting arrangement.

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

**Response:** Yes. We believe the guidance for determining the project stage (that is, preliminary project stage, application development stage, or post implementation stage) in Subtopic 350-40 can be consistently applied to a hosting arrangement. This is because the way software is deployed, customized and integrated with existing on-premise, cloud or hybrid cloud systems is effectively the same regardless of whether the underlying software resides in the cloud or on-premise.

**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?

**Response:** No. We believe the same impairment model should be applied to all implementation costs capitalized under Subtopic 350-40. There is no discernable difference between implementation costs relating to an on-premise, cloud or hybrid cloud arrangement as they provide the same future economic benefit.

**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?

**Response:** We do not agree with the quantitative requirement in disclosure (c) in the proposed amendments under 350-40-50-2: “A qualitative and quantitative description of the implementation costs that were expensed and costs that were capitalized during the period”
and believe the words “and quantitative” should be removed from the final standard. Our reasons are described below:

1. Entities do not track the full cost to implement software. Hours are typically not tracked until the application development stage when individuals such as fully dedicated employees, contractors and implementation partners are working for a concentrated period of time to develop and implement the software. The activities performed outside the application development stage can include hundreds of individuals who are only working on the project for very short or intermittent periods of time. In the case of a very large project such as re-implementing a company’s ERP, countless employees would be involved, with some employee’s time involvement ranging from several days, to others a couple months, to others much longer.

2. Entities would have to create a new time tracking method for hours incurred during the preliminary project stage and post-implementation operation stage. It would be unwieldy to track the time for hundreds of individuals who are only working intermittently on the project outside the application development stage. It would also be difficult to determine the time spent on each project when, for example, preliminary project stage activities can include reviewing system and performance requirements for several projects at once and deciding how to allocate resources between projects.

3. We don’t understand the perceived benefit to investors compared to the cost to capture and consistently report the required quantitative information. With the prevalence of ASC 350-40, we have never received an analyst or investor question on what amounts were expensed when implementing a software project. To track implementation costs that were expensed would require significant cost and effort for which we foresee no benefit to investors.

We do agree with the remaining disclosures in the proposed amendments under 350-40-50-2, specifically (a), (b) and (d):

(a) A general description of the terms and conditions of the software acquired or developed for internal use or the hosting arrangement

(b) The significant judgments and assumptions that an entity made in applying this Subtopic to implementation costs

(d) A qualitative and quantitative description of the period over which the implementation costs are recognized as an expense in the income statement.
**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?

**Response:** Yes. We believe the disclosures included in the proposed amendments should be applied to internal-use software and hosting arrangements that include a software license as this will reduce inconsistencies in the comparability of financial reporting for the same transactions.

**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?

**Response:** We believe an entity should be required to elect prospective transition as many companies will not have retained or documented the information needed to elect retrospective transition. If an entity elects prospective transition, we believe the entity should apply transition requirements to each hosting arrangement.

**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.

**Response:** We believe an entity 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?

**Response:** We believe the proposed amendments can adopted quickly and that early adoption should be permitted. We don’t believe entities need additional time as the nature of implementation costs under a hosting arrangement are no different than implementation costs under an on-premise arrangement.

**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?
Response: We believe the proposed amendments should be limited to transactions based on the scope of the proposed amendments.

Summary

We thank the Board for the opportunity to share our views.

We welcome the opportunity to discuss any and all related matters, and we also welcome the opportunity to share with you our insights and experience with selling cloud computing arrangements over the past 19 years.

We may be contacted at (415) 901 – 7000.

Sincerely,

/s/ Joseph C. Allanson

Joseph C. Allanson
Chief Accounting Officer and Controller
salesforce.com, inc.

/s/ Alexandra Buldrini

Alexandra Buldrini
SVP, Revenue Management
salesforce.com, inc.