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Technical Director  
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Financial Accounting Standards Board  
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Sent via email to [director@fasb.org](mailto:director@fasb.org)

Re: Response to 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*

Hewlett-Packard Company (HP) appreciates the opportunity to share our views on the Financial Accounting Standard Board's (the Board) Exposure Draft with regard to a customer's accounting for fees paid in a cloud computing arrangement. As both a vendor and a customer of cloud-based arrangements, we are encouraged by the Board's efforts to address this emerging topic.

Our response to question 1 posed in the Exposure Draft follows:

**Should a customer in a cloud computing arrangement evaluate whether the arrangement involves a software license by applying the criteria in paragraphs 350-40-15-4A through 15-4C? If not, what guidance should be applied and why?**

Cloud computing arrangements are contracts for which the vendor has a stand-ready obligation to provide access to the vendor's products (whether hardware or software) continuously through the contract term. While a customer in a cloud computing arrangement accesses and uses the vendor's products on an as-needed basis, such arrangements generally do not provide a customer with a contractual right to take possession of those products.

For cloud computing arrangements involving software, these characteristics are appropriately reflected in paragraphs 985-605-55-121 and 55-123 of the Accounting Standards Codification, and have generally resulted in vendors recognizing revenue for their cloud computing arrangements as service revenue. Based on the form and substance of HP's cloud computing arrangements, as a vendor, HP generally believes its customer is paying for a hosted service, not the acquisition of software or a software license.

Subject to the specific terms and conditions of a cloud computing arrangement, HP generally believes the customer should account for fees paid under a cloud computing arrangement as a service contract. Such a conclusion provides symmetry in the accounting for the rights exchanged in the transaction between a customer and its vendor. Further, HP believes the criteria included in paragraphs 350-40-15-4A through 15-4C of the Exposure Draft will be readily understood in practice as they are nearly identical to the guidance applied by vendors under the current literature.

In our review of the Exposure Draft, we noted one area where the guidance could be improved. In the basis for conclusions, paragraph BC3 makes reference to the fact that cloud computing arrangements may include fees paid for platform-as-a-service and infrastructure-as-a-service (collectively, hardware-as-a-service). Further, the same paragraph states that “[i]f a cloud computing arrangement does not include a software license, then the arrangement would be accounted for as a service contract”. This implies that hardware-as-a-service should be accounted for as a service contract. However, the proposed definition of a hosting arrangement and the proposed accounting in the Exposure Draft is specific to software. As a result, the proposed guidance has expressly excluded hardware-as-a-service from its scope, yet the basis for conclusions implicitly provides guidance on the accounting for hardware-as-a-service arrangements. The Exposure Draft could be improved by explicitly incorporating the accounting for hardware-as-a-service in the final standard.

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If you have any questions regarding our comments, please feel free to contact me at [Jeff.Ricci@hp.com](mailto:Jeff.Ricci@hp.com).

Very truly yours,

/s/ Jeff T. Ricci

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Hewlett-Packard Company  
Senior Vice President, Controller and Principal Accounting Officer