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Via email

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: File Reference No. 2014-230, Proposed Accounting Standards Update, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)

Google Inc. (Google, the Company or we) appreciates the opportunity to provide feedback on the Proposed Accounting Standards Update, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) (the Proposed Standard), exposed for comment by the Financial Accounting Standards Board (FASB or the Board).

Google is a global technology leader focused on improving the ways people connect with information. Our mission is to organize the world's information and make it universally accessible and useful and we aspire to build products and provide services that improve the lives of billions of people globally. We generate revenues primarily by delivering relevant, cost-effective online advertising.

In the normal course of business, we regularly acquire software that would be accounted for under the Proposed Standard. Additionally, we are also a provider of cloud computing arrangements, including software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements and our customers' accounting for these arrangements would be directly impacted by the Proposed Standard.

We support the objective of the FASB in its initiative to issue explicit guidance with respect to accounting for cloud computing arrangements and improve areas of generally accepted accounting principles for which cost and complexity can be reduced. We support the alignment of accounting for customers' fees paid in cloud computing arrangements with the model used by vendors of such software arrangements, whereby cloud computing arrangements which do not convey a software license to the customer are accounted for as service contracts. We also believe the Proposed Standard enhances consistency and should reduce diversity in practice with respect to accounting for cloud computing arrangements.

However, we observe that the Proposed Standard does not address the accounting treatment for implementation costs relating to cloud computing arrangements. We encourage the FASB to consider issuing explicit guidance with respect to the accounting treatment of implementation costs, as these costs can be significant.

In our experience, the lack of explicit guidance for such costs currently results in diversity in practice. Some preparers believe that implementation costs should be accounted for in a manner consistent with the cloud computing arrangement. Specifically, where the arrangement contains a license, implementation costs would be capitalized, and where the arrangement is accounted for as a service contract, implementation costs would be expensed. We believe that in many cases, expensing such costs as incurred does not reflect the economics of the arrangement, and may provide a disincentive to enter into cloud computing arrangements.

We would like to share the following observations and suggestions.

1. Economics of the Arrangement

We believe that accounting for implementation costs as an upfront expense does not reflect the economics of the arrangement, primarily when significant implementation costs are incurred by the customer of the cloud computing arrangement prior to the start of an expected multi-year hosting period. Implementation costs relating to cloud computing arrangements often consist of configuration and program changes to a customer's internal software systems as well as the cloud computing software which allow the systems to properly interact with each other. Such implementation activities are generally similar to activities incurred during an application development stage of internal use software, as defined in ASC section 350-40.

We believe capitalizing the software implementation costs and amortizing the corresponding asset over its useful life better reflects the economics of the transaction as expenses are recorded in a manner that reflects the consumption of the economic benefit from the software implementation costs, and therefore is more helpful to readers of financial statements in the analysis of assets and expenses. Further, we believe that capitalized implementation costs meet the definition of an asset under Statement of Financial Accounting Concepts No. 6 as such costs are cash outflows that will provide future economic benefit that can be controlled by the customer in the cloud computing arrangement. Control is evidenced by the fact that implementation work may be performed by a third party which is separate from the vendor selling the cloud computing arrangement, and may be retained by the purchaser even in the event the cloud computing arrangement is terminated (to the extent it is a modification to a customer's internal systems). The useful life of such assets would be established based on the expected period of benefit considering the renewability and cancellation provisions of the cloud computing arrangement and would be monitored for impairment, similar to other assets.

Conceptually, this is similar to leasehold improvements, where a lessee may invest in leasehold improvements that, on a contractual basis, may be surrendered or impaired in the event of termination of a lease; nevertheless, the leasehold improvements are capitalized because they represent an investment in a customized asset that will provide a future economic benefit controlled by the lessee which will be realized over a period of time. We understand that this is not a perfect analogy, and that there are differences between tangible and intangible assets, but we believe that the concepts are similar in nature.

We believe customers of cloud computing arrangements should have the option to capitalize implementation costs and amortize these costs over an appropriate useful life. While we believe capitalization of implementation costs incurred by customers related to cloud computing arrangements better reflects the economics of the arrangement, we acknowledge that this requirement may increase the cost and complexity of financial reporting. Therefore, we propose that the FASB allow companies to make an accounting policy election with respect to the capitalization of such costs, and require disclosure of such election. This would provide readers of financial statements with relevant information regarding cloud computing arrangements without imposing unnecessary cost and complexity on companies.

2. Disincentive to purchase

We believe that the Proposed Standard could result in a disincentive to purchase hosted cloud computing arrangements if companies interpret the wording in the Proposed Standard to mean that implementation costs should be expensed as incurred. We believe that companies would generally prefer to avoid expensing the up-front costs incurred from implementation activities prior to the start of the hosting period. While we are not an advocate of accounting treatment driving business decisions, we believe that in many cases, this does occur. We believe that the accounting for these costs may result in companies choosing licensed software over cloud computing arrangements simply because the significant upfront costs are treated differently, even if the cloud computing arrangement provides a better solution from a technological perspective.

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We appreciate the opportunity to express our views on the Proposed Standard. If you have any questions or would like to discuss our responses further, please contact me at (650) 214-5529.

Kind regards,

Amie Thuener
Director, Finance