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April 10, 2002

Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
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Letter of Comment No: 30
File Reference: 1050-001
Date Received: 4/11/02

Dear Mr. Lucas:

We appreciate the opportunity to comment on the proposed new agenda project on *Issues Related to the Recognition of Revenues and Liabilities*. While we believe this is an important project, we would not support its undertaking by the Board if it were to take time and attention away from what we believe to be a higher priority project, that of Fair Value Accounting for all financial instruments. We believe that the elimination of the current mixed attribute model as it pertains to financial instruments will provide greater clarity to financial statement users by reflecting all financial instruments at a price that most closely represents the amount to be received in a third party transaction. Thus, we urge the Board to seriously consider whether it has adequate time and resources to devote to such an ambitious and far-reaching project.

However, we recognize that issues relating to revenue recognition have increasingly become a topic of major focus for certain industries. Should the Board decide to move forward with this project, therefore, we suggest that the Board build on the valuable guidance that already exists, rather than developing an entirely new conceptual framework. Specifically, we believe that Concept Statement No. 5 ("CON 5"), which focuses on whether or not revenue has been earned and is realizable, provides a sound conceptual foundation for determining revenue recognition.

We further note that Staff Accounting Bulletin ("SAB") 101 expands CON 5 by providing indicators of when revenues are realizable. While we support much of the guidance provided in SAB 101, we feel strongly that due process is a critical part of the standard setting process. We believe that in developing a standard on revenue recognition which would impact all financial statement preparers, the standard setters

must allow for an invitation to comment. Accordingly, we believe that superseding SAB 101 with a proposal that is open for public comment is a procedurally sound approach.

Further, although we understand that the goal of the project would be to develop general principles for conceptual guidance, we believe it is important that the Board consider certain industry-specific issues. In this regard, the detailed examples in SAB 101 provide a useful model for the type of industry specific guidance that we believe is needed. We also believe that should the Board decide to undertake this project, it is critical that any proposed changes to current practice be clearly highlighted to ensure that market participants will properly understand the impact on various industries' reporting and can respond and comment accordingly.

With respect to the goal of international harmonization of accounting standards, while we believe that this should be a strong consideration, we do not believe consistency should be the overarching goal in all cases, particularly where we see shortcomings with proposals submitted by other international standard setters. For example, in July 2001, the Accounting Standards Board in the United Kingdom proposed a single accounting standard on revenue recognition that defined revenue based on an exchange with customers. The proposal therefore neglected a core component of revenue for financial services companies, that of marking trading inventory to its current fair value. Thus, if the proposed guidance were implemented, and revenue only recognized upon an actual exchange transaction, reported revenue would no longer provide a meaningful measure to users of financial statements of financial services companies. Therefore, while accounting standards and proposals of other countries may provide a useful starting point for debate, we encourage the Board not to make consistency a determining factor in its decision.

With respect to the specific issues identified in the Appendix, we believe that are all appropriate for inclusion in the revenue recognition project with the exception of question 10, which raises the issue of how fair value should be determined for assets and liabilities. As mentioned above, while we believe that fair value is an accounting issue of paramount importance, we suggest this topic be debated as part of the FASB's separate Fair Value project, rather than in the context of a revenue recognition standard.

Finally, we strongly recommend that all issues regarding liabilities be handled as part of the Liabilities and Equity project. We believe that a project on revenue recognition will be quite challenging in and of itself and that inclusion of issues relating to the definition and recognition of a liability will merely detract from and delay the project if undertaken.

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Thank you again for the opportunity to provide our thoughts on this proposal. We hope that our comments will be useful as the Board determines whether or not to move forward with this project. Please do not hesitate to contact me at 212-449-2048 with any questions on our comments.

Sincerely,

/s/ Esther Mills
First Vice President,
Accounting Policy