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October 22, 2010

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

**Re: Proposed Accounting Standards Update
Revenue Recognition (Topic 605): Revenue from
Contracts with Customers
File Reference No. 1820-100**

Dear Technical Director:

Federated Investors, Inc. (Federated) appreciates the opportunity to comment on the proposed accounting standards update "Revenue Recognition (Topic 605): Revenue from Contracts with Customers" (the Proposed ASU). Federated is one of the largest investment managers in the United States with \$337 billion in managed assets as of June 30, 2010. The majority of Federated's revenue is derived from advising and administering Federated mutual funds and separate accounts in both domestic and international markets. With 135 funds and a variety of separately managed account options, Federated provides comprehensive investment management to approximately 5,200 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

Federated has been actively participating in the SIFMA Asset Management Group (SIFMA AMG) Accounting Committee and supports the comments reflected in its letter to the FASB dated October 22, 2010. We support the stated objectives of the Proposed ASU to clarify the principles for recognizing revenue and to develop a converged revenue standard for U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). While Federated supports the core principle outlined in the Proposed ASU, there are certain provisions for which we believe additional clarifying guidance is needed. After significant deliberations with auditors and other preparers in our industry, we believe the Proposed ASU is not sufficiently clear in its principles as they relate to accounting for service-based revenues for asset managers. Additional guidance would be useful in operationalizing the standard and minimizing inconsistent interpretations of various sections of the Proposed ASU.

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Of most particular concern is the definition of transaction price and its application to our investment management fees. Investment management fees are asset-based fees that are calculated as a percent of a mutual fund's average daily net assets under management. This is true for the base management fees earned on a mutual fund registered under the Investment Company Act of 1940 as well as other nonregistered funds. Although the amount of the investment management fee as a percent of assets under management is fixed (i.e. a fixed rate per unit), the total amount of consideration related to the investment management services varies with changes in assets under management. Our concern is that under the Proposed ASU's revenue recognition model, these fees may be viewed as variable consideration in accordance with the Proposed ASU's Example 18. We believe this view is inappropriate based primarily on the following:

1. The base management fees for the period relate to investment advisory services provided up through the end of the reporting period and do not relate to future performance;
2. The fees are collected daily from the registered funds and otherwise generally within a reasonable period of time following the end of the reporting period;
3. The fees are nonrefundable;
4. The matching of revenue and expenses would be severely compromised as revenue recognition would be heavily weighted to the 4th quarter of an annual investment contract period (Please consider the example on the last page of this letter).

While we believe that the FASB may have intended this accounting result as it relates to certain performance fees on investment products, we are concerned that the potential impact to base management fees on registered mutual funds is unintended. We note paragraph 2 of the Proposed ASU which states: "The core principle in the proposed guidance is that an entity shall recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity receives, or expects to receive, in exchange for those goods or services."

The remainder of this letter is organized by section of the Proposed ASU and discusses the areas where we believe additional clarifying guidance is needed to eliminate the potential for such inappropriate interpretations of the model as it relates to base investment management fees.

Identifying the contract

Paragraph 11 states that a contract does not exist for the purpose of applying the Proposed ASU if "either party can terminate a wholly unperformed contract without penalty." We believe the FASB should enhance the concept of a "wholly unperformed contract" by providing more discussion and illustrative examples. Given the current guidance, it is not clear whether contracts to provide services to mutual funds meet this definition and thus would be scoped out of the Proposed ASU. For example, in the case of investment advisory contracts, an asset manager is hired to manage money invested in the fund. However, if no money is invested in the fund, the

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right to obtain consideration and the obligation to provide services to the fund are null and void. The rights and obligations under the contract are meaningful only in the event there are AUM in the fund. AUM can typically be redeemed from a fund with no advance notification.

Satisfaction of performance obligations

A key concept of the Proposed ASU's model is that performance obligations are satisfied, thus revenue should be recognized, when the customer obtains control of the promised good or service. Paragraph BC73 states: "Some performance obligations, when satisfied, result in the transfer of a good or service to the customer at a point in time. Other performance obligations result in the transfer of goods or services to the customer continuously over a period of time." This concept of transferring control is difficult to apply in the case of services, in particular investment advisory services provided to a fund. As an industry, we have debated which category is most appropriate for investment advisory services. While Federated believes investment advisory services transfer to the customer each day as evidenced by the calculation of advisory fees based on average daily net assets, others have argued that these fees should be recognized in accordance with paragraphs 32 and 33 of the Proposed ASU which refer to the continuous transfer of goods or services. Clarification by way of more illustrative examples and/or more robust discussion regarding this aspect in the model's decision tree is needed to prevent misinterpretation and inconsistencies in application.

Determination of the transaction price

Paragraph 38 of the Proposed ASU states: "An entity shall recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated." Paragraph 41 of the Proposed ASU goes on to state: "If an entity can reasonably estimate some, but not all, of the consideration amount (for example, if part of the total consideration is a fixed amount), the transaction price includes only the amount that the entity can reasonably estimate." We believe these provisions allow for the recognition of base management fees as collected, independent of any performance fees that may be deemed not reasonably estimable.

Paragraph IG76 of the Proposed ASU sets forth an example (Example 18) where a base management fee is a fixed amount of consideration. Federated believes that this Example 18 may lead to an unintended interpretation that fixed-rate fee arrangements represent variable consideration under the Proposed ASU. Federated encourages the FASB to clarify that fees based on AUM that (1) relate to prior services, (2) are fully collectible, and (3) are nonrefundable, represent fixed consideration that should be recognized as revenue each reporting period.

Onerous Performance Obligations

The Proposed ASU requires an entity to recognize a liability and corresponding expense if a performance obligation is deemed to be onerous (i.e. when the present value of the probability-weighted costs that relate directly to satisfying that performance obligation exceeds the amount of

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the transaction price allocated to that performance obligation). We are extremely concerned that this provision is not operational. Federated evaluates its performance at the consolidated level based on the view that Federated operates in a single operating segment, the investment management business. We analyze all expected revenue and expenses and consider market demands in determining an overall fee structure for services provided and in evaluating the addition of new business. Federated does not manage or track profitability at an individual customer contract level. Further, Federated's expenses are not tracked by specific customer relationship or contract thus we would not be able to determine the level of costs that relate directly to a contract in accordance with paragraph 58 of the Proposed ASU. As such, we recommend the FASB consider removing this provision altogether.

Disclosures

We do not support the Proposed ASU's disclosure requirements. The proposed disclosures would require a significant increase in the amount of disclosures regarding revenues, contract assets and liabilities and onerous performance obligations. We question the incremental value these disclosures and related rollforwards will provide the financial statement reader in light of the significant effort that will be involved to prepare them.

* * * * *

We appreciate your consideration of this letter and we welcome the opportunity to talk through our comments and observations with the FASB Staff. Please contact Stacey Friday at (412) 288-1244 to discuss any questions you may have regarding the comments in this letter.

Sincerely,

/s/ Denis McAuley III
Denis McAuley
Principal Accounting Officer

/s/ Stacey Friday
Stacey Friday
Director, Accounting Policy

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Potential Revenue Recognition Result

Example: Investment manager acts as the investment advisor for a 1940-Act-registered mutual fund. As consideration for providing investment management services to the fund, the manager earns 50 basis points per annum based on average daily net assets of the fund. The investment advisory contract has a one-year term and is considered annually for renewal by the fund's board of trustees.

	<u>Average Net Assets</u>	<u>Invstmt Advisory Fee (in basis points)</u>	<u>Amount of Fees Collected</u>	<u>Cumulative Fees collected</u>	<u>Revenue Recognized</u>	
					<u>Current GAAP</u>	<u>Proposed ED</u>
Q1	\$100,000,000	50	\$125,000	\$125,000	\$125,000	\$31,250
Q2	\$100,000,000	50	\$125,000	\$250,000	\$125,000	\$93,750
Q3	\$100,000,000	50	\$125,000	\$375,000	\$125,000	\$156,250
Q4	\$100,000,000	50	\$125,000	\$500,000	\$125,000	\$218,750
			\$500,000		\$500,000	\$500,000