March 23, 2012

Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email: director@fasb.org

Re: Proposed Accounting Standards Update, Revenue from Contracts with Customers, File Reference No. 2011-230

Dear Ms. Cosper:

This letter represents the comments of certain members of the Asset Management Industry Accounting Policy Group ("AMIAPG"), comprising a forum of companies primarily engaged in the asset management business. The AMIAPG companies represented by this letter include both publicly-traded and privately-held asset managers who collectively manage more than 6,300 investment funds, both domestically and internationally, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and common and collective investment trusts, in addition to separate accounts and other sponsored investment products. The seven companies represented by this letter collectively have subsidiaries registered as investment advisors, broker/dealers, trust banks and insurance companies, and oversee approximately \$8.1 trillion of assets under management.

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board (the "FASB" or the "Board") on the Proposed Accounting Standards Update ("ASU"), Revenue from Contracts with Customers ("the Proposal" or the "Proposed ASU"). We commend the work of the Board, together with the International Accounting Standards Board ("IASB"), in their joint efforts to standardize revenue recognition practices across all industries. We believe that the current Proposal represents a significant improvement from the initial exposure draft, and we are particularly supportive of the guidance in paragraphs 35 and 42 related to performance obligations satisfied over time, which will allow asset managers to recognize management fees as services are provided and clients are invoiced. We also believe that recording performance fees only when the revenue is reasonably assured and no longer subject to clawback (i.e., Method 1 of EITF D-96) best reflects the economic performance of the asset manager and is also the method preferred by the U.S. Securities and Exchange Commission ("SEC"). We are supportive of the Boards' ultimate goal of providing users of financial statements with accounting information that is consistent for similar transactions. We are concerned, however, that certain areas of the proposed guidance may result in unintended

consequences for asset managers, which would result in the reporting of revenue and expenses that is not necessarily reflective of the economics of the transaction. Our specific concerns, which are discussed more fully in this letter, are focused on the following:

- Asset managers' current practice of recording distribution revenue upon the sale of a fund share with an up-front commission (a "front-end load") may no longer be permitted under the guidance in the Proposed ASU. We are concerned that the language in paragraph 25 could lead one to conclude that the sale of a share, in and of itself, does not result in the transfer of a good or service to a customer, thereby requiring revenue to be deferred and recognized over time as an asset manager provides other services.
- The removal of the industry-specific guidance in ASC 940-605-25-4, which allows asset managers to amortize the incremental direct costs associated with the sale of a fund share with a commission generated upon shareholder redemption (a "back-end load"), may result in such costs being immediately expensed, eliminating the revenue/expense matching that exists today and portraying financial information that does not accurately reflect the economics of the transaction.

Introduction to the Asset Management Industry and Current Revenue Recognition Methodology

There are several parties to a mutual fund transaction (Note: These parties are identified in bold font in this paragraph and also are illustrated in the fund structure examples contained in the Appendix to this letter). Registered investment companies (funds) contract with asset managers, through entities within the asset manager's legal entity complex, and other nonaffiliated entities for services. For example, the fund contracts with asset managers for investment management (or "advisory") services, distribution and marketing of shares, receiving and executing investor trades, and other ongoing shareholder servicing. An underlying **investor** often will work with an independent broker/dealer (referred to in this letter as a third-party distributor (e.g., a national wire house)) to purchase shares of a fund. Third-party distributors typically provide advice to investors to enable them to meet their investment objectives and may also perform certain transfer agent activities, such as clearance and settlement of trades, disbursement of dividends and capital gains, investor account maintenance, and support of fund compliance activities. The fund also may separately contract with a named underwriter, generally an entity within an asset manager's legal entity complex (referred to in this letter as the in-house broker/dealer) to distribute its shares; the in-house broker/dealer, in turn, contracts with certain third-party distributors as necessary to provide distribution of the fund's shares.

Entities within the asset manager's legal entity complex are compensated for the services provided to funds through various fee contracts. Typical fee arrangements for U.S. retail asset managers take the form of advisory fees, distribution fees, and ongoing servicing fees. Distribution and ongoing servicing fees are collectively referred to as "12b-1 fees." Each is explained more fully below:

- Advisory fees represent ongoing fees paid to manage the fund and select its portfolio of securities. Advisory fees are generally asset-based fees that reflect a percentage of the net asset value of the fund. The fees are paid from a fund's assets over time as the advisory services are provided. Investment advisory contracts are legally enforceable contractual agreements entered into between the fund and an asset manager, approved by the fund's board of directors², and generally are renewable annually.
- Distribution fees are paid to the in-house broker/dealer as compensation for distribution services provided, such as the marketing and selling of fund shares, which may be provided by the asset manager or through a third-party distributor retained by the asset manager. Distribution fees may contain a "front-end load" in the case of an "A" fund share class fee structure, which is a commission paid upon the initial sale of a fund share.

¹ The term "asset manager's legal entity complex" refers to the asset manager and any entities under common control with the asset manager, which may include (but are not necessarily limited to) the advisor and in-house broker/dealer entities. The term "asset manager" is used interchangeably with the term "asset manager's legal entity complex" in this letter.

² 1940 Act (as defined on the next page) funds and certain other funds are overseen by a substantially independent board of directors. The board of directors has a fiduciary duty to protect the interests of shareholders. Among other things, the board of directors primarily acts to: i) oversee fund activities; ii) review and approve contractual agreements with fund service providers; iii) review fund performance; and iv) oversee management of fund activities and risks.

Distribution fees of "B" fund share classes do not contain a front-end load but instead are comprised of two parts: 1) an ongoing distribution fee payable from a fund's assets over the contractual investment period based upon the level of assets under management ("AUM"); and 2) a contingent deferred sales commission ("CDSC" or a "back-end load") payable upon shareholder redemption within the contractual investment period. The back-end load is an asset-based fee that typically applies only in the first few years of share ownership (i.e., the fee decreases over time in steps until it disappears). In addition, the back-end load typically is calculated as a percentage of the lesser of the value of the shareholder's initial investment or the value of the shareholder's investment at redemption, although this calculation may vary in fund markets outside of the U.S. In Canada, for example, the back-end load is based upon the amount of the original investment. Distribution contracts are legally enforceable contractual agreements entered into between the fund and an in-house broker/dealer, approved by the fund's board of directors, and generally are renewable annually.

• Ongoing servicing fees are also asset-based fees paid over time from a fund's assets to compensate the service provider for ongoing administration and servicing of shareholder accounts, such as responding to investor inquiries, providing investors with information about their accounts, and providing ongoing shareholder investment advice. Ongoing shareholder servicing contracts, if contracted separately from the distribution contract, are entered into between the fund and the service provider (which may be a member of the asset manager's legal entity complex), approved by the fund's board of directors, and generally are renewable annually.

"No-load" funds, including certain money market funds, offer shares that typically do not have a sales charge payable upon purchase or redemption of the share. However, asset-based distribution and/or ongoing servicing fees are typically paid by the fund to an asset manager until the share is redeemed.

The Investment Company Act of 1940 (the "1940 Act") regulates various aspects of the U.S. retail fund industry, including fee arrangements. Typically, the named distributor of the fund's shares is a separate legal entity from the fund. The Financial Industry Regulatory Authority ("FINRA") regulates the activities of its member firms. FINRA's rules regulate the amount of asset-based sales loads that may be charged annually, specifying that total front-end and backend loads may not exceed 8.5% of an investor's initial investment. Under FINRA's Conduct Rules, the ongoing distribution element of 12b-1 fees cannot exceed 75 basis points of the fund's average net assets per year. In addition, the ongoing servicing fee element of 12b-1 fees is limited to 25 basis points of average net assets each year. Distribution and ongoing servicing fees are often passed through to third-party distributors, who sell the fund shares to investors. These costs are discussed in the "Potential Impact of the Proposed ASU on Costs to Fulfill/Costs to Obtain Contracts with Customers" section of this letter below. The distinction between distribution and ongoing servicing revenues and related costs is illustrated in the front-end load and back-end load fund structure examples contained in the Appendix to this letter.

Potential Impact of the Proposed ASU on Revenue Recognition

Revenue recognition under current U.S. GAAP for the asset management industry is straightforward, applied consistently, not subject to abuse, and is understood by analysts and users of financial statements. We do not believe that the guidance in the Proposed ASU will impact current recognition of advisory fees, ongoing distribution fees, back-end load revenue, or ongoing servicing revenue, due to the nature of most of our performance obligations, which are satisfied continually and invoiced to the customer in the very short term, that is, daily or monthly as the assets are managed. Therefore, the Output Method (discussed in paragraphs 41 through 43) best depicts the satisfaction of our performance obligations to provide daily asset management services and also results in appropriate revenue recognition when considering the amount that is reasonably assured under paragraph 84. We have identified, however, a potential change to the recognition of front-end loads on "A" share fund structures, depending on certain interpretations of the guidance in the Proposed ASU. (Note: The Appendix to this letter contains a "Revenue and Expenses" summary illustrating our current revenue and expense recognition methodology and the potential impact of the Proposed ASU by type of revenue and expense).

Application of the guidance in the Proposed ASU first requires a party to identify the contract(s) and the customer. There is an extensive and complex interrelationship among the parties involved in the services provided by entities within an asset manager's legal entity complex and often a third-party distributor to a fund. It is our observation that revenue recognition of frontend loads may change depending on the determination of the customer in a fund transaction. Additionally, revenue recognition of front-end loads may also change within a consolidated asset manager's financial statements depending on whether certain services are viewed as single or multiple performance obligations. This anomaly is discussed more fully in the "Potential Impact of the Proposed ASU on Revenue Recognition – What are the performance obligations of the asset manager?" section of this letter below.

We also note the interchangeability of the term "contract" and "performance obligation" in paragraph 6 and request that the Board clarify the distinction between the legal form of a contract and the identification of performance obligations. Paragraph 17 offers guidance on when to combine contracts with the same customer and account for them as a single contract. We note that the guidance, which may require stand—alone contracts to be collectively viewed as a single contract, does not in and of itself indicate the existence of a single performance obligation. That is, it is possible that contracts combined under paragraph 17 may contain multiple/distinct performance obligations when analyzed under paragraph 28. We suggest that the Board clarify this point in the final standard.

Who is the customer of the asset manager?

Determining which party in the interrelated fund transactions described above is the customer of the asset manager is critical, in combination with the determination of the performance obligations, to understanding the impact of applying the Proposed ASU on revenue and related cost (discussed more fully in the "Potential Impact of the Proposed ASU on Costs to Fulfill/Costs to Obtain Contracts with Customers" section of this letter below) recognition for

the asset management industry. That is, (1) if an asset manager is determined to have a single performance obligation, the determination of the customer impacts the period over which revenue should be recognized, and (2) in determining the accounting for up-front costs paid by the asset manager to a third-party distributor related to back-end load fund shares, the determination of the customer impacts whether such cost is viewed as a cost to fulfill or a cost to obtain and therefore whether such cost must be expensed or capitalized.

As an industry, we firmly believe that the fund is the customer of the asset manager. We arrive at this conclusion after considering the following aspects of our relationships with funds:

- <u>Fund Contract</u>. Entities within the asset manager's legal entity complex serve the funds as advisors, distributors and shareholder servicing agents pursuant to legal contracts between such entities and the fund. The investor is not a party to these contracts and has no legally enforceable rights or obligations under the contract. Further, if an investor redeems from the fund, the contracts are not impacted.
- Fund Governance and Legal Structure. The funds are highly regulated legal entities often organized as corporations or business trusts with active oversight (including termination rights of asset management contracts) by majority independent boards of directors. We are aware of an argument that the fund is merely a shell that is akin to a pass-through entity. We disagree. We believe it is not appropriate to liken a fund to a pass-through entity of an asset manager. Additionally, consolidation accounting guidance recognizes distinct legal entities within fund structures and requires an asset manager to evaluate each for possible consolidation. If legal form is disregarded and funds are treated as pass-through entities for purposes of applying consolidation accounting guidance, such entities would be considered in the same manner as an institutional or individual separately managed account of an asset manager. For a separately managed account, where there is no legal entity but instead an advisory contract, the consolidation literature is deemed to not be applicable. The fund structure should also be recognized by the Revenue Recognition guidance to ensure consistency across accounting literature.
- <u>Fund Ownership</u>. The investors are the owners of the fund. The entities within the asset manager's legal entity complex have no contractual relationship with the underlying fund investors. Further, in cases where the third-party distributor utilizes omnibus accounts, the asset manager may not have the ability to identify the fund investors. That is, the third-party distributor registers one master account with the fund in the name of the third-party distributor. This master account represents an aggregation of subaccounts of multiple underlying investors whose names and detailed trading activities generally are identifiable only by the third-party distributor.

For these reasons, we believe it is clear that the fund is the customer of the advisory, distribution and ongoing servicing contracts. We note that the Proposed ASU does not contain a definition of "customer." If the Board believes it is important to provide a definition of the customer for revenue recognition arrangements, we suggest that such a definition contemplate parties involved in complex interrelated transactions, the governance and legal structure of the

entities involved in the relationship, and the ownership or impact of other interested parties to the transaction.

What are the performance obligations of the asset manager?

Determining whether the various services provided by an asset manager (advisory, distribution, and ongoing servicing) represent a single or multiple performance obligation(s) is critical to understanding how to apply the proposed model to the asset management industry.

Under paragraph 28b of the Proposed ASU, services are distinct and can be separated if the customer can benefit from the service "either on its own or together with other resources that are readily available to the customer." A fund can structure its distribution and ongoing servicing in a number of ways, using individual entities within the asset manager's legal entity complex or third-party service providers. The fund can benefit from advisory, distribution, and ongoing servicing activities either separately or in combination. These services are sold separately in the market. There are numerous fund distributors that are independent broker/dealers and do not provide asset management; they often provide the initial distribution and the ongoing servicing. The stand-alone pricing for the separate services generally is consistent within the U.S. fund industry and is publicly disclosed. Additionally, if an investor subsequently moves his portfolio to another broker/dealer after purchasing a fund's shares, the ongoing servicing would be performed by the new broker/dealer that would be entitled to the ongoing servicing fee from that point forward. Finally, under the 1940 Act, the fees for these multiple performance obligations are required to be separately negotiated and approved by the funds' boards of directors. As discussed above, regulations limit the fees that may be charged for services provided to the funds, further illustrating the substance of the separate advisory, distribution, and ongoing servicing performance obligations.

The alternative view is that advisory, distribution and ongoing servicing should be combined as one performance obligation. Supporters of a combined performance obligation may be utilizing the guidance in paragraph 25 of the Proposed ASU to support that, even if the fund is the customer, initial distribution is not a transfer of a service and so it must be combined with the transfer of the advisory services and ongoing servicing, which occur over time. We disagree. We believe that the initial sale of a fund share involves an investor purchasing a right to obtain investment returns from that fund share. We view the sale as a transfer of this right, which occurs on day 1, and we therefore believe distribution services should be treated separately from the advisory and ongoing servicing performance obligations. We recommend that the Board consider an example to illustrate the application of paragraphs 24 and 25 to the asset management industry and clarify that the sale of a share represents a distinct transfer of a good or service and is not merely a set-up activity for future advisory and servicing activities.

Combining performance obligations may lead to deferring the front-end load revenues and recognizing them over a newly-defined service period (versus the current approach of recognizing them at the date of sale). The length of the service period will depend on whether the fund or the investor is viewed as the customer of the asset manager. If the fund is viewed as the

customer (our view), it is unclear as to the appropriate period over which to recognize revenue. That is, in the U.S., contracts with funds generally are renewable annually and are assigned indefinite lives under purchase accounting when they are acquired through business combinations. Overseas, contracts generally have no stated duration and are viewed as indefinite-lived but can be terminated by either party with notice. For open-end funds without a termination date, it is unclear as to the period over which the front-end load revenue would be recognized in this scenario.

If the investor is viewed as the customer, the service period would presumably relate to the period during which the investor retains his investment in the fund. It should be noted that asset managers reporting under IFRS currently defer recognition of the front-end load revenue and recognize it over an estimated investment period. We disagree with this approach and believe it would be operationally burdensome to obtain the information to do so accurately. As noted above, we collectively manage more than 6,300 funds, a substantial portion of which have multiple share classes and different types of investors that would need to be tracked individually in order to establish deferral and service period revenue recognition schedules. Currently, this detailed information is often reported in the aggregate to the asset manager through the third-party distributor, who may themselves report another level of aggregation due to the use of omnibus accounts. We generally are unable to identify investors in shares distributed through a third-party distributor. For these reasons, we do not believe we would arrive at a precise service period over which to recognize front-end load revenues if the investors were deemed to be the customer.

As noted earlier in this letter, combining performance obligations may lead to an additional complexity. Many asset managers have in-house broker/dealer subsidiaries which legally are the named underwriter of the funds. On a statutory entity, or separate company basis, the in-house broker/dealer entities may not be the legal asset manager or advisor entity. These entities may determine that for separate company regulatory reporting with the SEC or with FINRA, distribution is the substantive service, and that the performance obligation is satisfied on day 1. These entities may continue to recognize front-end load revenue at the date of sale. Upon consolidation with the other entities within an asset manager's legal entity complex, however, this revenue may need to be unwound (including in the consolidated statements filed with the SEC) if the sale of a share is determined to represent only a portion of a single overall performance obligation that is satisfied over time. Further, we question the appropriateness of filing two separate reports with the SEC (i.e., the stand-alone in-house broker/dealer financial statements and the asset manager's consolidated financial statements) where the same exact transaction is accounted for differently and for which revenue is recognized and presented with materially different amounts.

In summary, we view the fund as the customer of the asset manager; we view the asset manager as providing separate advisory, distribution, and ongoing servicing to the fund. This view preserves the current revenue recognition methodology for our industry.

Potential Impact of the Proposed ASU on Costs to Fulfill/Costs to Obtain Contracts with Customers

Asset managers incur costs for providing distribution and ongoing servicing on behalf of the funds. (Note: The Appendix to this letter contains a "Revenue and Expenses" summary illustrating our current revenue and expense recognition methodology and the potential impact of the Proposed ASU by type of revenue and expense). Such costs include: (1) distribution commissions to third-party distributors, (2) ongoing servicing fees to third-party distributors, (3) incentive compensation for internal sales representatives, and (4) fund launch costs such as underwriting fees for closed-end funds. We are particularly concerned that as a result of applying of the guidance in the Proposed ASU: (1) asset managers may no longer be permitted to capitalize up-front distribution commissions paid to third-party distributors, and (2) fund launch costs may revert to being capitalized rather than expensed as they are today.

As previously mentioned, for the asset management industry, the first step in the process of implementing the Proposed ASU involves identifying the customer to our contracts. Answering this question is particularly critical to how we interpret the applicability of the guidance in the Proposed ASU regarding costs to fulfill and costs to obtain a contract with a customer. For example, if we conclude the fund is the customer, distribution costs paid by an asset manager to a third-party distributor would be deemed to be costs to fulfill the performance obligations under the contracts. That is, with the fund as our customer, these costs are not being paid to obtain new contracts, or new customers; rather, these costs are paid to carry out ongoing responsibilities under the already-existing contracts with the funds. As costs to fulfill, they would likely fail paragraph 91(b) and thus would be expensed as incurred. By contrast, if we conclude that the investor is the customer, each third-party distributor commission payment and resulting internal staff sales incentive payment would be deemed to be a capitalizable cost to obtain a contract. For the reasons outlined above in the "Potential Impact of the Proposed ASU on Revenue *Recognition*" section of this letter, we firmly believe the fund is the customer and that advisory, distribution, and ongoing servicing are separate performance obligations. The remaining discussion of costs hereafter is based on these assumptions.

We believe the current accounting treatment under U.S. GAAP for the costs described above is reflective of the economics of the transactions, is consistently applied in our industry, and is fully understood by the users of our financial statements. Accordingly, we are sensitive to potential changes in the current accounting practice as a result of applying the Proposed ASU. Under current U.S. GAAP, we apply the industry-specific accounting included in ASC 940-605-25-4 to account for distribution-related costs. By way of background, in 1985, the Emerging Issues Task Force issued Abstract No. 85-24, *Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge* ("EITF 85-24"), which discussed the issue of how a company should account for ongoing distribution fees received on a back-end load fund. The consensus reached by the FASB staff on this issue was that companies should defer and amortize the direct costs associated with the initial distribution of the fund shares and should recognize the ongoing distribution revenue as it is received.

Further, in 1999, the EITF issued Topic D-76, Accounting by Advisors for Offering Costs Paid on Behalf of the Funds, When the Advisor Does Not Receive both 12b-1 Fees and Contingent Deferred Sales Charges (ASC 946-605-25-2) ("EITF D-76"). On this issue, the staff stated that "Benefits expected from the expenditures paid by an advisor in connection with the distribution of shares of a fund (when the advisor does **not** receive both 12b-1 fees and CDSC fees) do not meet the definition of an asset of the advisor" (emphasis added). In addition, the staff stated: "...initial offering costs paid by such an investment advisor are start-up costs to the advisor, which should be accounted for ... in accordance with AICPA Statement of Position 98-5, Reporting on the Costs of Start-Up Activities," (ASC 720-15), which requires that such costs be expensed as incurred. The industry guidance in EITF D-76 serves as the basis for asset managers expensing fund launch costs today.

The Proposed ASU will supersede the above industry-specific guidance. As a result, we believe our current accounting may change, resulting in an inaccurate depiction of the economics of the relationship as follows: (1) commissions paid on "B" shares or other share classes of a fund that provide for both ongoing distribution fees and back-end loads may no longer be capitalizable, and (2) fund launch costs may become capitalizable. Both of these items are discussed more fully below.

Commissions on "B" shares paid by in-house broker/dealers to third-party distributors at time of initial fund share sales

In the case of "B" shares, the interrelationship of the parties involved makes the transaction complex. However, the economics of the transaction are straight-forward and clear: the asset manager's in-house broker/dealer bears the distribution cost of the shares (or, stated another way, the asset manager finances this commission on behalf of the fund) in exchange for the right to future cash flows in the form of ongoing distribution fees and back-end loads from the fund. The asset manager's in-house broker/dealer recovers these advance payments through ongoing distribution fees and back-end loads earned from the funds, which benefited from these advance payments in the form of a higher portfolio balance. Based on the economics of the transaction, we believe the existing industry guidance, which results in a matching of revenue and associated expenses, is appropriate and should be retained.

Pursuant to the Proposed ASU, we believe we would be required to expense the up-front commission costs associated with "B" shares or other share classes of a fund that provide for both ongoing distribution fees and back-end loads, because based on the premise that the fund is the customer, these commissions would fail to meet the criterion as a cost to fulfill that is eligible for capitalization in paragraph 91(b). Because maintaining revenue and expense matching reflects the economics of the transaction, we considered whether we could expense the commissions immediately upon payment and recognize a contract asset pursuant to paragraph 106(a) of the Proposed ASU to fully recognize the expected future revenue streams at the time the commissions are paid. However, we believe the up-front recognition of the related ongoing distribution fee revenue or back-end load may be difficult to achieve under the Proposed ASU as a result of applying paragraph 82(a). That is, although we have historical data which may support that it is probable that we will receive future cash flow adequate to at least recover the cost of our

initial cash outlay, we are concerned that paragraph 82(a) would constrain our ability to recognize this amount as revenue, due to the fact that the revenue is calculable (in the U.S. fund industry) based on the net asset value of the fund, which is subject to market volatility. We also note that this alternative of recognizing up-front revenue was considered by the EITF in 1985 when deliberating EITF 85-24. Ultimately, with input from the SEC, it was determined that reporting revenue based on future market conditions was not a viable alternative. We agree with this conclusion; however, we do not believe that the mismatch between the expense recognition and the revenue recognition that would result by applying the Proposed ASU accurately reflects the economics of the transaction as described above. Rather, the up-front commission costs associated with "B" shares or other share classes of a fund that provide for both ongoing distribution fees and back-end loads should continue to be capitalized and amortized.

The rights to the future cash flows meet the definition of an asset. These rights result from past services (i.e., the sale of mutual fund shares) without a requirement or presumption of ongoing distribution services. In the absence of industry-specific guidance, we believe we would capitalize the right to future revenue streams as intangible assets under ASC 350, Intangibles – Goodwill and Other (Topic 350). Topic 350 defines intangible assets as "Assets (not including financial assets) that lack physical substance." We assert that the right to these future cash flows, which was obtained as a result of advancing the commission on behalf of the fund, represents an acquired probable future economic benefit. Asset managers with capitalized deferred sales commission assets have significant historical experience to support this assertion and often consider this data to determine whether indicators of impairment exist under current U.S. GAAP. As additional evidence that the right to future cash flows represents a future economic benefit, some asset managers receive lump sum cash payments from third-parties to acquire the right to these future cash flows³. We note that under current IFRS, these deferred sales commissions are capitalized by asset managers pursuant to IAS 38, Intangible Assets. This is because an asset is defined as a resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity. We also note that IAS 38 requires that the cost can be measured reliably; this criterion is met since the original payment amount is known. And lastly, we believe parity with other U.S. GAAP is critically important and note that this identical right to future cash flow streams is capitalizable as an intangible asset when obtained in connection with a business combination under current U.S. GAAP.

In terms of significance, the transition adjustment created by removing the capitalized commission balances would be material for certain asset managers. Prospectively, the potential change in accounting for such costs would most significantly impact the international arena as these types of shares are sold less frequently domestically (as such, the assets are declining in value). At this time, it is not known whether such a change in the accounting treatment would alter the business model for selling similar share types.

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³ In March 2005, the FASB issued FASB Staff Position No. EITF 85-24-1, Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge," When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received from Third-Parties, (ASC 946-605-25-5), to address the accounting for this type of transaction. This is also analogized to EITF 88-18, Sale of Future Revenues (ASC 470).

Based on our analysis, we recommend the Board retain the industry-specific guidance in EITF 85-24 as codified in ASC 940 to permit continued capitalization and amortization of the commission paid by in-house broker/dealers to third-party distributors of "B" shares.

Fund launch costs

We believe fund launch costs, such as underwriting costs in the case of closed-end funds as well as other direct costs including legal and registration fees, would meet the definition of costs to obtain a contract under the Proposed ASU. Accordingly, these costs would become capitalizable and amortizable under the Proposed ASU, a reversion to the accounting treatment that was applied in practice prior to the issuance of EITF D-76. This change in accounting treatment will create significant operational challenges in determining the appropriate period of amortization. We recommend that the Board clarify how the amortization period should be determined in a situation where the contracts are renewable and are expected to be renewed indefinitely.

Contract Modifications

We do not believe that contract modification guidance generally would impact our industry. Expense reimbursements and fee waivers⁴ are the primary types of concessions provided. Such waivers are primarily dictated by fund performance which is driven by market volatility. Due to the nature of most of our performance obligations, which are satisfied continually and invoiced to the customer in the very short term, that is, daily or monthly, these waivers are typically reflected as a reduction in the amount invoiced when granted and therefore would not be viewed as a modification.

Additionally, we believe that the application of the Proposed ASU would be enhanced by modifying Example 2 (IG61), "Modification of a services contract" to include a discussion on: 1) whether or not the prior performance obligations have been satisfied or only partially satisfied on or before the date of the contract modification (pursuant to paragraphs 22a through c); and 2) how the contract modification guidance should be applied in instances where the remaining consideration is not reasonably assured (pursuant to paragraph 84).

Implied Performance Obligations

In certain revenue arrangements, it is common for an asset manager to receive a single management fee for services rendered, calculated as a percentage of the related AUM. This fee, which excludes fees related to up-front distribution services, represents consideration for investment advisory services and ongoing activities such as transfer agent, record-keeping and

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⁴ As an example, in a typical fund prospectus wording related to such modifications would be, "The fund may, from time to time agree to reimburse a class for management fees and other expenses above a specified limit. The fund retains the ability to be repaid by a class if expenses fall below the specified limit prior to the end of the fiscal year. Reimbursement arrangements, which may be discontinued by the fund at any time, can decrease a class's expenses and boost its performance."

administrative services pursuant to a single revenue contract. Examples of such fees are the unitary fees from exchange traded funds and common and collective trust funds in the U.S. and the all-inclusive management fee in certain foreign regions. Currently, asset managers recognize revenue from these arrangements as earned, without bifurcating into the various revenue streams associated with the different services (advisory and other ongoing revenues).

For such unitary fee revenue arrangements, the Proposed ASU may require an asset manager to identify and separately account for various implied performance obligations (advisory and other ongoing revenues). Specifically, through the application of paragraph 28 of the Proposed ASU, one may conclude that these services are distinct as the customer can readily avail itself of the different services through various channels (i.e., if the separate services are not readily available in the specific region in which the fund operates, the services may be obtained separately in other geographic regions). Further, the criteria for bundling these services as outlined in paragraph 29 of the Proposed ASU would not be met.

Despite the guidance in paragraphs 28 and 29, the practical expedient in paragraph 30 of the Proposed ASU, however, would permit an asset manager to elect to bundle multiple services into a single performance obligation if those services have the same pattern of transfer to the customer. We believe that the asset manager will be able to utilize this practical expedient and bundle the investment advisory services with the ongoing servicing activities as they have the same pattern of transfer. In this instance, these services would meet the criteria set forth in paragraph 35 to be considered a performance obligation satisfied over time and, accordingly, the revenue would continue to be recognized using the output method in accordance with paragraphs 41 and 42, upon meeting the 'reasonably assured' threshold.

Lastly, we also believe that an asset manager would not need to disaggregate revenue under paragraph 114 of the Proposed ASU for disclosure purposes because these fees are based on the underlying AUM balances and are therefore all similarly impacted by its fluctuations. If this is not consistent with the Board's intent, we suggest the Board further clarify the disclosure requirements.

Onerous Performance Obligations

We do not believe the onerous test will have a significant impact to the asset management industry as a whole since advisory, distribution, and ongoing servicing contracts generally are subject to an annual renewal or are terminable at will. This is dependent on our view of where contract obligations exist and what the separate performance obligations are within our industry, explained elsewhere in this letter. While there may be an expectation that advisory and ongoing distribution/servicing relationships may extend beyond one year, there generally is no contractual obligation for an asset manager to maintain U.S. mutual fund advisory/distribution/service contracts for longer than a one-year contractual term. Further, non-domestic funds and separately managed accounts generally have termination clauses; therefore, they too could be terminated prior to a one-year period.

Even if an asset manager elected to maintain an unprofitable advisory or ongoing distribution/servicing relationship beyond its contractual obligations, such that paragraph 87 of the Proposed ASU may apply, application of onerous performance obligation accounting in our industry would not be of significance. In this case, we would argue that an asset manager can elect not to renew an unprofitable relationship for a U.S. mutual fund advisory contract, or terminate an unprofitable non-domestic fund or separately managed contract with no penalty and minimal exit cost.

Notwithstanding our interpretation of the onerous test for our industry, we question if the performance obligation level is the appropriate unit of account for the test. Within the asset management industry, our business arrangements provide economic benefits that extend beyond the performance obligation level and are rarely, if ever, managed at the performance obligation level. We appreciate that by limiting the scope of the onerous test to performance obligations satisfied over a period greater than one year, the Board has mitigated concern for unintended consequences from the proposed guidance. Nevertheless, we suggest the Board further consider the appropriate unit of account for the onerous test and that it acknowledge how business arrangements are managed, which may consider longer-term economic benefits.

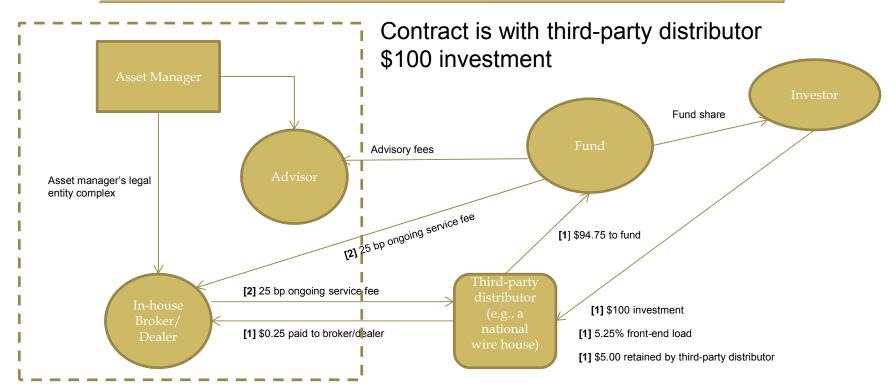
* * * * *

We appreciate the opportunity to provide comments on the Proposed ASU and hope the Board will consider our recommendations as they deliberate a final standard. Should you have any questions, please feel free to contact any of the representatives below.

/s/ David K. Stewart, Senior Vice President and Controller	Ameriprise Financial, Inc.	(612) 678-4769
/s/ Joseph Feliciani, Jr., Managing Director and Chief Accounting Officer	BlackRock, Inc.	(212) 810-3519
/s/ Stacey H. Friday, Director, Accounting Policy	Federated Investors, Inc.	(412) 288-1244
/s/ Leah Kwartler, Vice President, Accounting Policy and Standards	Fidelity Investments	(617) 392-2692
/s/ Elaine J. Sabatino, Vice President – Enterprise Accounting and Reporting	Franklin Templeton Investments	(650) 312-3239
/s/ Roderick G.H. Ellis, Group Controller and Chief Accounting Officer	Invesco Ltd.	(404) 479-2919
/s/ Aimee Partin, Head of Accounting Policy and Disclosures	Invesco Ltd.	(404) 724-4248
/s/ Timothy J. Lorber, Director and Head of Accounting Policy and Corporate Controls	Legg Mason, Inc.	(410) 454-2839

cc: International Accounting Standards Board

Share Structure - Front-End Load Fund

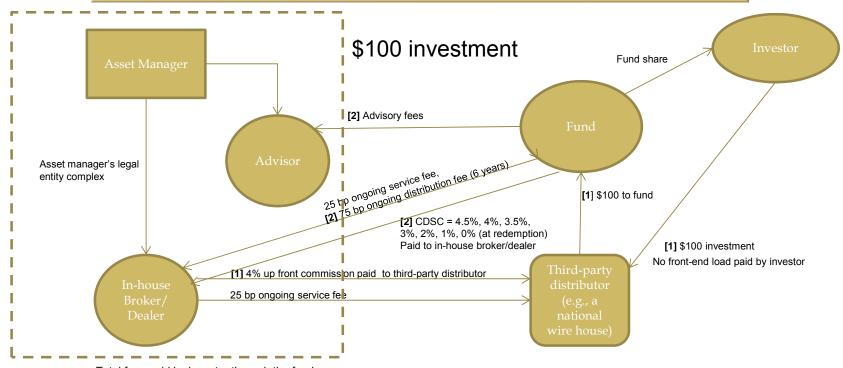


Transactions:

- [1] Allocation of \$100 investment
- [2] Ongoing service fees paid by the fund with pass-through to third-party distributor

Note: Investor pays no ongoing distribution fee or back-end load.

Share Structure - Back-End Load Fund



Total fees paid by investor through the fund (assumes redemption at beginning of year):

Year
Back-end load
Cumulative
ongoing fees
Total

1	2	3	4	5	6
4.5%	4%	3.5%	3%	2%	1%
0%	1%	2%	3%	4%	5%
4.5%	5%	5.5%	6%	6%	6%

Transactions:

- [1] Allocation of \$100 investment and payment of commission to third-party distributor
- [2] Ongoing distribution fee and back-end load paid by fund at redemption to cover initial commission paid by broker/dealer to third-party distributor

Revenue and Expense Summary

	Description	Current recognition methodology	Post-ED recognition methodology **
ASSET MANAGERS			
Revenues			
Advisory fees	Fees generally earned based on a specified percentage of average net assets (daily, monthly, quarterly, etc.).	Recognize revenue at the end of each measurement period - receive on a monthly or quarterly basis. No clawback.	No change.
Performance fees	Fees earned above a performance threshold.	Method 1 (preferred by SEC): Recognize revenue when all contingencies have been resolved. No clawback.	Generally, no change for advisors following Method 1.
		Method 2: Recognize amount of revenue that would be due on a specific date as if the contract was terminated on that date. Could result in fee reversal (clawback).	Advisors following Method 2 argue that there will be a mismatch between the timing of compensation expense paid to employees and revenue recognized.
Front-end load (i.e., sales commission)	Sales commission paid by an investor deducted directly from investor's investment, to pay the selling broker.	Selling broker recognizes sales commission immediately.	Potential change if initial distribution is not viewed as a separate distribution performance obligation.
Ongoing distribution fees (e.g., 12b-1)	AUM-based fees paid by an investor out of fund assets to cover distribution expenses.	Recognize revenue at the end of each measurement period - receive on a monthly or quarterly basis. No clawback.	No change.
Back-end load ("CDSC")	An investor pays no sales load upon purchase, but pays an AUM-based backend charge depending upon how long the shares are held (e.g., 4.5% charge if shares are held less than one year, 4% charge if shares are held up to two years, until charge is reduced to zero).	Advisor recognizes back-end load as revenue when the investor redeems out of the fund. Advisor recognizes back-end load as a reduction of the deferred sales commission asset. Prospective reduction in amortization expense.	No change.
Unitary management fees	Investment management fees that specifically cover services that would typically be charged directly to the fund (e.g., custody, transfer agency, accounting and tax).	Recognize revenue at the end of each measurement period - receive on a monthly or quarterly basis. No clawback.	No change unless advisor would be required to bifurcate the various services from the management fee (e.g., would audit and tax services be prorated toward year-end?)
** Subject to interpretation.			

Revenue and Expense Summary (cont'd)

	Description	Current recognition methodology	Post-ED recognition methodology **
ASSET MANAGERS			
<u>Expenses</u>			
Up front distribution commissions	Commissions paid by the in-house broker/dealer to the third-party distributor at time of sale of an A share to investor.	Expense immediately.	Potential change.
Deferred distribution commissions	Commissions paid by the in-house broker/dealer to the third-party distributor at time of sale of a B or C share to investor.	Defer and amortize over contractual life. Impairment is recognized if asset is deemed to not be recoverable.	Potential change.
Ongoing distribution expense (e.g., trailers paid to third-party distributors)	AUM-based fees paid by in-house broker/dealer to third-party distributor as ongoing distribution fees are received from the funds.	Expense immediately.	No change.
Launch costs	Costs incurred to establish the company and enable it to do business (e.g., underwriting fees).	Generally, expense immediately.	If viewed as cost to obtain: May be required to capitalize over estimated life of fund.
Fee waivers	The advisory agreement provides for reimbursement to the fund for expenses in excess of a specified percentage of net assets - can be contractual or voluntary.	Recognize the net revenue at the end of each measurement period.	No change.
** Subject to interpretation.			

U.S. Sales Charge Example

US Sales Charge Example

		Retained By or Paid to	Manager Receives	Manager Pays to
	Investor pays	Third-party Distributor	Ongoing Distribution	Third-party Distributor
	Day 1/Initial Sales Charge	Day 1/Initial Sales Cost	and Servicing Revenue	Ongoing Distribution Cost
Front-end load	5.25	5.00	0.25	0.25
Back-end load	0.00	5.00	1.00 *	0.25 **

^{*} The 1.00 is comprised of a 75 bps ongoing distribution fee (back-end load commission) + 25 bps servicing fee. Upon redemption, shareholder pays a redemption fee (i.e., CDSC). The redemption fee is generally calculated on a sliding scale (higher in earlier years) such that the amount paid by the investor through the 75 bps back-end load distribution fee, combined with the redemption fee amount, will compensate the manager for the day 1/initial cost that the manager paid to the third-party distributor.

More information:

http://www.sec.gov/answers/mffees.htm#distribution

^{**} For the first 12 months, the manager will retain this 25 bps. Payments to third-party distributor begin in 13th month.

[&]quot;.....12b-1 fees that are used to pay marketing and distribution expenses (as opposed to shareholder servicing expenses) cannot exceed 0.75 percent of a fund's average net assets per year."

[&]quot;....an annual .25% cap on shareholder servicing fees."