Randa R. Saleh Senior Vice President & Comment Letter No. 535 Corporate Controller

1820-100

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October 22, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk CT 06256-5116

Re: File Reference No. 1820-100, Exposure Draft on Revenue Recognition from Contracts with Customers

Dear Sir or Madam,

We appreciate the opportunity to comment on the exposure draft Revenue Recognition (Topic 605), Revenue from Contracts with Customers (the "ED") and hope that our comments will be of assistance in further deliberation. We have highlighted one topic where we believe that the ED has unintended consequences with respect to industry specific practice in an effort to seek clarification. Additionally, we have provided responses to certain of the FASB's questions proposed to constituents in the ED.

Hyatt Hotels Corporation ("HHC") had revenue of \$3.3 billion in 2009 which was generated primarily from our owned hotel operations, management and franchise fees, other revenue from managed properties and vacation ownership properties.

Recognition of management fees

We agree with the overall focus of the ED regarding rights and obligations of a contract which drives revenue recognition. However, we believe that the ED as currently written may lead to confusion and inconsistency in the accounting for long-term service contracts, particularly within the hospitality industry where contracts can range from 10 to 40 years. In our industry, management companies provide various services in order to generate revenue and profit for the hotel owner. The branded management companies bring to bear many resources and services to a hotel owner including their know-how and expertise in operating and managing hotels on a multi-unit, large scale basis. In exchange for these services the management company receives a fee which is often based on a percentage of the revenues and/or operating profits of the managed property and the percentage earned by the management company is generally consistent over the life of the agreement. The related management contracts have monthly, quarterly or annual measurement periods during which the owner receives the benefit of the services provided by the management company. During these periods the value of the management company's services are determined by the revenues and profits generated at the underlying hotel. Each of these measurement periods are discrete and typically future performance is not a factor nor are the fees subject to return by the owner. The revenue from these agreements is currently recognized when earned, which is typically at the end of a measurement period, whether it is a monthly, quarterly or annual period of property management.

Guidance for determining the transaction price within paragraphs 34 to 42 of the ED could be interpreted as requiring recognition of revenue based on an estimate of total revenue over the life of a long-term agreement. This could present a challenge in practice due to the long term nature of our management agreements. The ED then indicates that revenue would be recognized as the amount of the transaction price allocated to the satisfaction of a performance obligation. Paragraphs 38-41 require that only amounts that can be reasonably estimated can be included in the transaction price, and since revenue may be difficult to estimate during the later periods of a contract, the timing of recognition may not be consistent with the delivery of the related performance obligations. We believe the ED could be improved by adding the following concepts:

- Paragraphs 20-24 address how to determine separate performance obligations, which includes the concept that an obligation needs to be distinct in order to separate. Distinct is defined as the instance where the goods or services are sold separately, have a distinct function, or a distinct margin. In cases where a long-term contract includes performance obligations delivered over time, consideration should be given to the fact that the performance obligations could be separated based on the monthly, quarterly or annual measurement period stipulated within the contract and that the related revenue be recognized accordingly. Additional guidance should be provided that clarifies that a distinct service is one where a service has been performed, the revenue related to that service is quantifiable and there is no recourse on that service nor is the revenue refundable in any manner.
- In situations such as these, when services are provided under a long term contract and when the revenue associated with the performance obligation represents the selling price, the transaction price should be estimated at a more granular level such as at the performance obligation level, rather than at the total contract level. This would allow for the transaction price to be reasonably estimated per separate performance obligation and more reasonably correlated to the earnings process. Revisions to estimates should also be at this level if the change in circumstances is only applicable to a specific and separable performance obligation.

In addition, we have the following concerns with paragraphs 34 to 42 of the ED:

- The process of estimating revenue is complex and the guidance suggests that certain complexities will hinder inclusion of revenue in our estimate of the total transaction price. We do not disagree with these limitations. However, we note that the same cash flows would need to be estimated and included in the calculation of the right of use asset and lease obligation from a lessee perspective by way of estimating all future periods and including contingent rent in accordance with the respective ED. We suggest that the standards be aligned.
- Adoption of this standard by retrospective application would be impracticable and a very time consuming process, especially for those industries with long term contracts. We are unclear what benefit it provides to a user of the financial statements for those periods beyond the comparable periods being disclosed. We would like to suggest that the FASB reconsider this concept.

Overall, the ED as currently written will make it difficult to ensure that revenue is being properly recognized consistent with the economics of the contract, and estimated consistently by entities within the same industry, resulting in lack of comparability of results. In addition, the estimation

process will significantly increase the time spent by companies, auditors and analysts, as well as costs to companies in order to apply these new rules. The issues that we have described above would also likely relate to long term service contracts outside the hospitality industry and therefore may be pervasive in nature.

Sincerely,

Randa Saleh

Senior Vice President & Corporate Controller

Answers to Questions for Respondents

Question 1: Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether to:

- (a) Combine two or more contracts and account for them as a single contract;
- (b) Segment a single contract and account for it as two or more contracts; and
- (c) Account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Yes, we agree with this principle.

Question 2: The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We agree with the description of good or service but believe that further clarification is needed related to contingent services. It is our interpretation that contingent performance obligations should be treated in accordance with FAS 5 and be estimated under a probability weighted approach. We believe that language should be added to the ED to ensure that contingencies be assessed in accordance with FAS 5 criteria and those that have a low probability of occurring due to the timing and/or the amount being unknown should be excluded from the initial assessment of the performance obligations.

We also believe that additional clarification should be added to paragraph 23 to consider instances where an obligation to perform a service over a long period of time can be divided up into smaller obligations as the services can be completed, the price known and there is no ability for recourse during a period that is shorter in length than the contract term.

Question 3: Do you think that the proposed guidance in paragraphs 25–31 and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

With respect to HHC, we believe that the proposed guidance is sufficient for determining when control of a good or service has been transferred to a customer. However, the concept of "transfer of control" is subjective and may result in differing accounting treatment for economically similar transactions, especially in industries with more complicated revenue transactions.

Measurement of revenue (paragraphs 34-53)

Question 4: The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

We believe that the guidance in paragraph 38 and the interpretation in paragraph 39 increases the risk of revenue being reversed and increases volatility within the income statement for long-term contracts. Given the recent economic downturn it seems reasonable to believe that this would have led to increased skepticism and less consumer confidence as entities unwound revenue that had been estimated during a period of economic growth. In addition, we believe there is inconsistency between this ED and the ED on leases given that those amounts that cannot be reasonably estimated are excluded from the transaction price. Whereas for leases, all contingent consideration is included to determine the performance obligation over the duration of the contract from a lessee perspective.

Question 5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

We do not believe that the benefit of this approach warrants the cost of applying credit risk to individual transactions. Having to estimate collection and variable payments leaves significant room for interpretation and makes true-up entries inevitable. Further, the process of subsequently truing up the estimate of collections relating to credit risk through operating income does not reflect the underlying economics of the transaction. Adjustments due to credit risk are indicative of revenue generation and should be classified as such.

Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

No Comment.

Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We agree, although we believe that inconsequential performance obligation and contingencies that arise as a result of revenue contracts should be specifically excluded from the scope of this guidance.

Contract costs (paragraphs 57–63)

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, Topic 330 or IAS 2; Topic 360 or IAS 16; and Topic 985 on software or IAS 38, Intangible Assets), an entity should recognize an asset only if those costs meet specified criteria.

Do you think that the proposed guidance on accounting for the costs of fulfilling a contract is operational and sufficient? If not, why?

The guidance in paragraph 57 is unclear in defining the types of costs incurred in fulfilling a contract that an entity can capitalize as an asset. Specifically, paragraph 57 (b) is unclear as to what types of costs "generate or enhance resources of the entity that will be used in satisfying performance obligations in the future". We believe that further guidance and / or examples are necessary in order to assist companies in appropriately implementing the requirements of paragraph 57, specifically with regard to costs that meet the definition of an intangible asset which is supported by IAS 38.

Further, the guidance in paragraph 57 and paragraph 48 could be seen to overlap in certain transactions such as incentives that could either be interpreted as an amount paid to a customer or the cost of fulfilling a contract. Additional guidance with respect to both paragraphs will help constituents interpret and apply the new guidance consistently.

Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation. Do you agree with the costs specified? If not, what costs would you include or exclude and why?

No, we think that the costs captured in the guidance are incomplete and that other costs that should be included are not specified or suggested. Specifically, the guidance does not include indirect costs or those that are ancillary in nature. It would helpful if there was more clarification or examples provided.

Disclosure (paragraphs 69-83)

Question 10: The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

We agree with the Board's objective to provide disclosures that help the users of the financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts. However, in some circumstances, we believe that the required disclosures may be too intricate to reflect accurately the nature of the underlying transactions, especially for companies with significant contract assets and liabilities recorded in the statement of financial position. Specifically we believe that the requirement in paragraph 75 to reconcile beginning and ending balances of contract assets and liabilities appears burdensome.

Question 11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We believe that this disclosure is proprietary in nature and may decrease our competitive advantage with existing customers. We enter into long-term management contracts and while we disclose the average outstanding years left on our portfolio of management contracts we believe it would be anticompetitive to disclose the number of years left of on a specific contract and suggest that this data be aggregated.

Question 12: Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We believe that discussion of these topics in aggregate is appropriate and will increase the transparency of the financial statements. We do not believe that disaggregated quantitative data will provide meaningful information to investors as it is likely to be too granular in nature.

Effective date and transition (paragraphs 84 and 85)

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend

information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

Refer to discussion within the body of the letter.

Implementation guidance (paragraphs IG1-IG96)

Question 14: The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think that the implementation guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

No comment.

Question 15: The Boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

While this does not materially impact our organization we believe that the distinction is very subjective and will lead to inconsistencies in recognition and reporting.

Question 16: The Boards propose the following if a license is not considered to be a sale of intellectual property:

- (a) If an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license; and
- (b) If an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?

No comment.

Consequential amendments

Question 17: The Boards propose that in accounting for the gain or loss on the sale of some nonfinancial assets (for example, intangible assets and property, plant, and equipment); an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We agree that consistent guidance should be applied as the segregation of these activities from normal business activities is subjective.

Nonpublic entities

Question 18: Should any of the proposed guidance be different for nonpublic entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

Not applicable.