

October 22, 2010

Technical Director
File Reference No. 1820-100 Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116 Norwalk, CT 06856-5116

Mr. Alan Teixeira
Director of Technical Activities
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Proposed Accounting Standards Update – Revenue from Contracts with Customers

Dear Messrs. Golden and Teixeira:

On behalf of the Securities Industry and Financial Markets Association Asset Management Group (“SIFMA AMG”) Accounting Committee, we appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Revenue from Contracts with Customers* (the “Proposed Update”).

SIFMA AMG formed the Accounting Committee to address various implementation issues regarding newly issued US GAAP guidance that affects asset management firms. The Accounting Committee includes many of the industry’s major independent asset management firms along with banks and insurance companies with significant asset management businesses. The individuals who serve on the Accounting Committee are senior accounting policy professionals at their respective firms.

We are supportive of the FASB and IASB (the “Boards”) efforts to develop a single converged financial reporting model for revenue recognition for contracts that provides users with the most useful, transparent, and relevant information regardless of industry. We are supportive of the fundamental principles in the Proposed Update and agree that entities should:

- identify the performance obligations contained within contracts with customers
- determine the transaction price based on the consideration the entity receives or expects to receive in exchange for the good or service provided
- recognize revenue as performance obligations are satisfied by transferring goods and services to customers evidenced by the transfer of control if the transaction price can be

reasonably estimated

Although we support a number of the principles outlined in the Proposed Update, we have significant concerns that the full effect of the proposed changes cannot be fully understood without allowing constituents to see how the proposed amendments impact current guidance included in the Accounting Standards Codification. Additionally, we have concerns regarding some of the tentative conclusions reached by the Boards. The following is a summary of the key observations and comments that we believe are worth highlighting:

Scope

As outlined in Paragraph 6 of the Proposed Update, the scope of the guidance applies to all contracts with customers except for those explicitly excluded. However, Paragraph 11 provides a scope exception to additionally exclude any contracts in which either party can terminate a wholly unperformed contract without penalty.

Certain constituents expressed concerns that there appears to be ambiguity regarding what types of contracts meet the scope exception in paragraph 11 of the Proposed Update, specifically whether or not the guidance can be applied to certain asset management contracts. For example, it is not uncommon for customers that receive asset management services to be provided with the right to withdraw their assets without restriction. It is not clear if this right to withdraw assets without restriction could lead to the interpretation that the contract is wholly unperformed and therefore within the scope exception of Paragraph 11.

We recommend that the final standard expand its discussion of the types of contracts that may fall outside of this guidance as a result of the scope exception.

Satisfaction of Performance Obligations—Transfer of Control of a Service

Paragraphs 32-33 state that when the promised goods or services underlying a separate performance obligation are transferred to a customer continuously, an entity shall apply to that performance obligation one revenue recognition method that best depicts that transfer to the customer—output, input and passage of time. We agree with this fundamental principle.

However, we have difficulty in understanding how these principles can be practically applied to service contracts, particularly asset management service contracts. The indicators in the Proposed Update that specify when a customer has obtained control of a good or service appear to apply primarily to goods rather than services. For example, legal title, physical possession and existence of a customer specific design are more easily applied to goods rather than services.

As such, we recommend that the Board include additional language to clarify how to apply these indicators to the transfer of control for a service. For example, the Boards may clarify that for services continuously transferred over a performance obligation term that are billed periodically throughout the term, revenue should be recognized periodically over the term based on contract milestones when revenue is reasonably estimable.

Transaction Price—Variable Consideration

When a contract includes variable consideration, the Proposed Update requires that the transaction price include the probability-weighted estimate of variable consideration receivable when management can make a reasonable estimate of that amount. The Proposed Update states that an estimate is reasonable only if an entity has experience with similar types of contracts and does not expect circumstances surrounding those types of contracts to change significantly. The relevance of experience is reduced by the impact of external factors (e.g. volatility in the market), the length of time until the uncertainty is expected to be resolved, the extent of the experience and the number of possible consideration amounts.

We agree with the fundamental concept in the Proposed Update that states revenue should be recognized when it is reasonably estimable and that companies are allowed to include variable consideration in the transaction price. However, we believe a best estimate of transaction price should be allowed rather than probability-weighted estimate of price. While we agree there may be conceptual merit to probability-weighted estimate of price when there are wide ranges of outcomes with highly divergent probabilities, such determinations can become overly complex and burdensome. In many cases, a reasonable best estimate which faithfully represents the economics of the contractual relationship can be determined. Furthermore, we believe that variable consideration based on a factor outside of management's control (e.g. volatility in the market) should not preclude the revenue from being considered reasonably estimable. Additionally, paragraphs 38 and 39 are very rules-based and cannot cover all scenarios where revenues are reasonably estimated and the factors mentioned that reduce the relevance of a company's experience may not, in fact, make a faithfully determined estimate irrelevant. Accordingly, these should be removed and the principles in paragraphs 35-37 retained and followed.

Within the Proposed Update, example 18 under paragraph IG76 discusses a situation for management fees received (a portion fixed and a portion based on an index observable at year-end). Although the entity has entered into many similar contracts previously, the entity determines that its experience with those types of contracts is not relevant because the circumstances surrounding those types of contracts could change significantly. The variable consideration is highly susceptible to external factors (e.g. market risk), the uncertainty is not expected to be resolved until the end of the year and the contract has a large number of possible consideration amounts. As such, the transaction price is limited to the fixed consideration until the index is observable at year-end.

We do not believe that the Boards intended to imply that management can not reasonably estimate transaction price if variable consideration in a contract is based on a factor outside of management's control (e.g. market risk) based upon the guidance provided in paragraph 40 of the Proposed Update which states that the existence of one or more of the factors required to be considered in determining if the transaction price of variable consideration is reasonably estimable, may or may not be sufficient to prevent an entity from making a reasonable estimate of that transaction price. As such, we recommend that the final rule either remove the example discussed above or clarify that the example is not intended to imply that this is the appropriate

treatment for all similar scenarios but that facts and circumstances should be considered on a case-by-case basis.

Also, we understand some constituents of the Boards believe it is possible to interpret example 18 to preclude revenue recognition of asset management fees based on a fixed percentage of assets under management (“AUM”) until the end of the period when the AUM is absolutely certain. We do not believe this reflects the economics of the revenue earning process. Accordingly, the example should be removed or clarified.

Transaction Price—Continuous Performance

We understand that there are different views on how certain nonrefundable, fixed fees should be recognized where a service contract also includes variable consideration, which has not been deemed to be reasonably estimable. For example, where an asset manager of a mutual fund receives both *fixed* fees, which are calculated as a fixed percentage of assets under management and billed/received on an installment basis over the life of the asset management contract, and *variable*, performance fees, which cannot be reasonably estimated until the end of the service contract.

We believe that the Proposed Update requires the transaction price installments to be recognized as billed/earned each period where the performance under the contract is provided on a continuous basis, unless the service provided under the contract warrants some other allocation methodology in accordance with fulfillment of the contractual performance obligations under the contract. We would not expect the existence of variable consideration to prohibit recognition of the nonrefundable, fixed fees over the term of the contract consistent with the continuous service performance, even in cases where the variable consideration is not deemed reasonably estimable, and therefore unable to be recognized until the end of the contract term when uncertainty associated with the variable consideration is resolved. The recognition of the fixed fee over the life of a service contract where the service is provided on a continuous basis would be consistent with any of the three suitable recognition methods (output, input or based on the passage of time) provided in paragraph 33 of the Proposed Update.

We have been made aware of an alternative interpretation of the proposed guidance that suggests that transaction price installments calculated in early periods should only be partially recognized for the period of service that has been completed while spreading the proportionate share of amounts calculated over the remaining contract life due to the fact the fixed and variable components could be viewed as *one* unit of account. We disagree with this alternative interpretation of revenue recognition for services provided on a continuous basis under a contract and believe that the fixed and variable components should be viewed as *two* units of account. In this alternative interpretation, each subsequent installment is recognized over the remaining contractual life (from calculation/billed date to contract maturity). This interpretation suggests that the mere existence of a variable consideration component (which is not reasonably estimable over the life), implies that there is *one* performance obligation under the contract, which is not satisfied continuously over the contract life in accordance with the installment recognition each period, but that each installment must be spread over the remaining life of the contract to maturity in line with the fulfillment of the variable performance component. This interpretation

would result in recognizing increasingly higher fees as the contract reaches maturity versus allocating the transaction price as determined over the period of service performance consistent with the concept of continuous performance as provided in the Proposed Update. See the numerical example provided in Appendix A to further illustrate this issue.

We encourage the Boards to include an example with both a fixed and variable component of consideration to clarify that the existence of variable consideration not deemed to be reasonably estimable over the life of a contract does not automatically imply that it be viewed together with the nonrefundable, fixed component as *one* performance obligation. This example should show how much revenue is recognized at each measurement period. Without this clarification, we are concerned that inconsistent interpretations will be applied in practice, diminishing comparability across preparers.

Transaction Price—Customer’s Credit Risk

The Proposed Update advises that in determining transaction price, an entity shall reduce the amount of promised consideration to reflect the customer’s credit risk.

We are supportive of a single, comprehensive and convergent impairment model. We believe that model is best addressed in the financial instruments project rather than in this Proposed Update. Additionally, we believe that revenue should be recognized on a gross basis as netting credit risk against revenue reduces transparency and obscures information from a user perspective. If revenue and credit information is commingled on both the balance sheet and the income statement, users will lose the ability to separate contractual revenue from bad debt expense and comparability across entities will be lost. As such, we recommend that the Boards remove the consideration of a customer’s credit risk from the revenue recognition guidance and instead incorporate it only within the impairment model in the Financial Instruments project.

Onerous Performance Obligations

The Proposed Update requires an entity to assess performance obligations at contract inception and at each reporting date to determine whether the obligation has become onerous (e.g., when the present value of the probability-weighted direct costs to satisfy the obligation exceeds the transaction price allocated to it). The entity would recognize a liability and corresponding expense if a performance obligation were deemed onerous.

We do not support the concept that onerous obligations should be assessed at the performance obligation level. This could result in “day one” losses recorded by an entity where certain performance obligations are deemed onerous even though the contract or customer relationship is profitable as a whole. Users of the financial statements are primarily interested in the outcome of either the contract as a whole or the customer relationship as a whole rather than the separate performance obligations therein. As such, we recommend that the Boards consider that the facts and circumstances of each customer arrangement should dictate the appropriate unit of account for assessing onerous contracts or customer relationships.

Additionally, we do not support the requirement that an entity assess performance obligations at each reporting date to determine whether each obligation has become onerous. The time, effort and cost to implement systems to track this information would be significant and would outweigh any benefits that may be provided by doing so. As such, we recommend that the Boards consider assessment of onerous performance obligations at the contract inception and reassessment *only* when there are material modifications to a contract or customer relationship and/or if there are changes to significant factors in the market that would require reassessment.

Disclosures

The Proposed Update requires an entity to provide reconciliations (“rollforwards”) from opening to closing balances of contract assets, contract liabilities and onerous performance obligations that detail the amounts recognized in the statement of comprehensive income.

We disagree with the exposure draft’s requirement to disclose the rollforwards described above. Those proposed disclosures focus on accounting mechanics rather than insight into a company’s future or expected revenues, revenue mix or trends that would assist the users of financial statements in making investment decisions. As such, we do not believe that these disclosure requirements will provide meaningful information to the users of the financial statements. Additionally, the time, effort and cost to implement systems to track this information are onerous and we do not see the benefits of providing the additional disclosure. As such, we recommend that the Boards remove these disclosure requirements in the final rule.

Effective Date and Transition

The Proposed Update requires retrospective application.

We believe that the requirement for retrospective application will be operationally challenging and burdensome for entities to implement. However, retrospective application promotes consistency between periods from a user perspective. As such, we recommend that the Boards allow for a very long transition period to ease the burden of implementing this guidance.

Sincerely,

J. Robert Hitchings
Chair, SIFMA Asset Management Group Accounting Committee

Appendix A

Example: Transaction Price—Continuous Performance

Scenario	Entity enters into contract to provide management services for a one-year period for an annual fee of 2% of end of period assets under management plus an incentive fee of 3% of the increase in assets under management. The end of period assets under management for each quarter is as follows: Q1: \$100M Q2: \$150M Q3: \$150M Q4: \$150M																	
Current Guidance	Revenue recognized for the first quarter is equal to that which the Company has earned: <table border="1" data-bbox="337 642 1260 810"> <thead> <tr> <th>Quarter</th> <th>Fixed Fee</th> <th>Incentive Fee</th> </tr> </thead> <tbody> <tr> <td>Q1</td> <td>$\\$100M * (2\%/4) = \\$500k$</td> <td></td> </tr> <tr> <td>Q2</td> <td>$\\$150M * (2\%/4) = \\$750k$</td> <td></td> </tr> <tr> <td>Q3</td> <td>$\\$150M * (2\%/4) = \\$750k$</td> <td></td> </tr> <tr> <td>Q4</td> <td>$\\$150M * (2\%/4) = \\$750k$</td> <td>$\\$50M * 3\% = \\$1.5M$</td> </tr> </tbody> </table>			Quarter	Fixed Fee	Incentive Fee	Q1	$\$100M * (2\%/4) = \$500k$		Q2	$\$150M * (2\%/4) = \$750k$		Q3	$\$150M * (2\%/4) = \$750k$		Q4	$\$150M * (2\%/4) = \$750k$	$\$50M * 3\% = \$1.5M$
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Proposed Guidance	The performance obligation is satisfied throughout the year, not just in the first quarter. As a result, the fixed fees earned each quarter are only recognized for the percentage of the year that has been completed and the remaining are spread throughout the year. <table border="1" data-bbox="337 921 1260 1346"> <thead> <tr> <th>Quarter</th> <th>Fixed Fee</th> <th>Incentive Fee</th> </tr> </thead> <tbody> <tr> <td>Q1</td> <td>$\\$100M * (2\%/4) * 1/4 = \\$125k$</td> <td></td> </tr> <tr> <td>Q2</td> <td> $\\$100M * (2\%/4) * 1/4 = \\$125k$ $\\$150M * (2\%/4) * 2/4 = \\$375k$ Total = \$500k </td> <td></td> </tr> <tr> <td>Q3</td> <td> $\\$100M * (2\%/4) * 1/4 = \\$125k$ $\\$150M * (2\%/4) * 1/4 = \\$187.5k$ $\\$150M * (2\%/4) * 3/4 = \\$562.5k$ Total = \$875k </td> <td></td> </tr> <tr> <td>Q4</td> <td> $\\$100M * (2\%/4) * 1/4 = \\$125k$ $\\$150M * (2\%/4) * 1/4 = \\$187.5k$ $\\$150M * (2\%/4) * 1/4 = \\$187.5k$ $\\$150M * (2\%/4) * 4/4 = \\$750k$ Total = \$1.25M </td> <td>$\\$50M * 3\% = \\$1.5M$</td> </tr> </tbody> </table>			Quarter	Fixed Fee	Incentive Fee	Q1	$\$100M * (2\%/4) * 1/4 = \$125k$		Q2	$\$100M * (2\%/4) * 1/4 = \$125k$ $\$150M * (2\%/4) * 2/4 = \$375k$ Total = \$500k		Q3	$\$100M * (2\%/4) * 1/4 = \$125k$ $\$150M * (2\%/4) * 1/4 = \$187.5k$ $\$150M * (2\%/4) * 3/4 = \$562.5k$ Total = \$875k		Q4	$\$100M * (2\%/4) * 1/4 = \$125k$ $\$150M * (2\%/4) * 1/4 = \$187.5k$ $\$150M * (2\%/4) * 1/4 = \$187.5k$ $\$150M * (2\%/4) * 4/4 = \$750k$ Total = \$1.25M	$\$50M * 3\% = \$1.5M$
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