JPMORGAN CHASE & CO.

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Managing Director & Corporate Controller

October 27, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Dear Technical Director:

JPMorgan Chase & Co ("JPMorgan Chase" or "the Firm") appreciates the opportunity to comment on File Reference No. 1820-100: Proposed Accounting Standards Update, *Revenue Recognition (Topic 605) Revenue from Contracts with Customers* (the "Exposure Draft") issued by the Financial Accounting Standards Board ("FASB" or the "Board"). Due to the overlapping comment periods for the Exposure Draft and Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, we are concerned that constituents in or serving the financial services industry have not fully identified the changes to current practice that the Exposure Draft could require. We encourage the Board to continue its outreach to the financial services industry to understand the full population of potential impacts.

In addition, we note the Board's announcement on September 3, 2010 that marked changes to the Accounting Standards Codification will not be released for comments because "they are not necessary for an understanding of the proposals." We respectfully disagree. We believe that the full effect of proposed changes in a topic as far-reaching as revenue recognition cannot be fully evaluated without seeing the marked changes to the existing Accounting Standards Codification. In our experience, significant issues and interpretive questions have surfaced only upon seeing the precise wording changes proposed. Therefore, we urge the Board to expose for public comment, marked changes to existing guidance prior to the issuance of final standards.

Our detailed comments on the Exposure Draft are summarized below.

<u>Transaction Price – Continuous Performance</u>

We understand that there may be uncertainty among constituents regarding how revenue would be recognized under the Exposure Draft in circumstances where a contract includes both nonrefundable, fixed percentage based fees and variable/contingent consideration that has not been deemed to be reasonably estimable. For example, consider a situation in which the manager of an investment fund receives the following fees:

(a) nonrefundable fees that are calculated as a fixed percentage of assets under management and billed/received on quarterly basis over the life of the service contract, and

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(b) contingent performance fees, which cannot be reasonably estimated until the end of the service contract (e.g., two years).

The fixed fees are based on the service provided in the prior period and are calculated based on the level of assets under management in that prior period, but are not linked to any future performance obligations. By the end of that prior period, the service has been provided, and the performance obligation of the asset manager has been satisfied. In most cases the fixed fees represent the primary compensation for the service provided; any performance fee received at the end of the service contract is not intended to be a significant aspect of the compensation for services provided.

When asset management services are provided on a continuous basis as in the case above, we believe that the payment installments generally should be recognized as billed/earned each period. The existence of variable consideration in the arrangement should not prohibit recognition of the nonrefundable, fixed fees over the term of the contract, even in circumstances in which the variable consideration is not reasonably estimable and therefore is not recognized until the uncertainty is resolved. This recognition of fixed fees on an installment basis over the life of a service contract when the service is provided on a continuous basis is consistent with any of the three suitable recognition methods (output, input or based on the passage of time) provided in paragraph 33 of the Exposure Draft.

However, we understand that there is an alternative interpretation of the proposed guidance. While we believe that this alternative interpretation is inconsistent with the Board's intent, clarification in the final standard would be useful. This alternative interpretation suggests that payments calculated in early periods should be only partially recognized as revenue during the completed period of service, and the remaining amount received should be recognized over the remaining contract life. In a contract with fixed periodic payments made quarterly and a two year term (after which the incentive fee is calculated), only 1/8 of the fixed payment received in the first quarter would be recognized in earnings due to the uncertainty related to the remaining fixed and variable fees. This interpretation suggests that the mere existence of variable consideration that is not reasonably estimable until the end of the service contract implies that there is *one single* performance obligation under the contract, and that all payments received must be allocated over that single performance obligation, rather than respecting each periodic payment as compensation for the completed period of service. This interpretation would result in recognizing increasingly higher revenue as the contract reaches maturity because in each period, an increasing percentage of the total performance obligation has been completed. We do not believe this alternative interpretation results in an appropriate recognition model for the fixed percentage based fees that have been earned.

We encourage the Board to expand Example 18 in paragraph IG76 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 a nonrefundable, fixed percentage based fee is not related to services provided continuously and consistently over the life of the contract.

Onerous Performance Obligations

We agree with the Board than an "onerous performance obligation" test should be required to identify situations where expected future costs exceed expected future revenues. The Exposure Draft requires that this test be performed for each separate performance obligation in a revenue contract. We believe that the assessment of the onerous test at the performance obligation level presents conceptual and operational challenges as discussed below.

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As indicated in the basis of conclusions in the Exposure Draft, it is possible to record a loss for a separate performance obligation within an otherwise profitable contract. We understand that the Board finds this result preferable to applying the onerous test at the contract level, as the Board seeks to ensure timely reporting of any "adverse changes" in circumstances. However, we believe that firms generally establish pricing and evaluate the profitability of arrangements at a contract level, not at a performance obligation level. A true adverse change in circumstances stemming from unforeseen costs or other unanticipated issues would yield a loss for that contract and should result in a liability being recorded with appropriate disclosures in the financial statements. However, identifying more granular changes, including those related to individual performance obligations within a contract does not necessarily indicate an adverse change in circumstances with respect to the pricing of the contract (established at the contract level), and therefore, recording losses on the separate components of an overall profitable contract does not provide decision useful information.

We are also concerned about the operational feasibility of identifying onerous performance obligations. The allocation of related direct costs to every performance obligation under each customer revenue contract may be a significant expansion of performance metrics in place today. The costs associated with implementation of systems changes to enable such analysis would likely exceed any benefit from the assessment of the onerous test at the performance obligation level. We recommend instead that the onerous test be assessed at the contract level and only for longer term contracts that present a significant risk for adverse changes in circumstances that would not be reflected in earnings relatively quickly.

Product Financings

The Exposure Draft states that if an entity is obligated to repurchase or has an option to repurchase the asset that was sold, the arrangement is a lease under Topic 840 if the asset's repurchase price is less than the original sales price, or a financing if the repurchase price is equal to or more than the original sales price.

It is unclear why the transaction price should determine the accounting for a transaction. We believe that whether a transaction is a financing, lease, or a sale should be based on the substance of the transaction and whether the transaction falls within the scope of a particular accounting standard, and should not be determined solely through the repurchase price as stated in the Exposure Draft. Specifically, in the commodities market, future prices can reflect an upward sloping or downward sloping curve. As a result, a financing could result under either scenario.

Additionally, we support the current accounting guidance for transfers of financial assets, in which freestanding rights to reacquire transferred financial assets that are readily obtainable do not constrain the transferee from exchanging or pledging them and thus do not preclude sale accounting. The proposed guidance relating to call options in the Exposure Draft is not consistent with this current guidance, and it appears that the Board decided to propose these changes based on the belief that an entity is unlikely to enter into repurchase transactions involving readily obtainable assets. We believe that additional outreach may find a number of such situations (for example, involving commodities) and that the final guidance should be consistent with that for financial assets.

In addition, commodities are not in the scope of Topic 840, so it is unclear how the proposed guidance would capture a sale of a commodity with a repurchase at an amount that is less than the original sales price of the asset. We feel this concept has not been fully explored or explained by the FASB, and we

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think that as currently proposed, it will lead to further confusion in practice. We therefore believe that whether a transaction is a financing, lease, or sale should be more principles based rather than prescriptive solely based on the repurchase price.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212.270.3632 or Bret Dooley at 212.648.0404.

Sincerely yours,

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