

March 12, 2012

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

Re: Proposed Accounting Standards Update – Revenue Recognition (Topic 605): Revenue from Contracts with Customers (File Reference: 2011-230)

Dear Sir:

We are pleased to have the opportunity to comment on the exposure draft (ED), *Revenue from Contracts with Customers*, issued jointly by the FASB and IASB (the Boards).

The American Resort Development Association (ARDA) is the Washington D.C.-based trade association representing the vacation ownership and resort development industries (timeshare industry). ARDA has almost 1,000 corporate members, ranging from privately held firms to publicly traded corporations, with extensive experience in shared ownership interests in leisure real estate. The membership also includes timeshare owner associations (HOAs), resort management companies, industry vendors, suppliers, and consultants—as well as owners, through the ARDA Resort Owners Coalition (ARDA-ROC).

The timeshare industry in the United States is a robust segment of the hospitality industry. With over 1,500 resorts and approximately 200,000 units in existence, approximately 8 million U.S. households owned one or more shared vacation ownership products in 2010. Annual timeshare sales volume peaked around 2007 at over \$10.6 billion and was \$6.4 billion in 2010. The economic impact of the industry is widespread with an estimated \$68.7 billion in spending in 2009, 465,803 full- and part-time jobs and more than \$22 billion in salaries, wages and related income, and over \$8.3 billion in tax revenue.

While we appreciate and fully support the efforts of the FASB and the IASB to provide one set of revenue recognition guidelines that would be applicable across all industries, we have concerns regarding certain aspects of the ED that we believe may increase the complexity in accounting for real estate timesharing transactions—thus resulting in different accounting treatment for economically similar transactions and, ultimately, decreased comparability between financial statement issuers. This decreased comparability would negate the substantial investment and effort of the industry to educate our lenders and investors on the economics of the industry—the end result of which would be increased administrative costs associated with having to provide supplemental information to investors to aid their analysis of the industry and/or reduced interest, due to the confusion this would create.

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Unlike many other industries, the accounting for real estate timesharing transactions was established in relatively recent accounting guidance through the AICPA's issuance of Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions, as well as FASB's related issuance of Statement No. 152, Accounting for Real Estate Time-Sharing Transactions. The adoption of the SOP and related FASB Statement resulted in a significant change in accounting for industry participants, as it addressed the diversity in practice caused by a lack of guidance and the varied and numerous structures that timesharing arrangements have assumed.

Our two major areas of concern with the ED in its current state are set forth below:

I. Identification/Satisfaction of Performance Obligations

Since its inception, the timeshare industry has experienced significant growth as developers have introduced a variety of ownership and product structures in order to enhance utilization and acceptance of the product. In addition to the traditional fixed-time product, timesharing structures now include floating time, points programs, vacation clubs, fractional interests, as well as the use of special purpose entities to hold title to the underlying real estate. Even so, the fundamental product is essentially the same regardless of structure, and individual consumer transactions typically have similar economic traits.

Without further clarification and guidance related to the identification, separation, and determination of satisfaction of performance obligations, it is our view that the proposed guidance will likely lead to diversity in practice and decreased comparability of reported results within our industry due to interpretive differences and the application of the rules to the various forms of timesharing structures. Specifically, we note:

- The ED would require timeshare companies to exercise judgment in determining whether control has transferred to the buyer in order to recognize a sale of real estate. Whereas ASC 360-20 and ASC 978 provide specific guidance and rules to apply when assessing whether a sale of real estate should be recognized, the ED is much less prescriptive. As a result, timeshare companies would be required to make judgments based on individual facts and circumstances and the entities' own interpretations of the guidance in the ED.
- ASC 360-20 and ASC 978 provide guidance on assessing collectability applicable to sales of real estate. ASC 360-20 prescribes specific requirements for payment terms for real estate sales by type of asset designed to mirror the requirements of independent established lending institutions. Contracts for which the buyer's initial and continuing investments do not meet the prescribed requirements are not recognized as sales of real estate with full profit recognition. Under the proposed guidance, Companies could record revenue even if an entity determines that there is considerable uncertainty about a customer's ability to pay. Although the ED's proposal that an entity present any uncollectible amounts as a separate line item adjacent to revenue in the statement of operations is consistent with current timeshare practices, a gross-up of the revenue and allowance accounts in timeshare would most likely occur.

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• Timeshare projects commonly include amenities, such as golf courses, swimming pools, recreational facilities and parking facilities. It is unclear how promised amenities could affect the recognition of revenue for sales of individual units of a real estate project under the proposal. It is also unclear whether the amenities to be provided could be considered a separate performance obligation under the contracts for the sales of the individual units or whether a single performance obligation (to provide a unit along with the amenities) exists under the sales contracts. This determination could impact the timing of revenue recognition and the amount of revenue allocated to performance obligations.

II. Performance Obligations Satisfied Over Time

Timeshare companies, like other real estate development companies, often begin selling real estate interests before construction is complete. Under the current guidance in ASC 978, the "percentage-of-completion" accounting method is the prescribed recognition model during the construction phase. The proposed recognition model in the ED specifies that revenue be recognized over time similar to the percentage-of-completion method if certain criteria are met. Alternatively, if it is determined that these criteria are not met, the prescribed approach is similar to the current completed contract guidance.

As currently drafted, it is very difficult to assess whether sales of timesharing interests satisfy the criteria for recognition over time. In particular, under the proposed model, either the customer would need to control the asset being created (i.e., satisfy criterion in Paragraph 35[a]) or the seller would have to have the right to payment for performance completed to date (i.e., satisfy criterion [b][iii]).

In a typical timeshare sales transaction, the seller receives a down payment from the customer and finances any remaining unpaid portion of the purchase price through an amortizing installment note, or mortgage, secured by the timesharing interest. Even though title does not legally pass from the timeshare developer to the purchaser until construction is complete, it could be interpreted that the customer has control of the asset during the construction phase, as required in criterion 35[a] based on Paragraph 37, which describes the following indicator of transfer of control: "The entity has a present right to payment for the asset—If a customer is obliged to pay for an asset, then that indicates that the customer has obtained control of the asset in exchange." However, as the developer owns the land and controls the construction process, it is not clear whether the conveyance of rights under the timesharing arrangement and the present right to payment for the assets would constitute control of the asset by the customer. As such, timeshare companies could be precluded from recognizing revenue until construction of a project is complete.

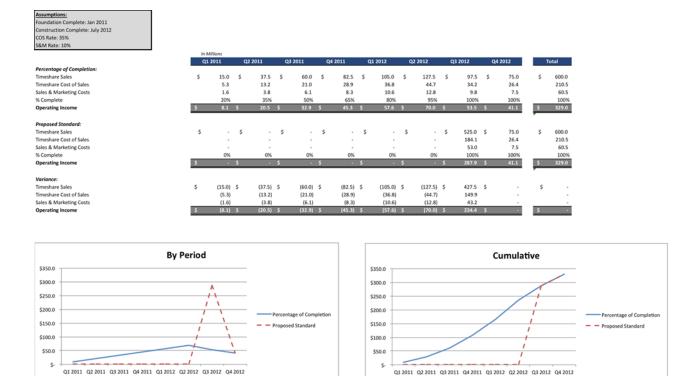
Meeting the criteria in Paragraph 35(b)(iii), which describes that the entity has a right to payment for performance completed to date and it expects to fulfill the contract, would also create challenges under current timeshare practices. While customers must meet initial and continuing investment tests under current guidance in ASC 360-20, timeshare customers do not make progress payments as described in the ED. Rather, they either pay in full when the contract is

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executed, or they make required monthly payments to fund principal and interest associated with any outstanding installment note. As such, it is unclear how an entity would assess and/or meet the "payment for performance completed to date" part of the criteria described in the ED, as the example provided does not represent a typical timesharing transaction whereby each purchaser is paying on an interest which represents only a fraction of the entire project.

If recognition over time is precluded, we do not believe the recognition model under the proposed guidelines accurately portrays the earnings process for timeshare real estate developers. The proposed rules would create very uneven earnings recognition, as a company could potentially have several years' worth of timeshare sales recognized in one quarter (as the revenue from contracts originated during the construction period would be recorded in the quarter that the project is completed). As noted, this would create confusion for the users of the financial statements, as the revenue recognition is not consistent with the economics of the sales contract.

For your consideration, we submit the following example, which illustrates the difference in revenue recognition created by the proposed guidelines:



ARDA appreciates the efforts of FASB and IASB to create a universal set of guidelines for revenue recognition across all industries. However, as stated, we believe that the current ED could negate all of the efforts of the timeshare industry to educate our lenders and investors on the economics of the industry. We also believe that financial statements generated under the proposed guidelines in the ED would potentially be less meaningful as they would reflect long

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periods of time in which no revenue would be recognized and thus would most likely result in supplemental information being required. Providing such supplemental information is confusing, costly and time consuming and often results in a lack of investor interest, due to the continual additional work that is necessary to adjust the reported results to reflect the true operations of the business.

In summary, we request that further clarification and guidance be made available regarding the identification, separation, and determination of satisfaction of performance obligations. Secondly, we wish to confirm that, in general, timeshare products would qualify for recognition over time and that, in application, the ED does not modify the percentage-of-completion guidance in ASC 978 for timesharing transactions.

Thank you for the opportunity to provide these comments on the ED. We would be pleased to discuss these concerns in further depth at your convenience.

Sincerely,

Howard Nusbaum

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President & CEO

American Resort Development Association