October 22, 2010

VIA EMAIL
Financial Accounting Standards Board
director@fasp.org
Re: Revenue Recognition (Topic 605): Reference No. 1820-100

Ladies and Gentlemen:

Starwood Hotels & Resorts Worldwide, Inc. ("Starwood" or the "Company") appreciates the opportunity to present our views on the June 24, 2010 exposure draft, "Revenue Recognition (Topic 605): Revenue from Contracts with Customers" (the "Exposure Draft"), in which the Financial Accounting Standards Board (the "FASB") proposes amendments to Accounting Standards Codification Topic 605. In our view, the beneficial impacts of having a single revenue recognition model and new disclosures, as a result of the proposed modifications, would be vastly outweighed by confusion for financial statement users, diversity among practice for companies and revenue recognition that does not represent the substance or timing of the actual transactions.

Revenue recognition of management fees:

In the hospitality industry, Starwood and other lodging companies provide management and franchise services and resources to owners of hotels around the world. These include operating expertise, sales and marketing programs, systems and support, reservations systems and brand recognition, all of which is intended to maximize the guest experience. In exchange for these services, the management company receives a fee, which is often based on a percentage of the revenues and operating profits of the managed and franchised properties. Agreements between the management company and hotel owners are long term in nature and typically range from 10 to 40 years. These contracts have monthly and annual measurements of services and revenues and do not specify future performance obligations. The revenue from these agreements is currently recognized when earned, which is typically at the end of the month or year of management period of the property.

The revenue recognition model in the exposure draft requires companies to develop an estimate of revenue over the life of a long-term agreement, which is very difficult when dealing with long-term contracts of this nature. Under the model, revenue would then 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 is difficult to estimate during the later periods of a contract, the timing of recognition would be back-ended, subject to volatility, and not represent the substance of the timing of the actual transactions.

In order to address our issues noted above, suggested changes are now discussed. Paragraphs 20-24 address how to determine separate performance obligations, which includes the concept that an obligation needs to be distinct (as defined in the exposure draft) in order to separate each obligation under the contract. In cases where a long-term contract includes an ongoing performance obligations delivered over time, the performance obligation should be separated and specific periods be considered earned in advance of the contract termination date. 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 scenarios when the revenue associated with the performance obligation represents selling price, the transaction price should be estimated at the performance obligation level, rather than at the total contract level. This would allow for the transaction price to be reasonably estimated and separated by
performance obligation, which should be on a year to year basis. The specific revenues earned and related services provided are typically based on annual periods. For example, incentive fees typically correspond to performance levels based on an annual period only and reset, or start over, in the next annual period. Operating budgets and capital expenditure programs are provided to the owner and relate to the upcoming annual period without regards to future years.

Adoption of this standard by retrospective application would be a very time consuming process and 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 these paragraphs, if included in the final guidance, be applied in a modified prospective manner such that the guidance could be applied to contracts prospectively as of an effective date.

**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?

**Response:** Starwood generally agrees with the price interdependence principle. In our industry, hospitality, our view is that a contract to manage or franchise a hotel should be accounted for as a single contract, as primarily all services are interdependent. In addition, we support the segmentation option to a single contract as it may be necessary to do so as our business changes.

**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?

**Response:** We agree that the paragraph 23 principle determining whether a service is distinct is appropriate. A distinct service is clearly seen as a good or service that can be provided by another entity or provided for separately by the entity. However, please refer to the points discussed related to this definition in the revenue of recognition section above.

**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?

**Response:** We generally agree. However, we do have concerns with the guidance in paragraphs 32 and 33 regarding continuous transfer of goods and services. The revenue recognition methods recommended include, output, input and the passage of time. In our Industry, none of these choices would be appropriate. As previously mentioned, when we enter into a contract to manage a hotel for a 30 year period, it will be very difficult to estimate the fees over such a long period, which is what the Exposure Draft model would call for. Additionally, we do not believe that utilizing paragraph 33 in order to recognize revenue for our fee business would accurately reflect the economic events each accounting period as we are typically paid monthly for our management services. We believe the Board needs to consider exceptions for contracts that are for an extended period of time where an estimate would not be feasible. As the Board does seem to provide latitude in this case as paragraph 32 suggests, we believe the
performance obligation could be defined as each single year for 30 years (i.e. 30 performance obligations); an amount that can be reasonably estimated and subject to annual true-ups. Absent a scope exception for service contracts or the ability to define each obligation as one year would be very costly to track and would create a situation where the recognition of revenue would not represent the substance of timing of the actual transactions.

**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?

**Response:** We believe there needs to be a provision or guidance as to how to determine such an amount or accounting treatment when the performance obligations cannot be reasonably estimated. As an example, the new model would supersede specific asset guidance in ASC Topic 360 transactions when a sale coupled with a management contract constitutes continuing involvement. The new recognition model would require the gain over different time periods. In this manner, companies would need to identify the different contracts (i.e. the asset sale and a management contract); record an upfront gain for the sale and the ongoing contract would be recognized over the contract period. This leads to complex valuation questions as to how to value the different components. Absent specific guidance on how to allocate the gain will lead to diversity in practice. We believe there needs to be specific guidance to clarify how amounts that cannot be reasonably estimated are treated, especially when there is continuing involvement with the buyer. We believe the existing guidance under ASC Topic 840, amortization over the contract period, is appropriate. We also believe that, in these unusual cases, disclosure could be required to explain the treatment and why amounts cannot be separated.

**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?

**Response:** We believe the exposure draft should be silent on this topic and allow companies to continue to apply existing accounting guidance. We question as to why contract cost principles are included in a revenue recognition model and would recommend that the Board separate this from revenue recognition. It is our view that this brings many other standards into question and will be too broad to cover in this Exposure Draft.

In the spirit of responding to the question, if included, we believe the guidance in paragraph 57 (b) is unclear in defining specifically the types of costs that an entity can capitalize as an asset. Additionally, it is silent on the amortization period and expense classification. Please clarify with examples to assist companies in appropriately implementing the requirements of paragraph 57.

**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?

**Response:** We do not agree. As noted in the previous response, we believe in our industry that the determinations of the gain on sale versus the value of a long term management contract cannot be
separated. As in ASC Topic 840, if continuing involvement exists, the undetermined amount should be amortized over the period of continued involvement.

Other concerns noted:

**Timeshare:** New rules under the timeshare SOP in 2004 and ability to use percentage of completion accounting rules appears to be superseded and revised to recognize revenue when each unit is sold (contract completion). It is our view that under this proposed model you cannot estimate total revenues and expenses involved in the project, which does not accurately depict the actual revenue transactions that companies will realize. In order to comply with the rules as proposed, companies will need to determine the actual cost, estimates for defaults, and percentage of defaulted units that can be re-sold, and other specifics related to timeshare transactions. We do not believe that a contract completion methodology would accurately represent revenues under the timeshare model.

**Loyalty Programs:** We believe the guidance indicates that we would be required to use a deferral method. However, the SEC staff has always contended that breakage is never to be calculated up front. Under EITF 08-1, whenever points are sold under a multiple arrangement, one needs to consider that not all points will be redeemed when setting the sales price. As such, we believe that breakage should be identified up front and the value per point should be adjusted for breakage. Please consider the inconsistency of the proposed guidance with prior breakage requirements.

**Conclusion**

As a result of the significant problems that the proposal would cause for companies, their Shareholders and financial statement users, we urge the FASB to refrain from proceeding with the proposed amendments in their current form. We, along with other companies in our industry, would appreciate the opportunity to meet with the FASB to discuss the consequences of this proposal, many of which we believe are unintended and could have a detrimental impact on our business, as well as possible alternative approaches to the proposal.

Submitted on behalf of Starwood Hotels & Resorts Worldwide, Inc.,

Alan Schnaid
Senior Vice President, Corporate Controller
and Principal Accounting Officer