March 12, 2012

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

Via email: director@fasb.org

Re: Proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Dear Technical Director:

State Street Corporation (“State Street”) appreciates the opportunity to comment on the FASB’s Proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers (the “Proposed ASU”). With $21.8 trillion of assets under custody and administration and $1.9 trillion of assets under management at December 31, 2011, State Street is a leader in providing financial services and products to meet the needs of institutional investors worldwide. This comment letter is written from State Street’s perspective both as an asset servicer and manager, and as the preparer of its own consolidated financial statements.

We support the Board’s efforts to provide a more uniform and robust framework for addressing issues to improve the comparability of revenue recognition practices across entities and within industries. We appreciate the efforts of the Board to understand the concerns of issuers through redeliberation of the Proposed ASU, the incorporation of feedback received in prior comment letters and the reissuance of the Proposed ASU to avoid unintended accounting consequences.

This letter specifically addresses our responses to certain questions identified in the Proposed ASU as well as areas that we believe require additional clarification. We feel that these changes are necessary in order to achieve the proper balance between providing a universal revenue recognition model and ensuring that the financial statements resulting from application of such a model provides financial statement users with relevant and reliable information to evaluate an entity’s financial performance.

We hope the Board finds our comments helpful as it continues to re-deliberate the proposed guidance.

Question 1: Paragraph 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?
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While we generally agree with the criteria outlined in paragraph 35 and 36 of the Proposed ASU, we believe that clarification is necessary in order to ensure consistent application of the revenue recognition model for certain service contracts that are very common in the investment servicing and investment management industries. Consider a services contract with the following criteria:

- Contract is to perform ongoing custody and administration services;
- Contract has no stated term and continues indefinitely until terminated or renegotiated by one of the parties;
- Each party to the contract has an enforceable right to terminate the contract at any time without compensating the other party¹;  
- Services are performed both on a transactional (e.g., per trade) and periodic (e.g., monthly, quarterly) level; and  
- Contract specifies that payment terms are “as agreed by the parties from time to time,” but in practice, payment due is calculated, invoiced, and settled each period (e.g., month, quarter) pursuant to a detailed fee schedule.

The first consideration is whether or not this type of arrangement is excluded from the scope of the Proposed ASU pursuant to paragraph 15. Our interpretation is that this type of arrangement is effectively a series of single period contracts, which at the onset of each period, are wholly unperformed (the servicer has not yet transferred any services for future periods). Effectively, each period that the contract is not terminated represents a new, wholly unperformed contract for the next period(s). Given this fact pattern, we believe that paragraph 15 provides a scope exception for this type of arrangement. We believe that the final standard should expand its discussion of the types of arrangements, such as this example, which fall outside the definition of a contract pursuant to paragraph 15. We ask the Board to include an example similar to the fact pattern described above to ensure consistent application throughout the investment servicing and investment management industries.

If this type of arrangement was not intended to meet the criteria for the scope exception in paragraph 15, we must determine whether performance obligations are satisfied over time or at a point in time. A typical arrangement may provide for the delivery of a range of services including both transactional services (e.g., custody transactions, trading, etc.) and periodic services (e.g., custody safe-keeping, accounting, compliance, etc.). A typical fee schedule for this type of arrangement would likely include various transaction fees (e.g., $10/trade) and periodic fees (e.g., $500/month or 0.05% of assets serviced per annum). Generally, the fee schedule would specify that the servicer will invoice periodically (e.g., monthly or quarterly) and any annual fees will be charged pro-rata on a periodic basis. Given the guidance in paragraphs 35 and 36, it may not be clear whether this type of arrangement has performance obligations that are satisfied over time or at a point in time. While paragraph 35(b)(ii) may seem to apply to most of the services described above (that is, re-performance generally would not be necessary), we believe that the performance obligations of this type are more accurately described as being satisfied at a point in time pursuant to paragraph 37 (i.e. each period end). Specifically, the following are indicators

¹ Termination rights generally require notification in writing and/or a standard 30 to 90 day timeframe to allow for selection of replacement servicer.
that lead to our conclusion: 37(a) – service provider has a present right to payment and 37(e) – the customer has accepted the service. We believe the Proposed ASU would lead to inconsistent application unless clarified with respect to these types of evergreen, periodic contracts. These types of arrangements are common in the investment servicing and investment management industries.

If these types of arrangements are deemed to be satisfied over time, we believe the following areas of the Proposed ASU would be difficult to apply and lead to diversity in practice: (1) determining the transaction price, (2) measuring progress toward completion, and (3) analyzing onerous performance obligations. That said, if these performance obligations are determined to be satisfied over time, our expectation is that paragraph 42 would apply to this example arrangement. We would have the right to invoice the customer in an amount that corresponds directly to the value to the customer (i.e. the agreed upon fees for the services per a negotiated fee schedule).

As such, the revenue recognition would be the same whether or not the paragraph 15 exception applies and under either point in time or over time methodologies. However, the methodology would have a significant impact on the onerous performance obligation analysis (which is only applicable to performance obligations satisfied over time), systems and/or operational requirements, as well as disclosures required by the Proposed ASU.

We ask the Board to provide specific examples that will clarify treatment of these types of arrangements with respect to paragraph 15 and 35-48. Specifically, we ask the Board to make it clear that these types of arrangements fall under the scope exception of paragraph 15 and therefore are accordingly, outside of the scope of the Proposed ASU. If the Board does not agree and deems these types of contracts to be in scope, we ask the Board to clarify that point in time satisfaction is appropriate for these types of services contracts.

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree that revenue recognized upon satisfaction of performance obligations that is variable in nature should be constrained by the cumulative amount of revenue an entity is reasonably assured to be entitled.

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2 An agreement between two parties that is automatically renewed after each completion or maturity period until cancelled by either party.
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We appreciate the inclusion of Example 13 within the Implementation Guidance section of the Proposed ASU, which clarifies the recognition of asset management fees. As outlined in this example, we feel that it is appropriate to recognize the base management fees each quarter as the services are performed, since the entity has the right to invoice for the management services provided. While the amount of consideration to be received is variable (based on the amount of assets under management at each quarter-end), the entity has experience satisfying similar performance obligations and the fees recognized correspond directly with the value received by the customer for the asset management services performed to date. For performance-based management fees, we believe that revenue should not be recognized until completion of the performance period. The amount of consideration is highly susceptible to volatility in the market, and therefore the entity is not reasonably assured of receiving the performance-based fee until the performance period is complete.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

While we agree with limiting the scope of onerous performance obligations to contracts that an entity satisfies over a period of time greater than one year, we believe the Proposed ASU applies the concept to the incorrect unit of account. We disagree with the assessment at the performance obligation level as it could result in the recognition of a liability when the overall contract, a group of contracts entered into with the same customer in contemplation of one another, or the customer relationship is economically profitable. Financial statements based on this proposed revenue recognition model may not effectively communicate the economic substance of an entity’s arrangements with its customers.

Applying the onerous assessment at the performance obligation level would ignore the economics of contracts negotiated in contemplation of one another, with services provided by numerous legal entities across multiple geographies. Under the Proposed ASU, an onerous performance obligation may require loss recognition at inception, despite having an arrangement that is economically profitable. We believe that this will significantly distort the substance of the transaction to users of the financial statements and is inconsistent with the guidance of ASC 450 (formerly SFAS 5). In effect, it may result in the recognition of a loss contingency that is neither probable nor reasonably estimable based upon all information available to management.

In order to properly reflect the substance of an arrangement and to accrue for only probable and reasonably estimable liabilities, we ask the Board to assess the onerous test at the contractual arrangement, group of related contractual arrangements, or customer relationship level. This change would more closely align the proposed guidance with the existing guidance under ASC 450 (formerly SFAS 5) for accounting for loss contingencies.

Furthermore, we believe the Proposed ASU should specifically state that the assessment of an onerous contract should only be made once, at the inception of the arrangement. It is operationally burdensome to require an entity to continually reassess the profitability of a contract or performance obligation in the
manner set out in the Proposed ASU. Conversely, we believe that a contract should only be reassessed if management becomes aware of a significant change in factors that raises doubts about the continued validity of its initial assessment. However, we recognize the Board’s intent for financial statement preparers to recognize losses when the income from remaining performance obligations is exceeded by the direct costs.

Finally, we believe that the Proposed ASU should define the types of long-term servicing arrangements for which the onerous test is applied. As previously discussed in our response to Question 1, it is unclear whether certain long-term or evergreen servicing arrangements, where services are performed periodically, are performance obligations satisfied over time or at a point in time.

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114-116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity’s remaining performance obligations (paragraphs 119-121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128)

Do you agree that an entity should be required to provide each of these disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

Overall, we believe that the disclosure requirements presented in the Proposed ASU are overly burdensome and will not achieve the Board’s objective of assisting users of the financial statements in understanding the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

We believe that the disaggregation requirements in paragraphs 114-116 may be duplicative of existing segment reporting standards. Further, we believe that the comparability of any such disclosures would be weak given the wide array of potential categories proscribed in the Proposed ASU. We believe that simple qualitative disclosures regarding the types of contracts with customers would be sufficient for users. Further, we believe that the burden of producing any quantitative disclosures not already covered within segment reporting would outweigh the potential benefits.

We believe that the tabular reconciliation in paragraph 117 would require significant manual effort to compile and would provide little or no benefit to users of the financial statements. Generally, accounts
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receivable and related systems do not link the reconciliation items outlined in the proposed disclosure requirements, such as cash received, to the related contract asset or liability.

We do not agree with the requirement in paragraph 119 to disclose management’s expectation of when revenue will be recognized for multi-year contracts. We do not believe that this information would benefit users of the financial statements, and believe that it would be overly burdensome to prepare.

We believe that the following disclosures would be both beneficial to users, but not overly burdensome for preparers:

1. a description of the types of contracts with customers from which an entity recognizes revenue;
2. a description of the significant judgments or estimates used by management to record revenue and how changes in those judgments and estimates affected revenue in the current period;
3. a description of customer relationships that are onerous including how/why the contract has become onerous, and;
4. the total amount of assets recorded associated with costs to obtain or fulfill a contract with a customer and a qualitative discussion of the period over which the assets are being amortized.

Furthermore, we believe that all of these disclosures should be provided annually and only in interim financial statements when material changes occur from prior year-end disclosures.

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We appreciate your consideration of our points described above prior to the issuance of a final standard, and we welcome the opportunity to discuss them with you.

Sincerely,

James J. Malerba
Executive Vice President and Corporate Controller