March 13, 2012

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

Via email: director@fasb.org

Dear Technical Director,

RE: Proposed Accounting Standards Update to Topic 605 – Revenue Recognition, Revenue from Contracts with Customers (File Reference No. 2011-230)

The Blackstone Group ("Blackstone") is pleased to comment on the proposed Accounting Standards Update on Revenue Recognition, Revenue from Contracts with Customers ("the Proposed ASU").

Blackstone is a leading asset manager that specializes in managing alternative asset classes such as private equity funds, real estate funds, funds of hedge funds, and credit-oriented funds with approximately $166 billion of assets under management as of December 31, 2011. Our key sources of income, arising from contracts with customers, comprise management and advisory fees, and transaction and other fees, including monitoring fees received directly from portfolio companies. Base management fees are earned from the limited partners of each of our managed funds as a fixed percentage of assets under management ("AUM"), net asset value ("NAV"), total assets, committed capital or invested capital, based on contractual terms specified in the underlying investment advisory agreements. In addition, Blackstone, like other managers of alternative assets, earns performance fees on the underlying performance of hedge funds ("incentive fees") and is also allocated a percentage of appreciation in its private equity type funds ("carried interest"), collectively referred to as "performance-based fees".

We note that the FASB has made significant changes to the proposals issued in June 2010, however, we remain concerned that the Proposed ASU still contains proposals that do not provide decision-useful financial information to users of financial statements and which are difficult to operationalize. We remain concerned about the applicability of the standard to the provision of services. The proposals remain heavily focused on the provision of goods and the transfer of assets rather than having much applicability to the asset management industry.
Further, the FASB has not addressed the comments that we raised in our letter dated October 22, 2010 in which we questioned the scope of the project. Similar to the proposed ASU issued in June 2010 (File Reference: 1820-100), we note that the current proposals also contain a scope exception for debt and equity securities, which are covered under Topic 320, and financial instruments which are covered under Topic 825. We originally raised a question on the applicability of the proposed ASU to certain arrangements in which a General Partner ("GP") within a limited partnership structure receives proportionate allocations of income on their investment but also receive a disproportionate allocation of income if certain profitability targets are achieved that the GP is entitled to at a point in time (carried interest allocations).

In our opinion the accounting for a carried interest is outside the scope of revenue recognition and we would welcome the FASB's interpretation of this conclusion. However, if this conclusion is not correct, the accounting recognition for carried interests under the Proposed Update appears to be different from current GAAP as illustrated below.

**General Comments on Recognition of Carried Interest and Incentive Fees**

Under current GAAP, asset managers are permitted to follow accounting guidance contained in ASU 605-20-599, SEC Staff Announcement: Accounting for Management Fees Based on a Formula, which permits the recognition of fees in interim reporting periods (referred to as Method 2 in the guidance). We believe that this provides a methodology for recognition that allows users of financial statements to evaluate an entity's performance during a particular period. If the management contract was terminated as of the reporting date, the amount of revenue recorded with respect to performance-based fees represents the amount that the manager would be entitled to receive on that date. We believe that this is the single most accurate representation of performance as of the reporting date and is in line with many fair value concepts contained in U.S. GAAP.

Assuming that the fee structure is comprised of a base fee of 2% of AUM payable quarterly and not subject to any clawback provisions and carried interest of 20% of returns above a stated threshold which is subject to clawback, we note the significant level of estimation required to determine the transaction price. Given the limitations on the cumulative amount that can be recognized under the Proposed Update, the amount that would be recognized in revenue with respect to management fees is exactly the base fee amount that is recognized under current GAAP. With respect to the performance element, as illustrated in Example 13 in the ED and the application of the reasonably assured criteria in the ED it is likely under the Proposed ASU that no amounts will be recognized until all contingencies have been resolved, i.e. there is no potential for clawback, which may only occur at the end of the life of a finite-lived fund. As noted above, we do not believe that this faithfully represents an asset manager's performance over a given reporting period.

We note that carried interest is not reported on a fair value basis, but represents the allocation of appreciation of investments that are carried at fair value to the GP. The investments themselves are held by an investment company which is required to measure all of its investments at fair value under ASC 946. Any appreciation in the value of such investments is unrealized at any given reporting date until the investment is disposed of. As a result, there is an element of contingency associated with the fair value of such investment, however GAAP requires the recognition of unrealized gains and losses in the investment company's financial statements based on an exit price notion. The GP is allocated a portion of this appreciation/depreciation in the form of carried interest and we question why the FASB is proposing that this allocation is not recognized in the income statement of the GP until subsequent reporting periods.

We further note that Blackstone has entered into certain compensation arrangements in which carried interest allocated to the GP is then further allocated to employees. Compensation expense is currently recognized in the same reporting period as the carried interest allocation and it is noted that the clawback aspect applies both to the amount recognized as revenue and the amount recognized as related compensation expense. If the guidance in the Proposed ASU is interpreted in the manner above, we
recommend that the corresponding compensation expense also be deferred until all contingencies are resolved. This would allow for the application of appropriate matching principles and recognition of both revenue and expense on an appropriate basis.

Similarly, with respect to incentive fees, these generally crystallize annually and would not be subject to any clawback provisions after this date. Under the proposed guidance, such fees would not be recognized until the end of each annual measurement period resulting in no revenue being recognized in interim periods. Again, we believe that this does not faithfully represent an asset manager’s performance in any given period nor does it fit with fair value concepts discussed above.

A possible approach to address this issue would be to apply the reasonably assured criteria based on conditions and contractual rights that exist at the balance sheet date. Under this approach the GP would measure and recognize the fee/revenue at the amount it would be entitled to receive if the contract were to be terminated at the balance sheet date and would also recognize a corresponding compensation expense.

We have spent considerable time with users of financial statements to educate them on the basis for recognizing revenue and note that other preparers in the asset management industry who may prepare financial statements using Method 1 in which no revenue is recognized until all contingencies are resolved, also provide revenue metrics based on Method 2 to allow analysts to analyze an asset manager’s performance in any given period. This also provides an accurate snapshot of any related compensation expense arising on carried interest allocations.

With respect to applying the guidance, we note that the FASB is proposing retrospective application. We note that in order to successfully transition between the current methods in which we calculate and recognize performance-based fees, especially carried interest, we will need to recreate financial information since the inception of any given fund and any given investment within that fund to determine the amount that would meet the reasonably assured criteria for recognition in any given reporting period. This is operationally difficult and time and resource consuming for no overall benefit to users of financial statements.

Further, with respect to the proposed disclosures in Paragraph 119 and 120, we do not believe it is operationally possible to calculate a transaction price and the allocation of this transaction price over a continuous service period in order to provide the information noted in paragraphs 119 and 120. In applying the guidance to the asset management industry, we note that there is no calculation of transaction price in Example 13, rather the amount recognized as revenue is limited to only the management fee. We request clarification from the FASB on how the disclosure requirements will be met in this scenario.

Our other comments on the questions raised in the Proposed ASU are presented below.

*Question 1: Paragraphs 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?*

It is not clear how the provisions contained in Paragraphs 35 and 36 would be applied to the provision of services over time. Further clarification is required on what would constitute a transfer of control when it relates to services rather than goods. Paragraph 35(b) attempts to frame the guidance in situations where an entity’s performance does not create an asset. We agree that if an entity has a right to payment for performance completed to date as noted in paragraph 35(b)(iii), then a case is made for recognition of carried interest allocations in accordance with Method 2 of current revenue recognition guidance. As noted in our recommendations above regarding the right to receive fees/revenue if a contract is terminated at a given point in time, we believe that the right to invoice would support recognition of carried interest in interim reporting periods.
Question 2: Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We agree that a customer's credit risk should not be included in the evaluation of the transaction price and that it should be evaluated separately. A customer's credit risk is already factored into the evaluation of receivables to determine whether they are collectible and whether an allowance is required. Generally, a separate analysis is not performed on this risk. As a result, we do not agree with the presentation requirements to separately present only the amounts that are deemed uncollectible due to a customer’s credit risk as uncollectibility is not evaluated this way in practice.

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of the 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 specified performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount or 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 an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We do not agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations. As discussed in the General Comments section above, such constraint does not give users of asset manager financial statements any indication of the manager's performance during a given period. We note that there has been an increasing use of fair value concepts in U.S. GAAP and recognizing performance based fees, including carried interest, taking into account the fair value of underlying investments provides a more accurate reflection of revenue earned in that period. We are of the opinion that if the FASB does not agree with our view that carried interest allocations should be accounted for under ASC 320, that such revenue should not be constrained. As long as there are adequate disclosures about the way in which an entity recognizes revenue and any potential clawback obligations, a user has the ability to understand the performance of an asset manager and any constraints on the amount of revenue recognized.

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?

We have no comments on this question.

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
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period
3. An analysis of the entity's remaining performance obligations
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period

5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfil a contract with a customer.

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.

We do not agree with the proposed disclosures because we believe that the revenue recognition contained in the framework does not faithfully represent the amount of revenue an entity earns in a given period. By extension, the disclosures are supporting amounts in GAAP that are highly judgemental and less meaningful than the amounts that would be recognized under current GAAP. We do not believe that it is operationally possible to provide the proposed disclosures in interim or annual financial statements.

Question 6: For the transfer of a nonfinancial asset that is not an output of an entity’s ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16 or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon recognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity’s ordinary activities? If not, what alternatives do you recommend and why?

We have no comments on this question.

Summary

In summary, we appreciate the efforts of the FASB and IASB in developing a set of converged principles based guidelines on revenue recognition. We remain concerned that the proposals contained in the Proposed ASU would result in the deferral of significant revenues into future periods, which we do not believe accurately reflects the performance of an asset manager in any given period. Application of this guidance would require us to provide users, especially analysts, with significant non-GAAP based information in order for them to assess current performance and evaluate future earnings potential. We request that the FASB first consider our evaluation that carried interests are outside the scope of revenue recognition. If the FASB does not agree with our conclusions, we request that consideration be given to the concerns raised in this letter.

We appreciate the opportunity to comment on the Proposed ASU. If you have any questions on the comments provided, please do not hesitate to contact me at 212 583 5605.

Yours truly,

[Signature]

Kathleen Skero
Finance Director
The Blackstone Group