March 13, 2012

Technical Director
File reference No. 2011-230
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasp.org

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

Dear Technical Director,

KKR & Co. L.P. (“KKR”) appreciates the opportunity to comment on the recently issued FASB proposed accounting standards update on Revenue Recognition (Topic 605) – Revenue from Contracts with Customers (the “Proposed Update”).

KKR is a leading investment firm in the alternative asset management industry with $59.0 billion in assets under management as of December 31, 2011. Through our Private Markets segment, we manage and sponsor funds and co-investment vehicles that invest capital for long-term appreciation in private equity, natural resources and infrastructure assets. Through our Public Markets segment, we manage a specialty finance company, investment funds, structured finance vehicles and separately managed accounts.

We note that Example 13, “Management Fees” of the Proposed Update indicates that income associated with performance-based incentive fee arrangements should be deferred until the reporting entity determines that it is reasonably assured to be entitled to the income. It appears, from this example, that the Proposed Update is mandating the use of “Method 1” of ASC 605-20-599 (former EITF D-96) and therefore implicitly prohibiting “Method 2” which currently allows for the recognition of incentive based income at any point in time as if the contract was terminated at that date. This change could significantly impact the recognition of profit participation for many firms in the asset management industry.

**Income from Profit Participation**

As currently drafted, it is not clear if profit participation (defined below) is within the scope of the Proposed Update. Accordingly, we strongly encourage the Board to clarify whether profit participation would be scoped out of the Proposed Update on the basis that it is analogous to an equity method investment and therefore would be accounted for under ASC 323.
The following terms are typical of KKR’s private equity funds:

- KKR as the general partner (“GP”) holds a minority pro-rata equity interest between 0.2% to 4.0%;
- Unrelated third party limited partners (“LP”) hold the remaining majority pro-rata equity interest;
- The fund generally has a stated life of between 13 and 18 years;
- LPs pay a management fee of between 1% and 2% to an affiliate of the GP;
- The GP is entitled to a profit participation (“profit participation”) of 20% of the LP’s realized gains in the fund.

**Accounting for Profit Participation**

KKR currently accounts for profit participation under the fund structure described above as a component of investment income (as opposed to revenues) at any given quarter-end based on the amount that would be received if a particular fund were liquidated at its then current fair value. Accordingly, profit participation income is recognized over the life of the fund in conjunction with the unrealized appreciation of the underlying investments in the fund. In addition, KKR has entered into certain compensation arrangements in which profit participation allocated to the GP is then further allocated to employees resulting in the recognition of compensation expense at the time profit participation is recognized. If the values of our investments decrease in subsequent periods, recognized profit participation is reversed and the corresponding compensation expense is adjusted.

Over the life of a fund, KKR will, as appropriate, distribute profit participation as realization events occur. At any point in a fund’s life, to the extent that profit participation has been distributed to the GP that is in excess of that to which it is contractually entitled, a clawback obligation is recorded in the financial statements. At the end of a fund’s life upon a complete liquidation of all investments, if a clawback obligation continues to exist, that amount would be refunded to the LPs. Under this long-dated income construct, the ultimate amount of income the GP is entitled to associated with profit participation is not finalized until the final years of the fund when a majority of the LP cost has been returned and the majority of the realization activity has occurred.

We believe that our current method of income recognition related to our profit participation is the most appropriate method for the following reasons:

- At any reporting date, the financial statements reflect the economics that would inure to KKR if the investments were sold at that date and does not involve a consideration of future performance as we rely on the calculated income at the interim measurement date.
- Deferring the recognition of profit participation to the end of a fund’s life when all of the clawback contingencies have been resolved would result in de minimus recognition of income over the life of the fund with an outsized amount of income recognized in the final years of a fund.
• The recognition of profit participation by the GP is symmetrical with the allocation of investment income at the underlying fund.

• The recognition of compensation expense associated with the profit participation to be distributed is recorded symmetrically with the recognition of income.

• Investors and users of KKR’s financial statements expect to see profit participation recognized over the life of a fund based on the fund’s liquidation value at any reporting date. Accordingly, if profit participation is required to be deferred to the end of a fund’s life, investors and users would request non-GAAP financial disclosures that provide this information which would add to the already heavy use of non-GAAP measures in the alternative asset management industry.

For the reasons described above, KKR accounts for its profit participation income as a component of investment income and not within revenue. Accordingly, the accounting we follow related to profit participation is consistent with accounting for an equity method investment under ASC 323. Separately, the accounting described above for profit participation is consistent with Method 2 under EITF D-96.

As indicated above, we strongly encourage the Board to clarify whether profit participation as described in the construct above would be scoped out of the Proposed Update.

We appreciate the opportunity to offer our feedback on the Proposed Update. We would be pleased to discuss our views with the Board at your earliest convenience. If we can provide any further information, or if you would like clarification on any point we have raised, please contact me at 212-230-9740.

Sincerely,

William J. Janetschek
Chief Financial Officer