April 5, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06851-5116

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom


Dear FASB and IASB members:

Thank you for the opportunity to comment on the revised Exposure Draft (ED), Revenue from Contracts with Customers, issued by the Financial Accounting Standards Board and the International Accounting Standards Board (collectively, the Boards) on November 14, 2011.

We support the Boards’ objective to simplify the model used for recognition of revenue to improve consistency in application of revenue recognition principles. We believe the Boards have made significant progress toward this objective and have addressed a number of previously expressed concerns through issuance of the revised ED.

We have evaluated the guidance in the ED and how it would be applied to American Express cardmember and merchant arrangements and we believe our proposed application is consistent with the ED and is supportable without requiring changes to the ED. We believe it is important to highlight our interpretation as others have expressed different interpretations that do not reflect the underlying economics of these arrangements and would require changes to the ED guidance. We believe our interpretation best reflects the economics of these arrangements and provides greater transparency and meaningful information to the user of the financial statements. This letter explains our interpretation and the problems and concerns we see with other views.

Overview of Merchant and Cardmember (CM) Transactions
American Express enters into arrangements with merchants who accept our cards. Revenue under those merchant arrangements is calculated as a percentage of the merchant’s sales transactions that are processed through the American Express network, with the percentage charged ("discount rate") negotiated between American Express and each individual merchant (reported as Discount Revenue). The earnings process related to the Discount Revenue under the merchant contract is complete when each merchant sales transaction is processed through the American Express network. There are no further obligations to the merchant and no promises made to the merchant regarding CM benefits.
American Express earns CM revenue from various fees charged to the CM. These fees are typically earned over an annual period unless they are transaction based or financing related fees which are earned at a point in time. These fees are reported separately from Discount Revenue in the income statement. Depending on the card product, CM contracts may include elements related to the financing of CM purchases, various member benefits (e.g., airline lounge access, purchase protection, etc.) and the right to earn and redeem membership loyalty points. CMs earn loyalty points or cash-back rewards based on their spend transactions at merchants. CMs are required to remain a CM in current standing under the financing arrangement to be eligible to redeem loyalty points. They are not entitled to loyalty points or cash-back unless they spend and remain a CM in good standing. Points earned are forfeited if the CM does not renew their card membership annually.

The merchant and CM contracts are separate contracts between American Express and each individual merchant and between American Express and each individual CM. The pricing of the merchant contracts and CM contracts are not interdependent and the rights under each contract are not dependent on the satisfaction of obligations under the other contracts.

Application of ED to Merchant and CM Transactions

CM and merchant contracts would not be combined for the purposes of applying the ED based on paragraphs 16 and 17 of the ED as these contracts are not entered into at or near the same time with the same customer.

The CM contract includes various performance obligations, most of which are stand ready obligations related to the various CM benefits that a CM is entitled to when and if they choose to utilize the benefits (e.g., airline lounge access, concierge service, etc.). The portion of the CM annual fee or combined fee (transaction price) if multiple fees are charged related to these performance obligations, as allocated based on paragraphs 70 – 76 of the ED, would be recognized over the annual period as the stand ready obligation is fulfilled (refer to appendix A, question 1 for further discussion of stand ready obligations).

In those card products where a CM is given the right to earn loyalty points or cash-back rewards, either through the CM agreement or through a separately priced program option, a portion of the total CM fee (transaction price) would be allocated to the performance obligation whereby American Express provides the right for the CM to participate in the loyalty program. The performance obligation is the participation right in the program and the related revenue allocated to this performance obligation would be recognized over the participation period to which the CM is entitled (generally 12 months).

By participating in the loyalty program, the CM is rewarded when the CM spends and initiates transactions from which merchant revenue can be earned by American Express. Effectively, the CM is providing a distinct service to American Express similar to a typical commission service. As described in paragraph 28, a service is distinct if there is benefit on its own. The CM spend provides immediate benefit to American Express and no additional resources are needed to be entitled to that benefit (i.e., revenue from merchant is fully earned under the merchant contract when the merchant’s sales transaction is processed). Loyalty points and cash-back rewards are payments to the CM for providing that benefit and would therefore be recognized when earned.
as a cost related to the revenue earned from the merchant, consistent with paragraphs 65 - 66 related to consideration payable to a customer.

These payments do not represent a performance obligation under the CM contract. There are several facts to consider which support this view. The CM does not receive this benefit by simply entering into the CM agreement and paying an upfront fee, which is the case with most loyalty point programs where points are earned when a customer purchases a good or service from the vendor, pays the vendor consideration and earns the right at the time that consideration is paid, to free future goods or services from the vendor. CMs must also provide American Express with something of value other than cash payment. They must initiate a transaction that will generate merchant revenue for American Express. These are transactions that are at the option of the CM in which American Express receives a benefit from the CM. The performance obligation under the CM contract is the option given to the CM to earn rewards for providing American Express with that benefit. This is consistent with the pricing economics under the CM arrangement. It is important to also note that the merchant is not paying for these loyalty points on behalf of the CM. The right to cash under the merchant arrangement is not contingent upon the CM redemption of points. American Express has satisfied its performance obligation to the merchant at the time the transaction is processed. There is no arrangement which links the rights and obligations under the merchant contract to those rights and obligations under the CM contract.

Alternative Views Resulting in Accounting Inconsistencies with Card Economics and between Similar Card Transactions

A common interpretation of the ED identifies the loyalty points redemption activity as a performance obligation under the CM contract. While this interpretation may be appropriate for most vendor loyalty points programs (e.g., an airline loyalty program), the application of this interpretation to credit card loyalty programs would result in financial statement recognition that does not reflect the economics of the underlying transactions. Under this interpretation, a portion of the CM annual fee that is allocated to the loyalty points obligation would be deferred until the CM redemption of points. The cost related to that points liability would either not be recognized until redemption, or recognized before points are even earned if an onerous contract conclusion is made (refer to our response to question 4 in Appendix A for further discussion of the onerous contract test). This interpretation does not consider the value the CM provides to American Express beyond the cash consideration paid up front. Application of this model to the credit card loyalty program results in a significant difference between deferred revenue and the loyalty points liability, which does not generally occur in other loyalty programs. Although a portion of the annual fee revenue would be deferred until redemption of the loyalty points, the amount that would be allocated to a loyalty points performance obligation would in most cases be less than the cost of providing those loyalty points. The cost associated with the provision of points would not be recognized at the point the CM initiates a transaction with a merchant and earns loyalty points. This accounting would result in an overstatement of income related to the merchant transaction.

Given some of these problems with the interpretation that credit card loyalty points are a performance obligation, some views support the combination of the CM and merchant contracts under the ED. This view would require that the ED be modified to require that these contracts be
combined. However, as noted previously, the CM and merchant contracts are negotiated separately, are not price or performance interdependent and the merchant contracts contain no obligation for American Express to provide loyalty points or rewards to the CMs. We question what principle-based combination criteria could be developed that would result in the combination of CM and merchant contracts that are not directly linked, but not also result in potential unintended consequences of combining other contracts also not directly linked to one another.

In addition to our objection related to the combination of CM and merchant contracts, we also believe a model that results in deferred revenue related to credit card points liability is inconsistent with the economics of these transactions. Unlike typical loyalty points programs, whereby vendors provide points that are used predominately by customers to procure additional goods or services the vendor provides, our loyalty program provides points that are used by customers to procure goods or services from a 3rd party vendor. These points are not used by the customer to procure goods or services that are the ordinary output of American Express. The primary obligor of the goods or services that the CM selects for their points redemption is the respective 3rd party vendor that provides those goods or services to the CM. American Express is paying for that good or service on behalf of the CM as a reward for the CM initiating a revenue generating activity for American Express. Under the typical non-credit card loyalty points program, a vendor earns the deferred revenue related to loyalty points when that vendor engages in a revenue generating activity that is the normal output of their ongoing activities. If revenue is deferred for loyalty points under a credit card loyalty program, revenue is earned when the credit card company makes a payment to a 3rd party vendor on behalf of the CM for goods and services that are not the normal output of their ongoing activities. The payment to a 3rd party vendor should not be viewed as a revenue generating activity of the credit card company.

To illustrate the difference between a credit card loyalty program and a typical vendor loyalty program, consider the results of this proposed deferred revenue model when redemption of loyalty points is high, which generally occurs in a recession. For example, an airline earns revenue when it provides flight services whether those are paid for with cash or loyalty points. A credit card company would earn revenue even when its underlying business activity is down. During a recession, consumer spend is down, which results in fewer credit card transactions being processed and less ongoing business activity for the credit card company. The fact that fewer transactions are being processed, which is the normal business activity that drives certain revenue streams, should result in a reduction of revenue. However, under a deferred revenue model this impact is offset by the redemption of loyalty points. Therefore, in a recession or a period with high redemption activity, there would be a disconnection between the ongoing business activity and the revenue earned. This is not the case with the airline example where the redemption of points continues to reflect demand for the airline’s ongoing business activities. As a result, we do not believe this proposed model would reflect the underlying economics of the credit card business and would serve to provide less useful information that is counterintuitive to the user of the financial statements.

Another issue with the interpretation that credit card loyalty points are a performance obligation is the arbitrary bifurcation of the points or rewards activity that occurs based on the characteristic
of the underlying reward. Under the ED, if cash consideration is paid to a customer, it results in a reduction of the transaction price that is allocated to the underlying performance obligations of the contract. Many card products provide cash-back rewards. Under the ED, the accounting for these rewards results in a reduction of revenue at the point the cardholder earns the rewards. While this results in appropriate timing of income recognition, an interpretation that loyalty points are a performance obligation creates a different accounting treatment for rewards that are not cash-like. Those rewards that are not cash-like result in deferred revenue and cost recognition. Therefore, the manner in which rewards are provided to cardholders (e.g., cash versus products or services), results in a very different accounting treatment under this interpretation of the ED. However, the underlying economics in these two scenarios is similar. In one scenario, the cardholder is paid for the points earned and in the other scenario a vendor is paid to acquire a good or service on behalf of the cardholder for the points earned. In both scenarios, our obligations to the merchant have been completely satisfied at the time the CM earns points, we have a liability to pay cash either to the CM or to a 3rd party vendor, and the CM has earned something of value – either cash or a good or service that they choose. We do not believe there should be a different accounting treatment for the rewards earned under these different card products as the provision of rewards under both products serves the same purpose – reward the CM for their 3rd party spend transactions which in turn provide American Express with the opportunity to earn revenue under a separate merchant contract.

Different accounting treatment under this interpretation would also occur based on the nature of loyalty programs and how they are managed. In addition to cash back card products and card products that earn American Express rewards points (Membership Rewards), co-brand card products are offered which provide loyalty points within a 3rd party loyalty point program (e.g., an airline miles credit card). Consider the following example and resulting accounting treatment: Lucy purchases a new electronic tablet for her family using her American Express Platinum card which earns her American Express Membership Rewards points. Due to the overwhelming popularity of the device, Lucy returns to the same retailer to purchase a second electronic tablet for her family. For the second purchase she uses her airline miles co-brand credit card (issued by American Express) which earns her loyalty points (airline miles) within that specific airline’s loyalty program. Although the parties are in the same position under both purchases, the first purchase which earns American Express Membership Rewards points would result in a deferral of revenue associated with the loyalty points. The second purchase with the co-brand card would not result in the deferral of revenue as the loyalty points liability is owned by the airline as American Express pays the airline for the loyalty points when earned by the CM. Under both of these transactions, American Express’ obligation to the tablet retailer is complete when the transaction is processed. American Express has incurred a cost associated with the loyalty program points Lucy chose to earn. We believe both transactions should result in current period revenue and expense and do not believe there should be a difference in accounting for these two transactions.

It is important to note that card issuers provide a variety of card products to cardholders. Many traditional bank issuers tend to provide more cash-back or co-branded card products, which would not result in the deferral of revenue and the related accounting complexities as noted above. However, some of these traditional bank issuers do provide card products that result in their own loyalty point liability. We do not believe the economics of these various card products
are different to an extent that requires different accounting treatment. The design of these card products is to provide cardholders with the spend benefit that is most attractive to them. Although the benefits may be different, they are provided to the cardholder not as a benefit of entering into the cardholder agreement and paying an annual fee (there may be $0 annual fee in some cardholder contracts), but as a payment for the benefit they provide the card issuer when they spend on their card and initiate a revenue generating activity for the card issuer from a third party (merchant discount revenue for American Express, or interchange revenue from VISA or Mastercard for traditional bank issuers). Different accounting based on the nature of the award would result in economically comparable transactions being accounted for in an inconsistent manner and would make it more difficult for investors to compare the results of credit card companies and card issuers that are providing the same underlying services.

**Conclusion**

We believe our proposed application of the ED, which recognizes the loyalty points earned based on CM spend as compensation for the distinct commission service the CM provides, best reflects the economics of these arrangements and provides transparency, comparability and meaningful information to the user of the financial statements. As noted previously, our interpretation does not require a change to the ED but given the varying views regarding the accounting for credit card loyalty points, we would suggest an example be provided in the implementation guidance which provides our interpretation of the ED as an appropriate application of the ED’s guidance and principles to a credit card company.

In addition to our comments on the application of the ED to CM and merchant contracts, we have provided responses to the specific questions raised by the Boards in requests for comments on the ED. These responses are included in Appendix A. Appendix B includes additional comments we would like the Boards to consider regarding other accounting issues, including time value of money and costs to fulfill a contract. Appendix C includes our responses to the questions raised by the Boards related to the US GAAP consequential amendments to the Codification.

American Express Company appreciates the opportunity to provide our comments on this ED. We look forward to continuing our dialogue through participation in the Board-sponsored public roundtables on April 26, 2012 and any other outreach the Boards would deem helpful. If you have any questions regarding our letter or would like to discuss our views in further detail, please feel free to contact me directly at (212) 640-0365.

Sincerely,

Paul W. Karr  
Senior Vice President, Deputy Corporate Comptroller  
American Express Company
Appendix A – Responses to Specific Questions

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?

We agree with the proposal in paragraph 35 and 36 to specify when an entity transfers control of a good or service over time. However, we believe additional examples to illustrate how the principle would be applied to stand ready obligations is necessary to ensure consistency in application. Stand ready obligations could be interpreted as a service provided over time or separate obligations provided at various points in time. Our cardmember (CM) contracts include various performance obligations, most of which are stand ready obligations related to the various CM benefits that a CM is entitled to when and if they choose to utilize the benefits (e.g., airline lounge access, concierge service, etc.) over the annual period. We believe these performance obligations are satisfied over a period of time and the related allocated revenue would be recognized over the annual period as the stand ready obligation is fulfilled.

Because CMs control the right to utilize these benefits at their discretion rather than American Express controlling the point at which these benefits are provided to CMs (if provided at all), an over time recognition pattern is most appropriate. A point in time recognition model when the CM controls if and when a benefit is used, would be complex and introduce significant assumptions in the recognition model. CM agreements give CMs a myriad of benefit alternatives. Attempting to estimate which benefits a CM will use, the timing and frequency of use of those benefits, allocating the annual fee based on the estimated benefits a CM will choose to utilize and adjusting the recognition of revenue based on the actual timing of benefits utilized would be subjective and overly complex and not result in a better representation of the amount and timing of revenue recognized under the CM agreement for the specified annual period.

In addition, we believe the criterion in paragraph 35 b (i) could be applied to stand ready obligations in which the customer controls the timing and use of the benefit as the customer simultaneously receives the benefits of the entity performance as the entity stands ready to provide the benefits. The criterion in paragraph 35 b (iii) could also be applied to our stand ready obligations as American Express has a right to payment for performance to date even if no benefits are utilized by the CM during a certain period. Both of these interpretations would support an over time recognition pattern for our stand ready obligations to our CMs. However, we believe examples illustrating this interpretation would provide more clarity and ensure more consistency in application of this principle.

Question 2: Paragraph 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised considerations 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 with the proposal to apply IFRS 9 or ASC Topic 310 to account for customer consideration that may be uncollectible. However, we believe the presentation of these amounts adjacent to revenue will create additional cost and complexity. We believe this presentation would serve to add unnecessary complexity to the financial statements with no meaningful benefit to the user of the financial statements.

For credit card companies, customer consideration for services the entity provides (e.g., annual fees, credit monitoring service fees, etc.) is included in CM balances that also include loan balances as well as interest and delinquency fees. The ED would require an allocation of the overall loan loss provision between those amounts related to the revenues from customers and those amounts related to loan balances. CM balances are measured in the aggregate and this presentation requirement would result in an arbitrary allocation of credit risk that provides no meaningful information to the financial statement user.

BC 174 and BC 175 suggest contracts with a significant financing component as outlined in paragraph 58 be presented separately from those without a significant financing component. For example, customer contracts (not CM arrangements) that have upfront signing bonuses that result in imputed interest income under the ED would be evaluated together and impairment of those assets would be recorded in loss provisions. If a similar contract did not have an upfront signing bonus, the resulting impairment would be classified as revenue. This would result in a bifurcation of the population of contracts into portfolios that are not aligned based on their credit risk. This would complicate the credit risk assessment process and wouldn’t result in additional benefit to the financial statement user.

Despite our objections noted above, if the presentation requirement is finalized as proposed, we recommend including within the standard the guidance presented in BC 174 and BC 175 related to the presentation of credit risk in a contract with a significant financing component. We would further recommend that the description of a significant financing component be broadened beyond the definition in paragraph 58 to include situations whereby the resulting receivable from the revenue transaction is comingled with a balance related to a significant financing such as a loan or credit card arrangement. We believe including this fact pattern in the definition of what constitutes a significant financing component for the purposes of presentation of uncollectible amounts, would result in no bifurcation of our loan loss provision related to CM balances. However, the impact noted above related to non-CM contracts with significant financing components would not be improved and as such we maintain our objection to the requirement.

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 recognized 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 considerations to which the entity will be entitled in exchange for satisfying those 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 generally agree with the proposed constraint on the amount of revenue recognized. However, we believe the constraint related to licenses of intellectual property outlined in paragraph 85 should not be limited to sales-based royalties related to licenses of intellectual property. We do not understand the distinction being made between sales-based royalties for intellectual property and other revenue that is earned based on the customer's sales. If no changes are made to paragraph 85, we would suggest the definition of intellectual property be provided within the authoritative guidance.

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 believe the Boards have attempted to narrow the application of the onerous test by requiring it to be applied only to obligations satisfied over a period of time greater than 12 months. We support the Boards’ attempt to narrow the application of this test but we believe further narrowing of the scope is required and therefore we do not agree with the proposed scope of the onerous test.

Our interpretation of the ED as outlined in the body of our letter, which recognizes a loyalty point liability as payment for a distinct service the CM provides, would not result in an onerous performance obligation under the CM arrangement. However, the view that has been expressed that credit card loyalty points are performance obligations under the CM contract could result in the determination that the performance obligation related to the loyalty points would be onerous as the CM generally redeems their loyalty points over a period greater than one year and the allocated revenue from the CM fee would not exceed the cost of providing the redemption alternatives for the loyalty points. This would result in the recognition of costs related to loyalty points at inception of the CM arrangement before the CM earns the right to those loyalty points by spending on their card.

Notwithstanding our objections to the view that credit card loyalty points are a performance obligation under the CM contract, we believe an onerous contract test should not be applied to an individual contract when economic benefit beyond that individual contract is obtained. There are a number of reasons why an entity enters into a contract where on day one of the contract, costs may exceed revenue. The economics driving these business decisions are not reflected in the onerous test as outlined in paragraphs 86 and 87. We do not believe the accrual of costs at the inception of these contracts best reflects the economics of these transactions and does not provide useful information to the user of the financial statements. We suggest the Boards consider a principle that incorporates the recognition that economic benefit from a contract can be obtained from sources other than the transaction price alone.
Question 5: The Boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity’s remaining performance obligations (paragraph 119 – 121)
- 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)
- 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 those disclosures in its interim financial reports? 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 believe an entity should be required to provide the proposed disclosures on an interim basis. We believe the proposed disclosures are inconsistent with the principles of ASC 270 on interim reporting and they do not appropriately balance the benefits of additional disclosure and the resulting costs to provide those audited disclosures. The disclosures on an interim basis would be operationally burdensome and the cost of compliance could be significant. The revisions to the ED that reduced certain disclosure requirements were not meaningful enough to significantly alter the operational challenges and the cost of preparing these disclosures.

Requiring these disclosures on an interim basis would greatly increase the cost of compliance as the disclosures require the tracking and compilation of information on a basis that is not used by the entity to manage the business.

The tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities could be the most costly as detailed information would have to be tracked on a contract basis each reporting period. Further, because American Express will have receivables within the scope of the revenue standard and significant receivables that are excluded from the scope (e.g. loan balances), tracking cash received and amounts transferred to receivables specifically for the amounts within the scope of the revenue standard could be operationally complex.

The disaggregation of revenue (e.g. type of service, geography, market, duration, etc.) into the primary categories that depict how the nature, amount, timing and uncertainty of revenue and
cash flows may be affected by economic factors may be the disclosure that best balances the preparer costs and user benefits.

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

We agree with the proposal that the recognition and measurement guidance in the revenue standard should be applied to transfers of non-financial assets that are not part of the entity’s ordinary activities. The distinction as to whether a sale generates income as part of ordinary activities or a non-recurring activity does not appear to be a sufficient distinction to result in different recognition and measurement models.
Appendix B – Additional Observations and Comments

Included in this appendix are additional observations and comments related to issues of concern to American Express for which the Boards did not ask for specific response. We appreciate the Boards’ consideration of these concerns as well.

Time Value of Money

We are concerned with the guidance included in paragraphs 58 – 62, which requires the transaction price to be adjusted if a contract contains a significant financing component. While we believe the concept of implicit financing has merit, we believe the requirements as outlined will be operationally complex and costly to apply and could result in inconsistent application in practice. We question the benefit provided to the investor compared with the cost and complexity of compliance with these requirements.

For many of the transactions that could be affected by this guidance, we do not believe there is an investor concern with the current accounting, which does not adjust for the time value of money, and we believe the guidance will add complexity to the financial statements that may be less understandable to the investor. For example, American Express sells licenses to independent operators to issue American Express cards and utilize the American Express network to process card transactions and support their ongoing American Express card business. There are set-up costs and costs associated with connecting the customer to the American Express network that are incurred upfront. As is customary with most franchise operations, a large fee is payable at the point the customer can begin to operate their American Express card business. However, because this license is dependent on the ongoing operation and maintenance of the American Express network and that service cannot be obtained from any entity other than American Express and access to the American Express network would never be sold separately, the license would not be considered distinct under the ED and as a result revenue recognition would occur over the license period, which would be greater than one year from the time the customer makes the license payment. These arrangements also include various incentive payments to the customer, sales based royalties from the customer and payments for various other performance obligations that may be provided during the license period. We do not believe these arrangements were negotiated to provide American Express with implicit financing but the upfront payment from the customer compensates American Express for upfront costs and the right that has been given to the customer under the license. Application of the ED could result in the recognition of interest expense and the recognition of revenue that is greater than the amount payable by the customer for the license. We believe this adds unnecessary complexity to the accounting for these arrangements.

We believe certain paragraphs in the Basis of Conclusion should be brought forward to the ED as these paragraphs provide important interpretations that we believe the principles outlined in the ED do not espouse. Consider including in authoritative guidance:

- BC144 – time value of loyalty points, and
- BC146 and BC147 – analysis of significance of financing component.
Costs to Fulfill a Contract

Paragraphs 91 through 93 describe how to account for costs to fulfill a contract. One of the three criteria required to capitalize costs to fulfill a contract is expressed in paragraph 91 (c) and states that the costs are expected to be recovered. In our cardmember (CM) arrangements, our recoverability test would include the cash flows from card economics as a whole, which would include amounts received from CMs and merchants. We believe this is appropriate because the CM contract results in economic benefits to the entity beyond the cash flows under the CM contract alone. To not assess recoverability on this basis would result in an inaccurate recognition of a loss that has not been incurred by the entity and would base income statement recognition on the timing of payment for these benefits.

American Express may pay for certain CM benefits to partners at the outset of a specified benefit period. For example, a payment to provide lounge access to CMs for a three year period may be made to an airline at the beginning of the benefit period. Under current accounting, we capitalize that payment and recognize it as expense over the period the benefit is provided to the CM as the cost is recovered through both the CM fees and the merchant revenue those CMs generate for American Express when they spend on their card.

Although not explicit, Example 15 of IG72 could imply that only contract-specific revenue would be used to assess recoverability. We believe application of the guidance in IG72 is appropriate to those contracts that do not generate additional revenue apart from the direct contract to which the benefit is being provided. We ask the Boards to consider adding an example that incorporates the recognition that recoverability can be obtained from sources other than the transaction price of the contract providing the benefit, if that contract is expected to generate additional revenue sources.
Appendix C – US GAAP Consequential Amendments

Question 1: Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend?

Apart from our comments in this letter, we agree that the proposed amendments that codify guidance in the proposed Update on revenue recognition have been codified appropriately.

Question 2: Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why?

We do not believe the consequential amendments appropriately reflect the proposed Update on revenue recognition related to credit card arrangements. The ED is applied to all contracts with customers but it excludes contractual rights and obligations within Topic 310, Receivables. The scope of Topic 310-20-05-1 (previously FAS 91) includes nonrefundable fees, origination costs and acquisition costs associated with lending activities and loan purchases. ASC 310-05-3 and ASC 310-05-4 scopes in credit card arrangements and ASC 310-25-15 acknowledges that fees cover a variety of services. The language in these paragraphs appears to conflict with the guidance in the ED and would suggest that all nonrefundable credit card fees are within the scope of ASC 310. However, there are a number of fees that may be assessed to a cardmember (CM), some refundable and some non-refundable (e.g., loyalty program fee, subscription fees, fraud protection, etc.). These fees may be charged separately or embedded within an overall fee charged to the CM.

Paragraph 11(b) of the ED describes how to separate performance obligations that are within the scope of the ED from those that are in the scope of other Topics, by determining the selling price for all of the services and performing a pro-rata allocation. However, we are unable to determine how this would be performed given that the ASC 310 scope is related to the fee itself and not the underlying services (as noted in ASC 310-25-15, credit card fees generally cover many services to cardholders). Separation on this basis could result in different accounting treatment for the same services depending on the card product and whether one fee is charged for multiple services or separate fees are charged for additional services. For example a card product that includes rights to earn under a loyalty program may include one fee that gives the CM that right as well as other benefits and access to the lending arrangement. Another card product may charge one fee for access to the lending arrangement and a separate fee for rights to earn under a loyalty program. Application of the scope of ASC 310 would result in all of the underlying services and rights in the first scenario being included in ASC 310 while the same rights under the loyalty program would be accounted for under the ED in the second scenario. Depending on how the proposed ED is ultimately finalized, the accounting in these two scenarios could vary significantly for loyalty point programs.

We suggest changes to the consequential amendments to clarify that ASC 310 scope relates to credit card fees related to lending activities, including credit and charge card fees, interest, penalty and delinquency charges.