



**Invesco Ltd.**  
Two Peachtree Pointe  
1555 Peachtree Street, N.E.  
Atlanta, GA 30309

Telephone: +1 404 479 1095

October 22, 2010

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

**Proposed Accounting Standards Update, "Revenue Recognition (Topic 605)"  
(File Reference No. 1820-100)**

Dear Technical Director:

This letter sets forth the comments of Invesco Ltd. ("Invesco," or the "Company") on the Proposed Accounting Standards Update, "Revenue Recognition (Topic 605)," (the "Proposed ASU").

Invesco is a global independent investment management company delivering investment management capabilities through a comprehensive array of investment products and solutions for retail, institutional and high-net-worth clients. Operating in 20 countries, Invesco had \$604.5 billion in assets under management (AUM) as of September 30, 2010. The Company provides investment management services to, and has transactions with, various mutual funds, private equity funds, real estate funds, fund-of-funds, collateralized loan obligations, separate institutional accounts, and other investment products sponsored by the Company for the investment of client assets in the normal course of business.

We are generally supportive of the Proposed ASU and its core principle of recognizing revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that companies receive or expect to receive in exchange for those goods or services; however, we would like to request additional clarification regarding the analysis of variable consideration and nonrefundable upfront fees.

Variable consideration

Paragraph 38 of the Proposed ASU states that "an entity shall recognize revenue from satisfying a performance obligation *only if the transaction price can be reasonably estimated*" (emphasis added). Paragraph 39a indicates that if "the consideration amount is highly susceptible to external factors (for example, *volatility in the market*, judgment of third parties, and risk of obsolescence of the promised good or service" (emphasis added), then this is a factor that reduces the relevance of an entity's experience with similar types of contracts being used to reasonably estimate the transaction price. Paragraph 39d indicates that if "the contract has a *large number of possible consideration amounts*" (emphasis added), then this is another factor that reduces the ability to reasonably estimate the transaction price.

Example 18 in paragraph IG76 provides an illustration of this concept for the transaction price analysis of management fees based on an index. While we agree with the concept illustrated in Example 18 that an investment management fee is distinct from a performance fee, we think that the example should be broadened to

consider the application of the guidance in the Proposed ASU to a variable investment management fee. The illustration includes consideration payable to the investment manager of a fixed quarterly base management fee plus an incentive fee of 10 percent of any increase in the fund's value relative to an observable index at the end of the year. In the example, the transaction price is limited to the fixed amount of consideration until the end of the year, because the incentive fee is *highly susceptible to market risk*, the incentive fee is not expected to be resolved until the end of the year, and there are a large number of possible consideration amounts.

A literal interpretation of the above-referenced paragraphs may result in investment managers not being able to recognize base management fees in situations where the base management fee itself is variable. For example, most investment managers receive a base management fee that is calculated as a fixed percentage of a managed fund's net asset value (NAV) from period-to-period. NAV is computed based on the closing market prices of the securities in the fund's portfolio. NAV is therefore variable, and a literal interpretation of the proposed guidance could lead to a view that an NAV-based fee is highly susceptible to market risk based on the definition in the Proposed ASU.

This literal interpretation could result in a view that because the NAV-based management fee is itself highly susceptible to market risk which could result in a large number of possible consideration amounts, the transaction price and resulting revenue recorded in any given period should be limited to the amount of the base management fee that has been collected to date; however, this amount collected to date should be allocated to the full performance obligation period and not be recorded in the period to which it relates.

For example, consider a fund with an annual base management fee of 2 percent of NAV. The fund has the following quarterly NAV:

Q1 - \$100,000  
 Q2 - \$150,000  
 Q3 - \$150,000  
 Q4 - \$150,000

Under current revenue recognition guidance, the revenue recognition pattern is as follows:

Q1 - \$500  
 Q2 - \$750  
 Q3 - \$750  
 Q4 - \$750  
 Year-to-date - \$2,750

This revenue recognition pattern aligns with the non-refundable consideration received each quarter, which is also reflected as an expense by the fund in the same quarter.

Under a literal interpretation of the Proposed ASU, however, the revenue recognition pattern would be significantly different. If the company is not permitted to estimate that base management fees will occur after the first quarter (because as variable consideration, they are highly susceptible to market risk and could be any number of different amounts), then the company is limited to the \$500 received at the end of the first quarter. The company must then recognize one-fourth of the \$500 in the first quarter and defer the remaining three-fourths over the remaining three quarters. Successive quarterly receipts would be similarly deferred. The revenue recognition pattern would be as follows:

Q1 - \$125 ( $\$500 / 4$ )  
 Q2 - \$375 ( $(\$750 / 3) + (\$500 / 4)$ )  
 Q3 - \$750 ( $(\$750 / 2) + (\$750 / 3) + (\$500 / 4)$ )  
 Q4 - \$1,500 ( $\$750 + (\$750 / 2) + (\$750 / 3) + (\$500 / 4)$ )  
 Year-to-date - \$2,750

We do not believe that it was the Board's intention that NAV-based management fees would be recognized in this manner under the Proposed ASU. This illustration of the literal interpretation of revenue recognition lacks conceptual merit for these types of management contracts. This approach would result in the investment manager recognizing most of the revenue at the end of the year as compared to throughout the year.

In addition to base management fee revenues, investment managers also earn service and distribution revenues, which typically are also NAV-based. The literal interpretation described above could also be applied to those types of fees. It should be noted that investment managers generally pass through to other brokers/dealers/sub-advisors some portion of the base management, service or distribution fee revenues. These passed-through revenues, which are reflected as third-party distribution, service or advisory expenses in the investment manager's financial statements, are generally also NAV-based. It is possible that under the literal interpretation of the Proposed ASU described above, the base management, service, or distribution fee would be deferred when the related passed-through expense would not be deferred. In the example above for the first quarter, this would result in only \$125 of base management fees being recorded when potentially an amount up to \$500 would be passed through in the form of a third-party distribution, service or advisory fee. There would be inappropriate matching of revenues and related expenses under this literal interpretation.

As mentioned above, we are a large, diversified investment manager with several thousand funds and separate accounts included in our \$604.5 billion of AUM at September 30, 2010. It would be extremely burdensome, with no perceived benefit, for the company to put in place systems to track, contract-by-contract, the deferral of NAV-based fees from period-to-period. The current revenue recognition model for investment managers is very straight-forward, widely accepted, highly predictive of actual fees earned, and does not need to be amended. It matches recorded non-refundable revenues with related expenses in the financial statements of the investment manager, and it also matches recorded revenues of the investment manager with recorded expenses on the underlying fund's financial statements.

Another direct consequence of the literal interpretation of revenue recognition discussed above is that investment managers may potentially determine that at inception of a management contract, they should recognize an onerous performance obligation. Paragraph 55 of the Proposed ASU states that "a performance obligation is onerous if the present value of the probability-weighted costs that relate directly to satisfying that performance obligation...exceeds the amount of the transaction price allocated to that performance obligation." In this scenario, third-party distribution, service or advisory expenses, which relate to revenue that has been deferred, would exceed the related revenue. It lacks conceptual merit that investment management contracts may potentially be deemed onerous at inception.

**We urge the Board to clarify that NAV-based fees should not be deferred and recognized over the related contract period but that they can continue to be recognized as they are calculated each period.**

#### Nonrefundable upfront fees

Investment managers may receive upfront fees from the sale of fund shares or units to investors. These revenues are generally recorded at the time in which title to the shares are sold to the investors, and the amount realized as revenues is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts or volume rebates. In many instances, investment managers will pay internal or external commissions to staff or third parties related to the sale of the fund shares or units to investors. These internal or external commissions are reflected as expenses in the investment manager's financial statements. The timing of recording of the revenues and expenses is aligned.

Paragraph IG27 of the Proposed ASU states that "in many cases, even though a nonrefundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfill the contract, that

activity does not result in the transfer of a promised good or service to the customer. Rather, the upfront fee is an advance payment for future goods or services and, hence, would be recognized as the revenue when those future goods or services are provided.”

There is some concern that as a result of this proposed guidance, investment managers may be required to defer the recognition of upfront fees and spread them over an estimated investor holding period in the underlying funds or units. We view upfront fees as sales commissions, a separate activity from investment management, and do not agree that they should be deferred and spread over an estimated holding period. This fee is nonrefundable, even if the investor subsequently redeems his investment and does not therefore benefit from future investment management services; it is fully earned at inception of the investment into the fund or unit. We do not view upfront fees as relating to the subsequent investment management services on this basis.

Additionally, if upfront fees were deferred and recognized over an estimated holding period, the deferred recognition of the revenue and the recognition of the related internal or external commission costs would not match, as the costs would be immediately recognized. These contracts may, in fact, also be considered onerous at inception, which lacks conceptual merit.

**We urge the Board to reconsider its proposed guidance regarding the deferral of nonrefundable upfront fees.**

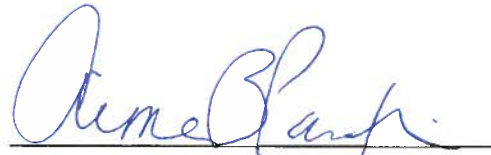
\* \* \* \* \*

We would be pleased to discuss our comments with the Board or its staff.

Very truly yours,



David A. Hartley  
Group Controller and Chief Accounting Officer



Aimee B. Partin  
Head of Regulatory Reporting