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

File Reference: No. 2011-230 “Revenue from Contracts with Customers – Revenue Recognition (Topic 605)”

Dear Ms. Cospers:

JPMorgan Chase & Co (“JPMorgan Chase” or “the Firm”) appreciates the opportunity to comment on the proposed revised Accounting Standards Update, *Revenue from Contracts with Customers – Revenue Recognition (Topic 605)* (the “Revised ASU”) issued by the Financial Accounting Standards Board (“FASB” or the “Board”). While we support the Board’s efforts to simplify existing guidance into a single principles-based model, we are concerned that the wholesale replacement of financial services revenue recognition practice with a model that has been developed primarily based on unrelated industries will unnecessarily complicate the analysis and operational processes for recording financial services transactions without any measurable benefit. For example, while the control-based concepts underlying the Revised ASU may appropriately address transactions in certain industries, they are difficult to apply to more complex service agreements common in the financial services industry. In particular, revenue arrangements that involve multiple services being provided over time and in which the frequency, terms and timing of such transactions may vary significantly, or that involve multiple parties, will be difficult to evaluate under the Revised ASU.

To address these concerns, while retaining as much as possible of the proposed model and minimizing exceptions to that model, we recommend the following:

1. The Board should conduct further outreach to consider the application of the proposed model to relationship contracts under which financial services firms provide multiple services that vary in timing, frequency and pricing, as well as to arrangements that include elements within the scope of both the Revised ASU and financial instruments guidance. We believe the result of that outreach would conclude that certain financial services fees earned under relationship contracts should not be combined with interest income and interest expense on financial instrument transactions.
2. Revenue guidance should acknowledge and address revenue arrangements that are not simply bilateral exchanges between an entity and a single customer, but rather may involve activity and revenues from third parties that must be considered to reflect the economic substance of the entirety of the business activity.
3. The profitability of a contract should be evaluated at the level at which profitability is evaluated by management, not at an arbitrary lower level.
4. Disclosures should be based on how management makes operating decisions and assesses performance, and justified by a measurable benefit incremental to ASC 280 requirements.

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Application of the Revised ASU to Financial Services

We commend the FASB and IASB for seeking to address feedback from the previous Exposure Draft regarding the need to make the revenue recognition model workable for services as well as the delivery of goods. However, certain transactions common in the financial services industry involving multiple related services provided to customers merit further consideration by the Board.

The revised model appears to presume that revenue transactions with customers are discrete and occur within a specified period of time, with pre-specified arrangements. As a result, the model assumes that any required revenue allocations or deferrals are based on a comprehensive view of the economics of the arrangement. In contrast, certain revenue arrangements in the financial services industry may include many related services that vary in timing, frequency or pricing based on future market conditions, and therefore it is not clear how to apply the Revised ASU to determine which transactions should be combined. A requirement to combine only those individual transactions occurring in a reporting period may result in arbitrary revenue allocations that do not reflect a complete view of the underlying revenue arrangement.

For example, consider prime brokerage arrangements, in which the prime broker provides centralized securities clearing and other services for a fund client. The prime broker earns a spread on financing the fund client's margined long and short cash and security positions, and may charge fees for clearing financial instrument transactions or other services. The prime broker may also earn a spread from rehypothecating the securities that the fund client has pledged to secure margin loans. In these relationships, clients may receive a discount or waiver of clearing fees, as the primary revenue generation is from the net interest margin earned from client borrowing and prime broker rehypothecation activity rather than from any potential fees for client clearing activity. The number of transactions that the prime broker clears for its client is not contractually specified or known at inception, as the client can transact at will, or not at all. Similarly, the interest from margin loans or securities borrowings is earned on a transaction by transaction basis. The application of the Revised ASU to this scenario is confusing at best, as the volume of clearing transactions, financing and rehypothecation transactions can vary greatly over time. It is not clear if the Revised ASU intends to combine a series of transactions over time that are linked under an overall account but occur at the customer's direction, or how such combination should be accomplished.

Even if a meaningful way of combining and allocating fee-based and interest-based transactions could be identified, we do not believe that the result would be useful to management or financial statement users. Any required allocation of interest income (from margin loans or lending securities pledged as collateral) to fee income (to re-allocate revenue to the clearing services) would result in reported yields that are not representative of the markets within which prime brokers transact. Based on the consistently negative feedback from users of financial statements in the Accounting for Financial Instruments – Impairment project regarding proposals to change the calculation of reported yields, we do not believe that users would favor another accounting proposal that would similarly distort the same key metric. Further complicating matters is the fact that the Revised ASU does not provide clear guidance about how to apply its separation provisions to this or similar situations, despite potentially large overlaps with financial instrument accounting.

The Board should conduct further outreach to consider the application of the proposed model to financial services relationship contracts such as prime brokerage arrangements under which financial services firms provide multiple services that vary in timing, frequency and pricing. In addition, the Board should conduct further outreach to consider how to apply the separation guidance to arrangements that include elements within the scope of both the Revised ASU and financial instruments guidance, and whether the results of such separation are useful to users of financial statements. We believe the result of that outreach would conclude that certain financial services fees earned under account relationships should not be combined with interest income and interest expense on financial instrument transactions.

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Certain Revenue Arrangements Involving Multiple Parties Should be Considered Together

The Revised ASU seems to presume that all of a revenue arrangement's benefits to the reporting entity and the customer are bilateral, and that such benefits represent the economics of the arrangement in its entirety. The Revised ASU should be clarified to acknowledge and address revenue arrangements that are not simply bilateral exchanges between an entity and a single customer, but rather may involve activity and revenues from third parties that must be considered to reflect the economic substance of the entirety of the business activity.

For example, credit card arrangements typically involve multiple parties and intermediaries, including the cardholder, the network, the merchant, the merchant acquirer and the card issuer. Under the arrangement, the card issuer provides financing to the cardholder, who may directly pay little or nothing for the financing if the balance due is paid off within each billing cycle. The card issuer also may provide rewards to the cardholder based on the level of purchase activity. The card issuer funds both the financing and rewards, in part, by interchange revenue paid to the card issuer by the networks and collected by the networks from the acquirers. The acquirers charge the merchants, from whom the cardholder purchased goods and services, a merchant discount fee and interchange is a part of that fee. In this arrangement, the interchange revenue is so inter-related with the rewards paid to the cardholder that they must be considered together to evaluate the economics of the relationship with the cardholder.

Onerous Performance Obligations

We agree that an "onerous" test should be required to identify situations where expected future costs exceed expected future revenues. The Revised ASU requires that this test be performed for each separate performance obligation in a revenue contract. We believe that the assessment of the onerous test at the performance obligation level presents conceptual and operational challenges, and instead we recommend that the onerous test be assessed at the contract level (or lower level if management evaluates profitability at that lower level).

As indicated in the basis of conclusions in the Revised ASU, it is possible to record a loss for a separate performance obligation within an otherwise profitable contract. We understand that the Board finds this result preferable to applying the onerous test at the contract level, as the Board seeks to ensure timely reporting of any "adverse changes" in circumstances. However, we believe that firms generally establish pricing and evaluate the profitability of arrangements at a contract level, not at a performance obligation level. A true "adverse change in circumstances" stemming from unforeseen costs or other unanticipated issues would yield a loss at the *contract* level. However, identifying more granular changes, including those related to individual performance obligations within a contract does not necessarily indicate an adverse change in circumstances with respect to the pricing of the contract and may simply suggest that a reallocation of revenue among the components would be appropriate. Therefore, recording losses on the separate components of an overall profitable contract does not provide decision-useful information.

We are also concerned about the operational feasibility of identifying onerous performance obligations. Evaluating profitability at a lower level than management's current evaluations will require the creation of systems and processes to allocate not only revenues but also forecasted direct costs to every performance obligation under each customer revenue contract subject to the onerous test. For many preparers, this allocation would represent a significant expansion of performance metrics in place today. The costs

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associated with implementation of systems changes to enable such analysis would likely exceed any benefit from the assessment of the onerous test at the performance obligation level.

Presentation and Disclosure

Some of the disclosure requirements in the Revised ASU are burdensome to prepare, and do not provide a measurable benefit to readers of financial statements. We recommend the Board remove the revenue disaggregation requirements since the required disclosures will be repetitive to existing disclosures and may not align with how preparers evaluate and manage their revenues. We also recommend that the rollforward requirements be removed.

Disaggregation of revenue

The proposed disclosures related to the disaggregation of revenue require a level of granularity that appears to be more detailed than and potentially very different from that which is already required by ASC 280, *Segment Reporting*. The Revised ASU suggests that revenue disaggregation would help users understand the composition of revenue recognized in a reporting period, and that the levels of disaggregation should be categories that best reflect how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. We note that ASC 280 already requires revenue disaggregation including by products and services, geography, legal entity, or type of customer. The method used to determine what information to disclose in ASC 280 emphasizes the management approach, which is based on how management views its business, makes operating decisions and assesses performance. The result of ASC 280 is disclosure of financial information that an entity's management actually uses to make decisions about the entity's operations, and thus conveys decision-useful information to users of financial statements. The revenue disaggregation disclosures in the Revised ASU in some cases may duplicate some of the disclosures, while in many other cases would require much more detail, but without the benefit that exists under the current requirements of ASC 280 of being aligned with management's decision-making information. Any enhancements to revenue disaggregation disclosures should be made to the framework that already exists in ASC 280, and ideally considered within the broader Disclosure Framework project.

Reconciliation of contract balances

We do not believe that a reconciliation of the aggregate contract assets and liabilities would provide decision-useful information about the relationship between the revenue recognized and cash flows, which is cited as a principal reason for requiring the reconciliation. Financial services transactions that give rise to contract balances subject to these disclosures are not material to understanding the performance of a financial services firm, and yet will be extremely complex and costly to produce.

For example, one of the contract balances subject to this disclosure will be the credit recorded to pay for certain services provided to a customer who executes financial instrument transactions through a broker-dealer in certain "soft dollar" arrangements. In these arrangements, the broker-dealer receives brokerage commissions as consideration for executing trades and to pay for internal or external services to the customer. The customer typically chooses at a later date whether to allocate the "soft dollars" to services provided by the broker-dealer or by third parties. Typically, the broker-dealer would receive no margin for providing external services, and would be considered principal for internally provided services, and agent for externally provided services. The broker-dealer recognizes a portion of the commissions for trade execution and defers the remaining portion for recognition of revenue or payment to a third party at a later date. Deferred revenue for internally provided services would be considered a contract liability as defined in the Revised ASU and subject to the contract balance reconciliation, whereas the amount deferred to be settled by payment to a third party service provider would not be considered a contract liability, as it would not reflect payment from the customer for an unsatisfied performance obligation.

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The customer's ability to choose between services provided by the broker-dealer and services provided by third parties would result in the broker-dealer having to make estimates of future customer choices and recording a portion of the deferred soft dollar amounts as contract liabilities subject to extensive disclosures, but not subjecting the remaining amount of deferred soft dollars to the same disclosures. As discussed above, we see little incremental benefit to requiring a reconciliation of contract balances, since activities that result in contract balances such as soft-dollar arrangements are not primary drivers of the performance of a financial services firm. But in the case of certain arrangements, the amounts in the reconciliation would be even more meaningless since they would be dependent on an entity's estimates of customers' service-type preferences.

Other Observations

Product Financings

Financing arrangements should be based upon the substance of the arrangement, and should result in similar accounting, irrespective of the type of underlying collateral transferred. Instead, the Revised ASU creates a rule that defines the existence of a financing in relation to the repurchase price, and creates potentially different accounting for financing arrangements within a single financial services firm.

Specifically, in the commodities market, forward prices can be, and often are, lower than spot prices due to seasonal supply/demand expectations, and costs of carry and storage. Therefore, a commodities financing transaction priced using the on-market forward price and on-market financing rate can result in a repurchase price lower than the spot price, and under the Revised ASU, would not be accounted for as a financing arrangement. For financial services firms active in both commodities financing markets and financial instrument financing markets, this rule can result in dissimilar accounting for similar transactions. In addition, commodities are not in the scope of Topic 840; therefore, it is unclear how to apply lease accounting to products not within its scope.

The financing arrangement guidance in the Revised ASU should be aligned with the accounting guidance for transfers of financial assets rather than based on the repurchase price. Furthermore, as in financial instrument guidance, freestanding rights to reacquire transferred financial assets that are readily obtainable should not constrain the transferee from exchanging or pledging them and thus should not preclude sale accounting. The proposed guidance relating to call options in the Revised ASU is not consistent with this current guidance, and it appears that the Board decided to propose this inconsistency based on the belief that an entity is unlikely to enter into repurchase transactions involving readily obtainable assets. Again, commodities are one example of assets that may be readily obtainable, and therefore may lead to inconsistent treatment for similar transfers within a single financial services firm.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience, and to participate in further outreach. If you have any questions, please contact me at 212.648.0404 or Victoria Sligar at 212.648.0385.

Sincerely yours,



Bret Dooley