The Clearing House
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June 13, 2012

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: FASB File Reference No. 2011-230, Proposed ASU (Revised), *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*

Dear Ms. Seidman:

The Clearing House Association L.L.C. ("The Clearing House"), an association of major commercial banks,[1] appreciated the opportunity to meet with you, Hal Schroeder, Marc Siegel and the Financial Accounting Standards Board (the "FASB") staff representatives on April 9, 2012 (the "April 9 Meeting") to discuss the Proposed ASU (Revised), *Revenue Recognition (Topic 605): Revenue from Contracts with Customers.* During the April 9 Meeting, it was requested that The Clearing House provide the FASB with additional information with respect to (i) the volume discount approach for accounting for credit card interchange revenue (attached hereto as Exhibit 1) and (ii) the interrelationship between fees and interest in regard to the assessment of onerous obligations for treasury management service contracts (attached hereto as Exhibit 2).

[1] Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. *See* The Clearing House's web page at www.theclearinghouse.org.

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We appreciate your consideration of the information attached to this letter. If you have any questions or are in need of any further information, please contact me at (212) 612-9211 (email: brett.waxman@theclearinghouse.org) or David Wagner at (212) 613-9883 (email: david.wagner@theclearinghouse.org).

Sincerely yours,

Brett Waxman
Vice President and
Associate General Counsel

Attachments

cc: Hal Schroeder
FASB Board Member
Financial Accounting Standards Board

Marc Siegel
FASB Board Member
Financial Accounting Standards Board

Susan Cosper
Technical Director
Financial Accounting Standards Board

Kristin Bauer
Project Manager
Financial Accounting Standards Board

Linda Bergen, Citigroup Inc.
Chair– Financial Reporting Committee
The Clearing House Association L.L.C.

Esther Mills
President
Accounting Policy Plus

David Wagner
Senior Vice President, Finance Affairs
The Clearing House Association L.L.C

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Exhibit 1

Suggested Revisions to Paragraph 65 of the Revenue Recognition Proposal and an

Example of a Credit Card Rewards Program

65. Consideration payable to a customer includes amounts that an entity pays, or expects to pay, to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash (paid either directly to or on behalf of a customer), credit, or other items that the customer can apply against amounts owed to the entity. An entity shall account for consideration payable to a customer as a reduction of the transaction price and, hence, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 28 and 29) that the customer transfers to the entity.

Example 10A – Volume discount incentive, credit card loyalty programs:

A credit card issuer operates a general purpose rewards program. It grants cardholders reward points when they use their credit cards to purchase goods and services from merchants. Cardholders can typically redeem their points for cash, merchandise or services (*e.g.,* travel). The credit card issuer contracts with third-parties, who fulfill the orders placed by cardholders who redeem their points for merchandise or services. Merchandise and service awards are typically priced (in reward points) by the credit card issuer to cover the cost of the award such that the credit card issuer realizes little or no profit margin when cardholders redeem points for noncash awards.

For each credit card purchase transaction, the credit card issuer earns an interchange fee as compensation for its role in the payment transaction. The merchant's bank pays the interchange fee to the credit card issuer through a net settlement process, but the interchange fee is considered in setting the fee that the merchant pays in connection with the payment transaction.

In this example, the cardholder is a customer of both the credit card issuer and the merchant. The cardholder's use of the credit card drives both the revenue earned by the credit card issuer (*i.e.,* the interchange fee revenue) and the amount of consideration payable to the cardholder (*i.e.,* the reward points granted to the cardholder). Therefore, the value of the reward points issued upon usage of a card represents consideration payable to a customer, which would be accounted for in accordance with paragraphs 65 and 67. Specifically, the cost of the reward points would be classified as a reduction of interchange fee revenue received by the credit card issuer upon usage of the card, with the offset recorded as a liability and no deferral of the interchange fee revenue required.

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Exhibit 2

Treasury Management Services - Revenue Walkthrough

Background:

1 Treasury Management services contracts are generally for a specific term (*e.g.,* 1, 2, 5 years).
2 Treasury Management services include, but are not limited to, lockbox services, ACH services, trust services and international services.
3 Contracts can generally be cancelled by either party with notice, without a termination fee. If a large upfront investment is required, the customer may pay a termination fee.
4 Financial Institutions deliver services and earn revenue monthly based on customer activity (*e.g.* , price per debit item, per credit item, per stop payment) in a non-interest bearing business checking account.
5 Monthly activity charges can be partially or fully offset by an "earnings credit" based on amounts held by the customer in a non-interest bearing checking account. These are referred to as compensating balances.
6 The earnings credit is offered because the financial institution can earn interest from investment of the customers non-interest bearing funds.
7 The end result is that the fee charged for Treasury Management services can be paid through a combination of earnings credits and hard dollars. The mix of each is dependent on deposit balances.

		A		B
Total Fees for Service	=	**Hard Dollars**	+	**Earnings Credits**

Examples With Varying Levels of Customer Deposits

			Scenario # 1	Scenario # 2
Monthly:				
Fee based on activity level provided to the customer (PxV)			$400.00	$400.00
Less: Earnings Credit* (Net Interest Income)			393.28	26.22
Fee due from customer (Hard Dollars)			**$6.72**	**$373.78**

Hypothetical Earnings Credit Calculation

			Scenario # 1	Scenario # 2
First, calculate the Average Investable Balance:				
Customer's deposit balance (ledger balance)			$1,500,000	$100,000
Less: Average Uncollected Balance (float)		-	30,000	2,000
Equals the Average Collected Balance		=	1,470,000	98,000
Less: Federal Reserve Requirement	10.00%	-	147,000	9,800
Average Investable Balance		=	$1,323,000	$88,200
Second, calculate the Earnings Credit:				
Average Investable Balance			$1,323,000	$88,200
Multiplied by Earnings Credit Rate (annualized)		x	0.35%	0.35%
Multiplied by: Number of days in cycle		x	31	31
Divided by: Number of days in a year		/	365	365
Equals the Earnings Credit		=	$393.28	$26.22

* Financial Institutions set their earnings credit generally based on short term interest rates; accordingly, they vary over time based on market factors.

Each customer makes the business decision as to whether to 1) post the deposits or 2) pay the fees:

1. The earnings credit rate would be evaluated against the benefits, which could be obtained for the business from alternative uses of the funds (*i.e.,* opportunity costs). If the earnings rate is determined to be low (vs. other alternatives), the customer can move the funds externally or keep them within the same financial institution using various alternatives such as a sweep account to clear out any excess funds in the checking account at the end of a business day, depositing them into a savings, money market, or other investment account, or creating a payment against a line of credit. The choice depends on the facts and circumstances related to each particular business.
2. Generally, as interest rates increase, a larger portion of the customer's service fees would be offset by the earnings credit. At the point where, all service fees are offset, a customer may choose other alternatives for incremental deposits to maximize return.

Conclusion: We believe that bundling for this product is required in order to determine whether or not the relationship creates an onerous obligation

1. As noted above in 3, although technically long term in nature, most of the contracts can be terminated or repriced unilaterally by either the customer or the bank. Therefore, most of the contracts would be considered short term for the purposes of the ED and therefore outside the scope of the onerous obligations requirements.
2. For those contracts that cannot be terminated, we believe that bundling the relationship for the purpose of determining whether there is an onerous obligation is appropriate based on the following:
   - Payment for services provided is received through a combination of hard dollars from the customer and net interest income on customer balances. The mix is ultimately determined based on eligible customer's deposit balances held in non-interest bearing checking accounts.
   - The service contracts and financial instruments (deposits) are bundled when considering the economics of the client relationship.