Working Draft:

Note 3: Revenue from Contracts with Customers¹

**Significant Judgments**

Revenue from contracts with customers includes commission income and fees from investment banking and asset management services. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple

¹ Individual facts and circumstances could differ based on activities of a SEC registered broker-dealer. Therefore, the following may not reflect all disclosures required in FASB ASC 606 under accounting principles generally accepted in the United States of America, including but not limited to:

- Opening and closing balances of receivables, contract assets, and contract liabilities (606-10-50-8(a)), if not otherwise separately presented on the face of the balance sheet or disclosed

- Revenue recognized during the period that was included in contract liabilities at the beginning of the period (606-10-50-8(b))

- An explanation of the significant changes in contract asset and contract liability balances during the period (606-10-50-10)

- Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (606-10-50-12A)

- Significant payment terms for each revenue stream (606-10-50-12(b))

- Amounts allocated to unsatisfied performance obligations and when those are anticipated to be fulfilled – unless they are eligible for a practical expedient (in which case that fact should be disclosed in accordance with ASC 606-10-50-15) (606-10-50-13)

Consideration should be given to all facts and circumstances that could require further enhancements to disclosures regarding significant judgments and estimates made by the Company.
performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company’s progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

**Commissions**

*Brokerage commissions.* The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*Distribution fees.* The Company enters into arrangements with managed accounts or other pooled investment vehicles (funds) to distribute shares to investors. The Company may receive distribution fees paid by the fund up front, over time, upon the investor’s exit from the fund (that is, a contingent deferred sales charge), or as a combination thereof. The Company believes that its performance obligation is the sale of securities to investors and as such this is fulfilled on the trade date. Any fixed amounts are recognized on the trade date and variable amounts are recognized to the extent it is probable that a significant revenue reversal will not occur once the uncertainty is resolved. For variable amounts, as the uncertainty is dependent on the value of the shares at future points in time as well as the length of time the investor remains in the fund, both of which are highly susceptible to factors outside the Company’s influence, the Company does not believe that it can overcome this constraint until the market value of the fund and the investor activities are known, which are usually monthly or quarterly. Distribution fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods.

**Investment Banking**

*Underwriting fees.* The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions as there are no significant actions which the Company needs to take subsequent to this point and the issuer obtains the control and benefit of the capital markets offering at that point.

Underwriting costs that are deferred under the guidance in FASB ASC 940-340-25-3 are recognized in expense at the time the related revenues are recorded. In the event that transactions are not completed and the securities are not issued, the Company immediately expenses those costs.

*M&A advisory fees.* The Company provides advisory services on mergers and acquisitions (M&A). Revenue for advisory arrangements is generally recognized at the point in time that performance under the

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2 If M&A advisory fees were material to the Company, further disclosure is required by FASB ASC 606-10-50-18 and 606-10-50-19 related to the judgments the Company made to determine if revenue should be recognized at a point in time or over time.
arrangement is completed (the closing date of the transaction) or the contract is cancelled. However, for certain contracts, revenue is recognized over time for advisory arrangements in which the performance obligations are simultaneously provided by the Company and consumed by the customer. In some circumstances, significant judgment is needed to determine the timing and measure of progress appropriate for revenue recognition under a specific contract. Retainers and other fees received from customers prior to recognizing revenue are reflected as contract liabilities. At December 31, 2018, all amounts were immaterial.

**Asset Management**

*Investment advisory fees.* The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing advisory services is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. Fee arrangements are based on a percentage applied to the customer's assets under management. Fees are received quarterly and are recognized as revenue at that time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods.

*Performance fees.* As additional consideration for the investment advisory services noted above, the Company receives fees that vary based on specified performance measures, for example, when a fund or separate account exceeds a specified benchmark or contractual hurdle over a contractual performance period or the life of a fund. These fees are earned once account returns have exceeded these specified performance measures and are calculated as a percentage of account returns. These performance fees are considered variable consideration as the uncertainty is dependent on the value of the assets at future points in time as well as meeting a specified compound hurdle rate, both of which are highly susceptible to factors outside the Company's influence. Revenues are recognized evenly over the contract period once it is probable that a significant reversal will not occur. The Company believes that ratable recognition over the service period is the appropriate approach for recognizing revenue because the services are substantially the same each day and have the same pattern of transfer. Performance fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods.

**Costs to Obtain or Fulfill a Contract with a Customer**

The Company has recorded as an asset certain costs incurred to obtain revenue contracts with its customers, such as sales commissions paid to employees for obtaining new contracts with clients. These costs are amortized to expense over the period of time that the services are expected to be provided to the customer.

These assets are presented in the Other Assets line of the Company's Consolidated Statement of Financial Condition. The Company had assets from costs to obtain contracts with customers of $200 and $250 at January 1, 2018 and December 31, 2018, respectively. During the period, the Company recognized amortization expense of $50.

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3 If performance fees are not recognized evenly over the contract period once it is probable that a significant revenue reversal will not occur, additional disclosure is required related to the judgments the Company made to determine the amount of the performance fee allocated to the performance to date and to future periods.
### Disaggregated Revenue from Contracts with Customers

The following table presents revenue by major source.

<table>
<thead>
<tr>
<th>Revenue from contracts with customers</th>
<th>$000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commissions</strong></td>
<td></td>
</tr>
<tr>
<td>Brokerage commissions</td>
<td>$16,271</td>
</tr>
<tr>
<td>Distribution fees</td>
<td>10,848</td>
</tr>
<tr>
<td><strong>Total commissions revenue</strong></td>
<td>27,119</td>
</tr>
<tr>
<td><strong>Investment banking fees</strong></td>
<td></td>
</tr>
<tr>
<td>Underwriting fees</td>
<td>5,609</td>
</tr>
<tr>
<td>M&amp;A advisory fees</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total investment banking fee revenue</strong></td>
<td>5,689</td>
</tr>
<tr>
<td><strong>Asset management fees</strong></td>
<td></td>
</tr>
<tr>
<td>Investment advisory fees</td>
<td>1,805</td>
</tr>
<tr>
<td>Performance fees</td>
<td>315</td>
</tr>
<tr>
<td><strong>Total asset management fee revenue</strong></td>
<td>2,120</td>
</tr>
<tr>
<td><strong>Total revenue from contracts with customers</strong></td>
<td>$34,928</td>
</tr>
</tbody>
</table>

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Comments should be received by March 4, 2019, and sent by electronic mail to Irina Portnoy at Irina.Portnoy@aicpa-cima.com.

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4 In accordance with paragraphs 5 through 7 of FASB ASC 606-10-50 and paragraphs 89 through 91 of FASB ASC 606-10-55, consideration should be given to other ways to disaggregate revenue by the way the Company manages its revenues or that is used by users of the Company’s financial statements to evaluate financial performance, such as by geography, by revenue recognized at a point in time versus revenue recognized over time, for example.