

Accounting Standards Board of Japan (ASBJ)

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17 April 2008

Mr Robert Garnett
Chairman
The International Financial Reporting
Interpretations Committee of the International
Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr Garnett

Comments on IFRIC draft interpretation D24 *Customer contributions*

We appreciate the effort of the International Financial Reporting Interpretations Committee (IFRIC) on the issues of revenue recognition and welcome the opportunity to comment on IFRIC draft interpretation D24 Customer contributions. The views expressed below are those of the International Issues Standing Committee of the Accounting Standards Board of Japan (ASBJ).

General Comments

1. We are supportive of the proposal in D24 that an entity should recognize a customer contribution as property, plant and equipment if it qualifies for recognition criteria set out in the *Framework* and measure it on initial recognition at its fair value. We also agree with the proposal in D24 that an entity should recognize revenue as access to a supply of goods or service is provided.
2. However, we have reservations about rationales described in D24 regarding revenue recognition for the reasons mentioned below. In addition, we believe that criteria for recognition of contributed assets should be further clarified.

Interpretation should be developed within the frame of the existing IAS18.

3. Paragraph 11 of D24 states that “An entity that receives an asset that meets the definition of a customer contribution has an obligation to provide access to a supply of goods or services. That obligation shall be recognized in the statement of

financial position and measured on initial recognition at the fair value of the contribution received. The obligation shall be reduced and revenue recognized as access to a supply of goods or services is provided”.

4. The explanation in D24 as above appears to be adopting beforehand the notion of the revenue recognition project that IASB and FASB are jointly conducting, which explores the models focusing on the changes in assets and liabilities instead of the existing revenue recognition model. We believe that D24 should give interpretations within the frame of the existing IAS18 since the revenue recognition project is still underway.
5. We believe that what can be described within the frame of the existing IAS 18 would not be more than “the revenue arising from the receipt of a customer contribution should be deferred and recognized as access to a supply of goods or service is provided”.
6. As noted in paragraph 10 and 11 of the Observer Note (Agenda Paper4B) for November 2007 Board meeting, deferred credits arising from the application of the existing revenue recognition model may not meet the definition of liability. However, we do not consider it necessary to clarify whether the deferred credit arising from the proposed accounting treatment meets the definition of a liability, as far as the purpose is to provide an interpretation within the frame of the existing IAS 18. This is an issue to be solved by the revenue recognition project.

Criteria for recognition of contributed assets should be further clarified

7. According to BC7 of D24, the IFRIC concluded it was not appropriate to include indicators that an entity could use to determine whether a contributed resource qualifies for recognition as an asset, because determining whether a contributed resource qualifies for recognition is no different from determining whether any item of property, plant and equipment should be recognised. With regard to determination about recognition of a customer contribution as an asset, D24 states that “in determining whether the resource qualifies for recognition as an asset, the entity shall assess whether it controls the resource and whether future economic benefits are expected to flow to it from that resource” (paragraph 9) and that “In order to demonstrate that it controls the resource, the entity shall consider the terms and conditions of the arrangement to assess whether it has the ability to

access the benefits arising from the resource and whether it has the power to restrict others' access to those benefits" (paragraph 10).

8. We do not believe the above provision would be sufficient to determine whether a contributed resource qualifies for recognition as an asset or not, because the future economic benefits from that resource are expected to flow to both an entity and a customer and both of them have the ability to access the benefits arising from the resource. Therefore, we suggest the interpretation should include more distinct and detailed indicators for recognition (for example, "an entity bears substantially all of the cost arising from using customer contribution.").

We hope that our comments will contribute to the future deliberations of the IASB.

Sincerely yours,

A handwritten signature in black ink that reads "Take Arai". The signature is written in a cursive, slightly slanted style.

Takehiro Arai
Chairman, International Issues Standing Committee
Board Member (full-time), Accounting Standards Board of Japan