

## Accounting Standards Board of Japan (ASBJ)

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13 March, 2012

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir or Madame,

### **Comment on the Exposure Draft ED/2011/11** **Revenue from Contracts with Customers**

We appreciate the many years of efforts in the Revenue Recognition project by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (“the boards”) and the decision to re-expose the revised proposals for a common and very important revenue recognition standard for every entity. Re-exposing the Exposure Draft, *Revenue from Contracts with Customers*, (the “revised ED”) will provide the wide range of interested parties with an opportunity to comment on revisions the boards have undertaken to the Exposure Draft, *Revenue from Contracts with Customers* (the “2010 ED”), issued in June 2010.

#### **General Comments**

1. We generally agree with the core principle of the revised ED that an entity should recognise revenue from contracts with customers when the promised goods or services are transferred, and measure the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This would result in more consistent accounting for economically similar transactions. Also, we appreciate that the boards addressed a number of comments from constituents and improved the proposals by, for example, adding, clarifying and simplifying the guidance in the revised ED.
2. Acknowledging the above mentioned improvements, we have further reviewed the revised ED. Considering the significance of the revenue standard in financial reporting, we solicited public views on the revised ED and received comments from a wide range of constituents in Japan. The purpose of this procedure was to fully understand the impacts of the proposals in the revised ED on Japanese accounting practices and to identify early the issues in the proposal which we should ask for improvements from the viewpoints of Japanese constituents. Our comments and recommendations set out in this letter, therefore, widely reflect the views of those constituents. Direct quotations from our constituents’ views are shown in *italics* in this letter.

## **Responses to the specific questions and other comments**

Our responses to the specific questions in the revised ED as well as other comments are provided below.

### **Part 1. Responses to the specific questions by the IASB**

#### **Question 1:**

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

3. We generally agree with the proposed requirements that an entity should first apply the criteria to determine whether the performance obligation is satisfied over time, and if it does not meet any one of the criteria, it is a performance obligation satisfied at a point in time. However, we believe the criteria for performance obligations satisfied over time should be further refined.

#### **Paragraph 35(a)**

4. When a performance obligation meets either one of the criteria in paragraph 35(a) or (b), the performance obligation is determined to be the one satisfied over time. The criterion in paragraph 35(a) is important in determining the nature of the performance obligation and is consistent with the core-principle of the transfer of control, that is, “the customer controls the asset as the asset is created or enhanced,” and useful in determining the transfer of control in situations where work-in-process inventory is created, as mentioned in paragraph BC91 of the Basis for Conclusions. However, difficult judgments would be needed in applying these indicators in determination of whether or not control is transferred as an entity performs, because the indicators in paragraph 37 referred to by paragraph 35(a) are designed for determination of the timing of the transfer of control for performance obligations satisfied at a point in time.
5. For example, application of an indicator in paragraph 37, “the customer has accepted the asset,” which is accompanied by the guidance in paragraph B55 through B57, would be clear when it is used to determine the timing of the transfer of control for performance obligations satisfied at a point in time as evidence of customer’s final confirmation of whether the goods or services are compliant with the customer’s specification in the contract. However, when applying this

indicator to determine whether a performance obligation is satisfied over time, it is not clear how the concept of final acceptance by the customer could be applied. Therefore, the interpretation of each paragraph being referred to by paragraph 35(a) should be clarified to facilitate its application in practice.

6. With regard to paragraph 35(a), some Japanese constituents ask for the following clarification:

**Comments from constituents in Japan**

7. *The word “control” in paragraph 35(a) needs clarification. We consider that, in doing so, paragraph B56 serves as a useful reference, which states: “If an entity can objectively determine that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect an entity’s determination of when the customer has obtained control of the good or service.” By using this statement as a reference, “control” in paragraph 35(a) can be defined, for instance, as “the state in which an entity can objectively judge that the provision of a good or service is produced or enhanced in progress in accordance with the agreed-upon specifications in the contract.”*

**Paragraph 35(b)**

**Relationship with the transfer of control**

8. We understand that paragraph 35(b) is developed as a criterion in determining whether a performance obligation is satisfied over time where the control of assets by the customer is not clear. However, this criterion should be further refined, because the transfer of control to the customer might not be faithfully depicted in the cases as shown below:

**<Goods manufactured within a short period of time>**

9. Our understanding is that the revised ED retains the “control” notion as the basis for determining when the promised goods or services are transferred but has introduced the treatments in paragraphs 35 and 36 to address the comments that it may be difficult to determine when the customer obtains control in service contracts or construction contracts. However, according to the proposal in the revised ED, even in the case of the sale of goods manufactured within a short period of time (e.g. custom-made products ordered repeatedly), if the goods do not have an alternative use and the entity has a right to payment for performance completed to date, then the criterion in paragraph 35(b)(iii) would be met and revenue would be recognised over time (as the entity manufactures or when the entity manufactured).
10. However, in the case of sale of the goods manufactured within a short period of time as

described in the previous paragraph, we believe that the appropriate depiction would be to recognise revenue at a point in time when the customer obtains control of the goods (that is, at the time of the delivery to the customer). We do not consider such a performance obligation as being satisfied over time in the light of the basic control notion in paragraph 32 of the revised ED (“the ability to direct the use of and obtain substantially all of the remaining benefits from the asset”). Some Japanese constituents also indicate that the sale of such goods should be considered as a performance obligation being satisfied at a point in time similar to the treatment under the existing standard but the proposed requirements could be interpreted as requiring extensive consideration of whether the criteria in paragraphs 35 and 36 are met.

11. Therefore, we believe that the final standard should specify that criteria in paragraphs 35 and 36 do not apply to sale of goods manufactured within a short period of time and instead such sales should be considered as a performance obligation being satisfied at a point in time with reference to indicators in paragraph 37.

#### **<Freight logistics services>**

12. Certain freight logistics services could be determined as “performance obligations being satisfied over time since they do not require re-performance” as described in paragraph 35(b)(ii). However, others could be considered as performance obligations being satisfied at a point in time, because control is considered to be transferred to the customer by the delivery of goods, for example, if the contract is emphasizing the promise to deliver the goods to the customer by a certain specified date or timing.
13. Under the revised ED, paragraph BC97 seems to suggest that all freight logistics services are performance obligations satisfied over time. It should be clarified that whether a performance obligation under a freight logistics service is satisfied over time, or at a point in time, should be determined based on the nature of the entity’s obligation in each individual case.

#### **Other comment on paragraph 35 (b)**

##### **Refining the criterion in paragraph 35(b)(iii)**

14. We believe that the wording of the criterion in paragraph 35(b)(iii) should be further refined. In the revised ED, in order to meet this criterion, the entity must have a right to compensation for performance completed to date, which includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity’s costs plus a reasonable profit margin). However, determination of whether this criterion is met may be difficult because the contract may not explicitly state that the payment would include a reasonable margin even when there is a provision of the payment to compensate for

performance completed to date upon termination by the customer. Therefore, we suggest that the reference to the profit margin should be removed so that the entity can determine whether the criterion is met according to the substance of the transaction.

15. Specifically, we suggest that in paragraph 35(b)(iii) the sentences shown in (a) below should be replaced by the one shown in (b) below:

(a) the sentences to be removed:

“However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity’s failure to perform as promised. Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity’s costs plus a reasonable profit margin) rather than compensation for only the entity’s potential loss of profit if the contract is terminated.”

(b) the sentence to be added:

“The entity must be entitled to an amount that is at least commensurate with the value created by the entity’s performance completed to date.”

**The meaning of the criterion ‘the entity has a right to payment’**

16. With regard to the criterion in paragraph 35(b)(iii) that “the entity has a right to payment for performance completed to date,” paragraph BC101 states that “the boards do not mean that the entity must have a present unconditional right to payment.” Considering such intent of the boards, an entity should be considered to have a right to payment for performance completed to date if the entity has, in substance, contractually secured a right to compensation for performance completed to date upon unilateral contract termination by its customer. Therefore, such intent of the boards should be explicitly stated in paragraph 35(b)(iii) by changing the wording to “the entity, in substance, has a right to payment for performance completed to date.”

**Question 2:**

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line

item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

17. We agree with the presentation of revenue as a gross amount (i.e. at transaction price). However, we have a concern about the proposal that *any* initial and subsequent impairment losses on trade receivables should be presented in a separate line item adjacent to the revenue line item.
18. In the case of the business exposed to a customers' high credit risk which has been incorporated in the transaction price, we consider that presenting the initial impairment losses adjacent to the revenue line item may be useful in enabling users to understand that the amount an entity expects to receive will be net of impairment losses.
19. In contrast, for the business in which customers' credit risk is not high, the proposed presentation would not be so useful, because impairment losses in such a business would be irrelevant to the users' judgment about revenue. In addition, even when customers' credit risk is high, subsequent changes in the measurement of impairment may be unrelated to the revenue for the period.
20. Therefore, presenting uncollectible amounts adjacent to the revenue line item would be appropriate *only* when the entity's business is exposed to customers' high credit risk which is incorporated in the transaction price, although such a case is considered to be rare.

**Question 3:**

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

21. We basically agree with the concept of paragraph 81 of the revised ED that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue that an entity recognises to date is constrained to the amount to which the entity is reasonably assured to be entitled. However, the constituents express a concern that no revenue can be recognised at all if any one of the indicators in paragraph 82 exists.
22. Our understanding is that revenue shall be recognised for a portion which is reasonably assured even if indicators in paragraph 82 exist. This matter should be clarified in the final standard to address such a concern.

**Question 4:**

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

23. We consider that the proposed scope of the onerous test is insufficient.
24. Unlike the 2010 ED, the revised ED excludes from the scope of the onerous test performance obligations satisfied over time whose period is expected to be equal to or less than one year and performance obligations satisfied at a point in time. Regarding the exclusion of performance obligations satisfied at a point in time, although we understand that no significant loophole would be created because we consider that they are appropriately covered by the onerous test on firm purchase contracts and firm sales contracts in accordance with IAS 2 *Inventories* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as stated in paragraph BC210 of the revised ED, constituents have a concern in connection with the proposed consequential amendments to IAS 37 (i.e., the scope exclusion of the right and obligations arising from contracts with customers) that it is not clear that IAS 37 can be applied for firm sales contracts as it is specifically required by other standard, IAS 2. Therefore we recommend that the relationship with the scope of IAS 37 should be further clarified.
25. We disagree with the exclusion of performance obligations satisfied over time whose period is expected to be equal to or less than one year for the following reasons;
  - Onerous losses would not be recognised even if an entity expects significant losses.
  - Such a bright line would create structuring opportunities because different outcomes could arise in different scenarios with periods slightly above or below the specified one

year threshold.

26. Our understanding is that the limited scope of the onerous test as proposed in the revised ED is intended to minimize additional costs incurred by the onerous test from the cost-benefit viewpoint. Some constituents agree with this proposal. However, other constituents indicate that they would rather apply the onerous test to all of the performance obligations satisfied over time because additional works would be necessary to distinguish performance obligations to be satisfied over more than one year from those satisfied within one year. Furthermore, some argue that any expected significant loss should be appropriately dealt with even if it arises from a performance obligation satisfied within one year.
27. On balance, performance obligations satisfied over time within one year also should be included in the scope of the onerous test.
28. We believe that it would be appropriate to explicitly state that materiality should be taken into consideration in determining onerous performance obligations, from the viewpoint of minimization of practical burdens, which underlies the proposed scope limitation of the onerous test to performance obligations satisfied over the period greater than one year.

**Comments from constituents in Japan**

29. *Some constituents request that the contract as a whole should be allowed as a unit of account for applying the onerous test if it is an appropriate unit for the entity's profit or loss management. They argue that there are a variety of units for profits and losses management by entities and a performance obligation is not necessarily the most appropriate unit.*

**Question 5:**

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.\* The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim



financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

30. We understand that the boards do not intend to require an entity to disclose items in its interim financial reports to the same level as annual financial reports but rather to invite comments on this question to identify disclosure requirements which may not achieve an appropriate balance between the costs and the benefits.
31. However, we have invited comments from constituents not only on disclosures in interim reporting but also on disclosures in annual financial statements, which were controversial issues in the 2010 ED.

## **Disclosures in annual financial statements**

### **Comments from constituents in Japan**

32. *Users highly evaluate the improvement of disclosure requirements. They expect that quantitative disclosures about the detail of sources of revenue and the trend in orders received and unsatisfied performance obligations will be useful for their business analysis and earnings forecast. They also expect that qualitative disclosures will be useful in understanding what revenue recognition criteria entities use.*
33. *By contrast, preparers across all industries express extremely strong disagreement with the proposed disclosures because of significant additional costs for preparing them. That is, they are concerned that additional investment in accounting systems would be needed to collect data from across many consolidated entities, including small-sized ones, and to process them into auditable accounting information. This data, including “the tabular reconciliation of contract assets and liabilities”, and “the analysis of the entity’s remaining performance obligations”, is not currently used for any internal management purposes. They also have strong reservations about the effectiveness of the proposed items from the perspective of their usefulness to a disclosure in financial reporting as well as their benefit to internal management information.*
34. *Those constituents strongly request that the boards understand the significant cost burden of the proposed disclosures and are concerned that it might become an impediment to implementation of IFRSs in Japan. For some of the quantitative*

*information, auditors also comment that the costs to prepare and audit them would not be justified by the benefit obtained by users.*

### **Disclosures in interim financial statements**

35. Some of users ask for disclosures in interim financial statements to be at the same level as annual financial statements, but the majority of users understand the burden of the costs to preparers and are of the view that some of disclosure items could be omitted. Considering the balance between the timeliness and the volume of information, there is a view of users that only significant matters should be disclosed in interim reporting, and that to ensure this the judgment of materiality in interim reporting should be based on changes from annual financial statements.
36. On the other hand, preparers strongly disagree with requiring disclosures in interim financial statements at the same level as the annual disclosure about which they have serious concerns as mentioned above because of the more severe time pressures that exist in the preparation of interim reports.
37. On balance, we believe that specific disclosure items about revenue should not be prescribed for interim financial reporting and instead what is to be disclosed should still be determined based on the principle set out in paragraph 15 of IAS 34 *Interim Financial Reporting*, that is, whether the information is necessary to explain “events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.”

### **Constituents’ comments on individual disclosure items**

38. We describe the comments received from preparers and users on individual disclosure items in the Appendix to this comment letter. We believe that those views will be useful to the boards’ deliberation about the costs and benefits of each disclosure item.

#### **Question 6:**

For the transfer of a non-financial asset that is not an output of an entity’s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.\* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity’s

ordinary activities? If not, what alternative do you recommend and why?

39. We consider that further deliberations are needed for this proposal.
40. Items of property, plant and equipment within the scope of IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property* have the following features different from inventories:
- They generally have a longer useful life.
  - Their carrying amounts may significantly differ from their fair value and accordingly a large amount of gains or losses may be recognized on their retirement or disposals.
  - Transactions involving them may be subject to continuing involvements by the seller, such as repurchase agreements or leasing back. They also may be incorporated in securitization schemes using SPE or other vehicles.
41. Also, intangible assets within the scope of IAS 38 *Intangible Assets* have the following features different from inventories:
- Many parties can obtain benefit from them at the same time through duplicating them.
  - They are generally used over longer useful life. Their economic useful life may be sometimes difficult to identify.
  - Judgment of whether the transaction is licensing or transfer of control of an intangible asset may be difficult in some cases.
42. Our understanding is that paragraph 37 in the revised ED is intended to provide indicators for transfer of control of goods like inventories. Application to plant, property and equipment or intangible assets should be further deliberated in the light of the features of those assets different from inventories, including consideration of whether the five indicators in the paragraph 37 of the revised ED are sufficient or additional indicators are necessary.
43. According to the amendment to paragraph 69 of IAS 16 in the “Amendments to other IFRSs”, the requirement for determining when a performance obligation is satisfied in the revenue recognition standard should be used for determining the disposal date of property, plant and equipment. However, it should be made clear whether this means requiring determination of whether the performance obligation is satisfied over time.

## **Part 2. Other comments**

### **(1) Identifying separate performance obligations**

#### **Criteria for distinct good or service**

44. We basically agree with the approach that an entity should first identify separate performance obligations in a contract and then apply other requirements related to revenue recognition on the basis of a separate performance obligation. However, we suggest an improvement to the wording of the “other resources that are readily available to the customer” in paragraph 28 (b) in the revised ED, to facilitate implementation in practice.
45. Our understanding is that the expression “readily available” is intended to limit the required scope of an entity’s judgement and reduce the burdens on the entity. However, some constituents in Japan have a concern that the paragraph 28(b) can be interpreted as requiring an entity to judge by searching all possible scenarios, using extensive information about combinations with the goods or services which other entities might sell. To address this concern, we suggest adding to paragraph 28(b) an explanation that “In identifying whether paragraph 28(b) is met, an entity need not undertake an exhaustive search for all possible resources, but would take into account information that is reasonably available to the entity.”.

#### **Criteria for determining a separate performance obligation**

46. Some constituents ask for clarification of a criterion for determining a separate performance obligation in paragraph 29(b), that is, “the bundle of goods or services is significantly modified or customised”. They think it is not clear how this criterion should be applied when the bundle contains both standardised goods or services and significantly modified or customized ones.
47. We consider that “the bundle of goods or services is significantly modified or customised” is intended to mean that the judgement should be based on whether the bundle as a whole (output) resulting from integrating goods or services, rather than individual goods or services (inputs) within the bundle, is “significantly modified or customised”. We suggest that such intention should be clearly stated in the standard.

### **(2) Licensing**

#### **Views regarding satisfaction of a licensing performance obligation**

48. We suggest that the treatment of licensing should follow the principle for determining satisfaction of performance obligations, that is, criteria in paragraphs 35 and 36 should be applied to determine whether a performance obligation is an obligation satisfied over time, rather than providing an exceptional treatment that licensing contracts represent performance obligations satisfied at a point in time.
49. Paragraph B34 of the revised ED states that “If an entity grants to a customer a licence or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights.”
50. However, we do not consider that granting of a licence necessarily means complete satisfaction of the entity’s obligations, because a licensing agreement may be accompanied by various ancillary obligations such as preserving activities for an exclusive licence right during the exclusive licensing period. As stated in paragraph BC315 of the Basis of Conclusion of the revised ED, the boards considered two alternative views regarding licensing. One is a view that a performance obligation is satisfied at the point in time when the customer obtains control of the licence, and the other is a view that a performance obligation is satisfied continuously over the pattern of use of the underlying rights to use the entity’s intellectual property by the customer.
51. Although the latter view described above is not adopted in the revised ED, we believe this view could be applicable in some cases. Whether a performance obligation related to a licensing agreement is the transfer of rights to use, or a continuous grant of rights to use, should be determined based on the substance of each contract. We believe that determining satisfaction of a performance obligation based on such judgment would result in faithful depiction of the substance of the contract.

#### **A sales-based royalty**

52. Paragraph 85 of the revised ED states that “the entity is not reasonably assured to be entitled to the additional amount of consideration until the uncertainty is resolved (i.e. when the customer’s subsequent sales occur)” as an exceptional treatment for a variable consideration of licensing (a sales-based royalty). Our understanding is that the aim of this treatment is to avoid recognition of uncertain revenue (depending on the customer’s future production or sales), which would occur if the entity recognises revenue at a point in time when the customer obtains control of the licence.
53. However, as mentioned above, we suggest that whether a performance obligation related to licensing is satisfied over time should be determined based on the criteria in paragraphs 35 and

36. If our suggestion is adopted, paragraph 85 would be unnecessary and the treatment of a sales-based royalty would follow the principle applicable to variable consideration, that is, it would be determined by the criteria of whether the variable consideration is “reasonably assured,” including whether the entity has any experience with similar types of performance obligations and whether the experience is predictive.

### **(3) A contract asset and a receivable**

#### **Consistency between the example and the concepts**

54. In the revised ED, a receivable is described as “unconditional right to consideration,” and a contract asset is described as “the right conditioned on something other than the passage of time (for example, the entity’s future performance)” respectively in paragraph 106. However, in Example 17, the “receivable” is recognized before the entity satisfies the performance obligation by transferring goods or services to the customer. In this case there seems to be no unconditional right to consideration and thus this example appears to be inconsistent with the above description of ‘receivable’. Consistency between the example and the concepts in the standards should be ensured by clarifying the concepts of the contract asset and the receivable.

#### **The treatment of foreign currency transactions**

55. Besides the above, constituents request clarification of the treatment of foreign currency transactions related to contract assets and contract liabilities, which are not financial instruments.

### **(4) Transition**

#### **Comments from constituents in Japan**

56. *The revised ED proposes that an entity shall apply the [draft] IFRS retrospectively in accordance with IAS 8. As one of the practical expedients to retrospective applications, paragraph C3(a) states that, “for contracts completed before the date of initial application, an entity need not restate contracts that begin and end within the same annual reporting period.”*

57. *Some constituents suggest that “the date of initial application” in paragraph C3(a) should be replaced with “the beginning of the newest period of comparative financial statements” because the definition of ‘the date of initial application’ is not clear. They also argue that restatements regarding revenue recognition would be impracticable because retrospective application of the new standard for revenue recognition, which would be a fundamental change to the operations of entities,*

would force entities to duplicate their management of a wide range of activities and their preparation of enormous volume of data, given that the criteria for recognizing revenue constitutes the foundation of corporate management. Therefore, they suggest that the criterion in paragraph C3(a) that “the contracts that begin and end within the same annual reporting period” should be deleted and that, for the performance obligations satisfied over a period across the date of initial application, continuing application of the existing standards should be allowed by not requiring restatements.

## **(5) Allocating the transaction price (goods sold and points)**


### **Comments from constituents in Japan**

58. According to paragraph 71 of the revised ED, for a contract that has more than one separate performance obligation, an entity shall determine a stand-alone selling price at contract inception of the goods or services underlying each separate performance obligation and allocate the transaction price to each separate performance obligation on a relative stand-alone selling price basis. Regarding this proposed requirement, some constituents request that the residual approach should be allowed for certain types of transactions as described below.
59. Retailers often grant ‘points’ to their customers when goods are sold to them. Some argue that it would be impractical to allocate the transaction price between those points and goods sold on a relative stand-alone selling price basis, because of the characteristics of those points that would cause difficulties in such allocations. Those characteristics include: (a) the value of the points are insignificant relative to the value of the purchased product, (b) there are large numbers of various items on the store, (c) grants and exchanges of points are conducted on a daily basis, and (d) rates of points granted are not constant. Constituents request that the residual approach, which is allowed only when the stand-alone selling price of a good or service is ‘highly variable or uncertain’ under the revised ED, should be allowed to apply to the transactions having the characteristics described above by, for example, subtracting the estimated value of the point from the total transaction price to arrive at the allocated amount to the goods or services in the contract.

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We hope that our comments will contribute to the forthcoming deliberations in the project.

Yours sincerely,

A handwritten signature in black ink that reads "Masaji Miyako". The signature is written in a cursive style with a light blue shadow effect behind the text.

Masaji Miyako

Board Member of the Accounting Standards Board of Japan and  
Chairman of the Revenue Recognition Technical Committee



## **[Appendix]**

Comments shown below regarding the proposed disclosure requirements are views of constituents in Japan. We hereby attach these views as we believe these comments would be important inputs to IASB in considering an appropriate balance between the costs and the benefits of disclosure requirements.

### ***Disclosures in annual financial statements***

#### **Comments from preparers in Japan**

##### ***General***

- *The proposed disclosures would generate only marginal benefits for internal management purposes, compared with the significant costs that would be incurred by investments in new accounting systems to collect data within the consolidated group and ongoing costs for preparing the disclosure information (including preparation for audits). The proposed disclosure requirement would not improve the comparability in revenue recognition across entities, industries, jurisdictions and markets.*

##### ***Individual disclosure items***

###### ***Disaggregation of revenue***

- *Given that the disaggregation of revenue is already provided in segment reporting based on the management approach, requiring this disclosure would duplicate the costs for managing the information about revenue and might confuse users due to the difference from the segment information.*

###### ***A tabular reconciliation of contract assets and liabilities***

- *Significant investments in systems for managing contracts and receivables would be needed to follow all contracts about the status and progress of satisfaction of performance obligations and the existence of the right to payment. Aggregation into figures on the consolidated basis would impose further operational loads.*
- *The reconciliation table prepared on the consolidated basis would not provide useful information for internal management purposes, because it is an aggregation of the different contracts in various sectors.*

###### ***An analysis of the entity's remaining performance obligations***

- *Significant costs would be incurred to provide such analysis on a consolidated basis because the information about expected future satisfaction of the performance obligations*

*related to acquired contracts is not currently compiled as accounting data and therefore significant improvements of systems would be needed, especially for evaluating the situations of the group as a whole and enabling elimination of intercompany transactions. Exhaustive compilation of such data would be virtually impossible for entities conducting a large volume of various transactions repeatedly*

- *Furthermore, there is a concern that significant ongoing costs may be incurred for obtaining data about the expected timing of satisfaction of performance obligations for all contracts every period.*
- *Entities in the construction industry have a large number of contracts which contain performance obligations satisfied over a period of time more than one year, and the details of those contracts are different from each other. It would be unduly burdensome for those entities to estimate the timing of satisfaction and allocate revenue across future periods based on the expected progress for each construction contract.*
- *In addition, from the auditing perspective, such uncertain forward-looking information would be hardly auditable.*

#### ***Onerous performance obligations***

- *Onerous performance obligations have various backgrounds and reasons, and thus it would be overly burdensome on preparers to state them exhaustively. From the cost/benefit point of view, it would be sufficient to disclose only the amount of liabilities at the beginning and the end of the period. In addition disclosure of details about onerous performance obligations might damage the entity's business strategy and negotiations with customers. Therefore, details of each onerous performance obligation should not be required and only general qualitative information should be disclosed.*

#### ***Contract cost***

- *Costs to obtain or fulfil a contract repeatedly arise in the business activities of entities in a large volume, and significant costs would be incurred for preparing a reconciliation of the opening and closing balances of the capitalised contract costs as proposed in the revised ED. Benefits of the reconciliation to users would not outweigh such costs, because the concept of capitalizing such costs is vague and its comparability is not necessarily ensured.*

### **Comments from users in Japan**

- *Users highly evaluate the improvement of quantitative disclosure items. Useful information for their business analysis and earnings forecasts are expected, such as details of the sources of revenue in “disaggregation of revenue”, trends of the order received in “the reconciliation of contract assets and liabilities” and trends of unsatisfied performance obligations in “the analysis of the entity’s remaining performance obligations”.*
- *Qualitative information is also useful in understanding what revenue recognition criteria entities use.*
- *Users ask the IASB to set out a much clearer principle about materiality, considering that the importance of each disclosure item varies by industry and business style and that there is a concern that important information may be obscured by voluminous disclosures as well as a concern of cost burdens on preparers. .*

### ***Disclosures in interim financial statements***

#### **Comments from preparers in Japan**

- *In addition to a strong concern about significant costs for preparing disclosures in annual financial statements, preparers express even stronger disagreement with requiring disclosures in interim financial statements at the same level as the annual financial statements, because timeliness is required much more for interim reporting than for annual reporting.*
- *At the joint board meeting of IASB and FASB in July 2011, suggestions for a reduction of disclosures and necessity of the disclosure principle by the Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants were reported per request issued by the IASB in October 2010, and the boards decided to discuss how to deal with those issues at the boards’ future meetings. The proposal to amend IAS 34 to include disclosure requirements regarding revenue recognition is inconsistent with the above awareness of the issues.*

#### **Comments from users in Japan**

- *While some users consider disclosure of all the proposed items as necessary, the majority of users admit that some of the proposed disclosure items could be omitted, considering that (a) some items would rarely change significantly in a short time after the previous*

*reporting, (b) importance of each disclosure item varies by industry and business style, and (c) cost burdens on preparers need some attention.*

- *Disclosure items that could be omitted are “the tabular reconciliation of contract assets and liabilities”, “the reconciliation of assets recognized from costs to obtain or fulfil a contract” and “the analysis of the entity’s remaining performance obligations”. However, users are unwilling to give up the disclosure items which provides information directly related to profitability analysis, such as “information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period” and “the disaggregation of revenue”*
- *In summary, only important items should be disclosed in interim financial statements. To ensure this, judgment of materiality of disclosure items in interim financial statements should be based on the change from the previous annual financial statements. That is, even a contract of a large amount need not be disclosed if the change from the previous annual financial statement is small. Using this criterion would mitigate the burdens on preparers.*