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International Accounting Standards Board



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Comments on the Exposure Draft Revenue from Contracts with Customers

To the Board Members:

Japan Department Stores Association ("we" and "our") appreciates the continued efforts of the International Accounting Standard Board (IASB) on this project to improve the financial reporting of revenue under International Financial Reporting Standards (IFRSs), and welcomes the opportunity to comment on the exposure draft Revenue from Contracts with Customers.

As most of members of our association are listed companies in Tokyo Stock Exchange and will adopt IFRSs in 2015 or 2016 in case that Financial Services Agency in Japan decide all listed companies will adopt IFRSs, we will express our comments on this Exposure Draft as potential IFRS users.

The following are our comments.

Application Guidance

Question 14

The proposed application guidance intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Principal and Agent consideration (B20—B23) & Consignment arrangements(B57) For Japanese Department stores industry, we think it is critical judgment whether we are treated as principal or agent, as significant part of our business model has similarity with a dealer in "Consignment arrangements" (B54-B57) in the following points.

- Our vendors deliver products to our department stores and displayed to an end customers in our store, but legal title is not transferred to us until we sell them to our customers.
- > The obsolete risk and lost risk of inventories displayed in our stores are retained by our vendors.

We think the application guidance (B20-B23&B57) is <u>not</u> sufficient and clear to apply to our business, due to the following reasons.

Firstly, B57 states that if dealers or distributers obtain control of the product before transferring the product to an end customer in accordance with paragraphs 26-31, they are treated as principal and shall recognize revenue when our customer obtains control of the products.

Dealers or distributors under consignment arrangement obtain legal title of the products momentarily

when they sell them to a final customer, and they must direct them to a particular end customer and is not able to direct them elsewhere. This means that they are constrained in its ability to direct the use of the products and receive the benefit from them, and at the point of sale to final customer, we think control of products is <u>not obtained but restrained</u>, thus they are normally treated as agent.

However, B57 indicates the possibility that dealers or distributors under consignment arrangement are treated as principal if we obtain control of the product before transferring the product to an end customer in accordance with paragraphs 26-31, but we are not able to assume the case they are treated as principal in consignment arrangement in this proposed revenue recognition model.

We strongly recommend Application guidance should clarify the case dealers or distributors under consignment arrangement are treated as principal by additional example.

Secondly, we understand the exposure draft provides two criteria, B21 (based on control model) and B22 (based on risk and Reward model), to judge whether we are treated as principal or agent, and we understand that we should consider B21 first priority, because B21 is in line with the proposed approach and BC209 states that B22 is included in Exposure draft because it may not be readily apparent whether an entity has obtained control of goods or service before they are transferred to a customer.

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We think it is complicated that Exposure Draft requires us to consider B21 first with paragraphs 26-31 as first step, and, as a second step, need to consider B22 in case that it may not be readily apparent whether an entity has obtained control of goods or service before they are transferred to a customer.

Finally, we have concerns this may not improve comparability of financial information because companies under consignment arrangement in the same fact and circumstances may make different judgments on "principal vs. agent consideration" due to this complicated application guidance compared to current IAS 18.

Thank you again to give us the opportunity to submit our comments.

Yours faithfully,

October 14, 2010

Japan Japan Department Stores Association