

October 22, 2010

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

Dear Sirs or Madams,

Comment on the Exposure Draft “*Revenue from Contracts with Customers*”

We are a group of Japanese companies<sup>1</sup> that is mainly comprised of companies that prepare consolidated financial statements under the accounting principles generally accepted in the United States. We appreciate your long-term efforts on the Revenue Recognition project. The following comments are those on the Exposure Draft, “Revenue from Contracts with Customers” (hereinafter, “ED”).

Comments on questions

**Question 2**

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We do not agree that an entity should identify the separate performance obligation when another entity sells an identical or similar good or service separately. We have concerns that the performance obligation recognized based on another entities’ sales does not meet the entity’s profit management unit.

**Question 3**

Do you think that the proposed guidance in paragraphs 25– 31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

We do not think that the proposed guidance is sufficient. We believe that a transfer of a completed asset and a continuous transfer may have different indicators and thus those indicators should be specified for both cases respectively.

---

<sup>1</sup> The names of companies represented are noted at the bottom of this letter.

Thus, the indicators in paragraph 30(a)-(c) would apply to a transfer of a completed asset, and the indicators in paragraph 30(a)-(d) would apply to a continuous transfer.

Furthermore, the indicators of a continuous transfer should include the case that the customer has the ability to receive the benefit from a partially completed asset which is work in process.

**Question 4**

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

Conceptually, we agree with recognition of revenue based on probability-weighted estimate of the possible consideration amounts. But we believe that it is appropriate to recognize revenue at the amount being certain to receive if the probability of the consideration of a specified amount passes a specified threshold.

**Question 5**

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We consider that the distinction of accounting treatment before and after acquisition of unconditional right to consideration is would be time consuming and of little benefit. We believe that the recognition of all effects of customer's credit risk as income and expense rather than revenue does not interfere with providing useful information to users of the financial statements.

**Question 6**

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

Conceptually, we agree that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component. But we believe that it is not appropriate to consider effects of financing for all transactions from cost-effectiveness viewpoint. So we believe that it is appropriate to recognize financing effects only if the time period exceeds a specified period.

As noted in comments to previous question, we believe that it is appropriate to recognize the effects of customer's credit risk as income or expense rather than revenue and risk-free rate should be used as discount rate.

**Question 7:**

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We consider that it is not appropriate to allocate any change in the transaction price to all separate performance obligations in proportion to stand alone selling price.

For example, it is common practice to charge discount deficit to some specific goods or services. In this case, allocation of discount deficit to all separate performance obligations in proportion to stand alone price does not depict the margins of goods or services. We believe that when an entity has obvious evidence, it is appropriate for the entity to allocate any change in transaction price to specified performance obligation.

**Question 10**

The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Consistent with our comments to Q11 and Q12, we consider that there are some requirements which will not meet the objectives.

**Question 11**

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any,

information do you think an entity should disclose about its remaining performance obligations?

We do not agree that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with original duration expected to exceed one year. This disclosure requires enormous cost for both estimation and audit and provides little benefit to investors due to uncertainty of information. We believe that qualitative disclosure required by paragraph 81 is sufficient.

**Question 12**

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We do not agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic facts. We believe that segmental disclosures by management approach required by IFRS 8 are sufficient.

**Question 13**

Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We do not agree that an entity should apply the proposed requirements retrospectively. For some entities, especially entities providing services or construction services, it is impracticable to apply retrospectively the proposed requirements to all contracts in existence during reporting periods presented due to enormosity of to be covered transactions.

**Question 14**

The proposed application guidance is 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?

As we noted in the comment to Q3, we believe that the principle to determine whether goods or services transfer continuously should be clearly identified as guidance in paragraphs 25-31, not as application guidance.

### **Question 15**

The boards propose that an entity should distinguish between the following types of product warranties:

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We agree with the proposed distinction between types of product warranties and the proposed accounting for a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customers.

But we do not agree with the accounting for a warranty that provides a customer with coverage for latent defects in the product for the following reasons

1. This type of warranty will not be separately sold to the customers and it is not appropriate to recognize performance obligation based on the allocation of trade price including margin.
2. Until latent defect is found, the customer obtains control of good or service.
3. The proposed account that this warranty is not recognized as separate performance obligation but treated as unsatisfied performance obligation makes the definition of performance obligation complex and revenue recognition unit unclear. This complication of revenue recognition unit is a quite significant issue for the countries or industries with complex distribution system such as Japan.

We believe that it is appropriate to recognize revenue when a customer obtains the control of good or service and treat this warranty as a liability rather than contract liability.

We hope that our comments contribute to your forthcoming deliberations in this project.

Sincerely yours,

**A Group of Japanese Companies:**

CANON INC.

Hitachi, Ltd.

Honda Motor Co., Ltd.

ITOCHU Corporation

Komatsu Ltd.

KUBOTA Corporation

KYOCERA Corporation

Makita Corporation

Murata Manufacturing Co., Ltd.

Mitsubishi Electric Corporation

Mitsui & Co., Ltd.

Mizuho Financial Group, Inc.

Nippon Meat Packers, Inc.

Nomura Holdings, Inc.

ORIX CORPORATION

Panasonic Corporation

RICOH COMPANY, LTD.

SANYO Electric Co., Ltd.

Sony Corporation

SUMITOMO CORPORATION

TDK Corporation

Toshiba Corporation

Wacoal Holdings Corp.