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

Dear Sir or Madam:

**Comment on Exposure Draft ED/2011/6:
A revision of ED/2010/6 Revenue from Contracts with Customers**

The Real Estate Companies Association of Japan (“Association”) is an industry association consisting of 167 major Japanese real estate companies engaging in a wide variety of businesses including urban development and supply of office and residential properties.

The Association appreciates the efforts of the International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) on their joint project on revenue recognition.

In response to the request for comments on the Exposure Draft ED/2011/6: A revision of ED/2010/6 Revenue from Contracts with Customers (“ED”), we submit the following comments for your review.

These comments include our response to certain question indicated in the ED and our view on certain paragraphs of the ED.

1. Question 5

(Answer)

The Association does not agree (with the inclusion of the proposed disclosures not only in interim financial reporting, but also in annual financial reporting).

(Reason)

The disclosure items proposed by the ED would require the preparers of financial statements to bear significant administrative burden, while it is questionable that the benefits to the users of financial statements outweigh the burden. In particular, in analyzing remaining performance obligations for contracts with an original expected duration of more than one year, an entity is required to disclose the amount of remaining performance obligations and when they are expected to be satisfied (paragraphs 119 and 120 of the ED). This would likely result in a significant additional cost due to the increased administrative burden bourn by the preparers as they need to estimate or manage the timing of the satisfaction of these obligations for all contracts on a regular basis (if such disclosure is required in interim financial reporting, four times a year as quarterly reporting is required in Japan). For example, preparers who are residential condominium developers would incur a significant administrative cost to keep track of the delivery schedule for any change in the expected delivery date of each condominium unit to the respective customers at each reporting date, although few such changes are expected to occur in reality. As a result, the usefulness of the disclosure would be limited and unsatisfactory from the cost-benefit perspective.

2. Other issue (incremental costs of obtaining a contract, paragraphs 94 through 97 of the ED)

(Comment)

Paragraph 96 of the ED states that costs to obtain a contract should be recognized as an expense when incurred, unless “those costs are explicitly chargeable to the customer.” However, the existence of the term “explicitly” in this paragraph limits more than necessary the scope of incremental costs of obtaining a contract that can be recognized as an asset.

The Association recommends that Paragraph 96 be revised to allow an entity to capitalize such costs if the entity expects to recover them regardless of whether they are explicitly chargeable to the customer.

(Reason)

1. The provisions of Paragraph 96 of the ED presumably apply to advertising costs in general. However, advertising costs incurred for the sales of residential condominiums (costs incurred for the purpose of selling specific condominium units (*1)) are different in nature from those incurred for the sales of mass-production/mass-sales consumer goods (e.g., processed foods).
2. Capitalization of advertising costs incurred for the sales of residential condominiums (costs incurred for the purpose of selling specific condominium units) should not be restricted as they have the following business and accounting characteristics.

- (1) Recoverability (appropriateness of capitalization)
 - (i) Real estate companies determine the selling price of residential condominium units by reflecting the advertising costs to sell the units in addition to the development costs of the property such as land acquisition cost and building construction cost.
 - (ii) Real estate companies recover the advertising costs through revenue from the sales of residential condominium units (which are classified as inventories for accounting purposes).
 - (iii) Real estate companies are permitted by laws of Japan to conduct advertising for sales purposes after obtaining a construction permit from the administrative authority. In practice, real estate companies typically have acquired the land (i.e., they have already started capital investment) when they start such advertising. Therefore, it is probable that the construction of the property will be completed and the individual condominium units will be delivered to the respective customers after such advertising is conducted.

⇒ **There are rational grounds for capitalizing advertising costs**

- (2) Impact of recognizing advertising costs as expenses on the users of financial statements
 - (i) In Japan, newly developed residential condominium units are sold mainly through a sales practice called “pre-harvest selling” (*2), which is different from dominant sales practices in the U.S. and Europe. Therefore, if advertising costs are recognized as expenses in the period in which they are incurred, there will potentially be a substantial time lag up to two fiscal years between the expense recognition and the recognition of revenue from the sales of condominium units.
 - (ii) Real estate companies make their management decisions (on project feasibility and profitability) in the business of development and sales of residential condominium units by considering advertising costs for selling these units as well as development costs such as land acquisition cost and building construction cost in a comprehensive manner. Advertising costs generally comprise a significant portion of the total costs in the calculation of the project profit and loss.

⇒ **If these advertising costs are required to be recognized as expenses in the period in which they are incurred, they are not reflected in the financial statements for the period in which the corresponding revenue is recognized, although they comprise a significant portion of the total costs in the calculation of the project profit and loss. As a result, the actual status of the management and the business of the company is not faithfully presented in the financial statements for the period in which the corresponding revenue is recognized and the users of financial**

Furthermore, such requirements might create room for arbitrary judgment by the preparers with regard to the timing of the recognition of these costs as expenses.

- *1 These costs are incurred, for example, for the following purposes:
- Advertising specific condominium units in Newspapers and residential apartment information magazines
 - Advertising specific condominium units on television
 - Preparing and distributing sales materials such as pamphlets describing the property features (location, floor plan, price, facilities, etc.)
- *2 “Pre-harvest selling” refers to a sales practice of conducting marketing activities and concluding sale and purchase agreements with customers after obtaining a construction permit for residential condominium development, but before or during the construction period. There will be a substantial time lag between the conclusion of the sale and purchase agreement and the delivery of the property to the customer upon completion of the construction (i.e., the timing of revenue recognition), particularly in the case of a

If you have any questions concerning our comments, please contact Takanori Tobita at tobita@fdk.or.jp.

Sincerely,

Akira Nanakarage
Secretary-General