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13 March 2012

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Dear Hans Hoogervorst

Re: Exposure Draft November 2011: Revenue from Contracts with Customers

We are pleased to be able to present our comments on the Exposure Draft November 2011 on Revenue from Contracts with Customers (hereafter referred to as ED2011). We set out below our responses to some of the questions posed in ED2011. In addition we also wish to highlight to you our views on the disclosure requirements and therefore add these as an appendix below.

Question 1:

Paragraphs 35 & 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes 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?

We agree with the principles in paragraphs 35 & 36 and appreciate the progress made over the provisions of the Exposure Draft issued in June 2010 (hereafter referred to as ED2010). In particular the distinction between recognition of revenue at a point in time and over time is helpful and clearly defined. We believe that paragraph 35(a) should be the primary principle in determining if revenue should be recognized over time and that paragraph 35(b) only be used as a secondary guideline if an entity cannot meet paragraph 35(a). For IT business the nature of most service contracts is such that the customer controls, (either directly or indirectly), the asset as it is being created or enhanced. We therefore consider 35(a) to be a clear and essential principle.

However we still believe that paragraph 35(a) could be improved by more prominent articulation of the concept of a customer controlling work-in-progress included in BC90/91 within the main body of the standard. B56 of ED2011 refers to the need or otherwise of a customer acceptance certificate as an indicator of control transfer. We would propose that the IASB add a similar sentence to the body of 35(a) such as *“if an entity can objectively determine that control of a good or service has been transferred to a customer within the agreed upon specifications, this is a strong indication that the entity controls the asset as it is being created or enhanced”*. We think such an addition would make it clearer that control does not need to be limited to physical access to/use of an asset, be it during production or upon completion, but can also include indicators such as the customer having significant input to the production process or design of the service.

Question 2:

Do you agree with the proposals to present credit risk associated with promised consideration (accounted for under IAS39 or IFRS9) as a separate line item adjacent to revenue? If not, what alternative do you recommend to account for the effects of a customers credit risk and why?

We appreciate that this requirement has been updated from ED2010 paragraph 43 which proposed that a transaction price and therefore revenue recognized should include credit risk. We disagreed with that approach so are pleased to see this has been re-considered and we support the principle of the revised proposal.

However we have the following comments in relation to interpretation:

- 1) Any gains or losses in relation to financial assets accounted for under IAS39/IFRS9 are currently treated as an operating cost or financial income/expense item. Therefore we think that the proposed presentation of credit risk provisions in relation to contract assets being adjacent to revenue may not be useful information. We would suggest that a separate line item within operating expenses would be more appropriate in order to be consistent with accounting for other financial assets under IAS39/IFRS9.
- 2) We would consider that paragraphs 68/69 are aimed primarily at entities that may factor an increased level of credit risk into the consideration for goods and services. We propose only in such cases, namely only for companies operating a business model where credit risk is reflected in consideration, then provisions against contract assets at risk of collection should be presented as a debit adjacent to the gross revenue line.

Question 3:

If the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue and entity recognizes to date should not exceed the amount to which the entity is reasonably assured to receive. Do you agree with the proposed constraint?

We entirely agree with the proposed constraint and furthermore appreciate that paragraph 81-84 is entirely based on key principles of recognition.

However we do not think that a specific example for sales of licenses of intellectual property should be drawn out as it is in paragraph85 of ED2011. In our view variable consideration can be applied to both hardware and software (and any other products and services), therefore the principles provided in paragraphs 81-84 should be sufficient. Furthermore the application guidance provided in B33-37 of ED2011 should be more than adequate as it is useful for guiding management to determine an appropriate revenue recognition pattern. At most the guidance provided in para.85 should be moved to be alongside B33-37.

Question 4:

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period greater than one year, an entity should recognize an provision if the performance obligation is deemed to be onerous. Do you agree with the proposed scope of the onerous test?

We agree that the scope of the onerous test should be set at the level of performance obligations rather than at total contract level in order to match the principle of recognizing revenue at the same unit of account. We also agree that the timing of the onerous provision test should be at contract inception. This should avoid, in practice, entities purely booking provisions to cover operational losses as progress is made towards completion of a performance obligation.

However we feel that once an entity has established a solid procedure for assessing the need for onerous provisions against performance obligations at contract inception the entity should not be prohibited from using the same procedure regardless of the length of time in which a performance obligation is expected to complete should it elect to do so. To us it is not clear if such a prohibition exists in paragraphs 86-89. We believe it is important for both management and other users of financial information to have full visibility of onerous performance obligations at any point in time, irrespective of whether or not an onerous performance obligation provision is expected to be fully utilized within any financial year. In some industries, such as IT outsourcing, often a single contract may be divided into numerous short-term (< 1 year) performance obligations of which a material number and value could have the capacity to be onerous at inception.

Question 5:

Do you agree with the board's proposals for an entity to be required to provide each of the disclosure requirements within the exposure draft to its interim financial reports, (if material)? Please also comment on whether the proposed disclosures achieve an appropriate balance between cost to preparers and benefit to users.

We disagree with the proposal to have to apply all the disclosure requirements of ED2011 to interim reports and therefore to update IAS34 accordingly. In our view this approach goes against the core principles of IAS34 which limits disclosure to material changes since the last full financial statements. IAS34 in itself currently only has a

limited number of specified items of disclosure, adding the revenue related disclosures as they currently stand in ED2011 would almost double this number and would be an inappropriate apportionment to a single line item. Furthermore we think that taking such an approach with a single standard, such as revenue, risks setting a precedent for replication with other standards.

Whilst we appreciate that ED2011 only requires such disclosures if they are material we feel that a far less prescriptive amendment to IAS34 would be more appropriate than the current proposals. A generic statement which requires entities only to disclose material changes in disaggregation of revenues; in the value of remaining performance obligations or in policies/judgments impacting revenue recognition may be more reasonable yet still achieve the core objectives of IAS34.

Additional comments on disclosure requirements

Overall we are pleased to see progress made on the disclosure requirements made in ED2011 from those included in ED2010. We appreciate the IASB due consideration of preparers cost and other burdens. We particularly appreciate that there is a caveat given in paragraph 110 as to level of detail to be included in various disclosure requirements.

Overall, in spite of the improvements made, we maintain that the costs (to both preparers and auditors) to comply with all the proposed disclosure requirements will still far outweigh the benefits that we can see the users may have. As discussed in detail below we doubt that the additional usefulness that these requirements have been designed to achieve will actually materialize. We perceive that significant additional cost, in time and in resource, will have to be incurred by preparers, involving investment in new systems, processes and policies. Auditors also may struggle to validate information which contains high levels of management judgment, as would be the case for valuation of remaining performance obligations for example.

We basically believe the objective of usefulness as described in paragraph 109 can never be achieved by requiring the level of detailed information in the standard as is prescribed currently in ED2011. All useful information for users to understand the contracts with customers should be contained within non-financial information such as management discussion. Considering the intention of paragraph 110 in ED2011 we

believe no useful information can be provided, and thus, we would make judgment not to provide reconciliation of contract balances and remaining performance obligations.

1. Reconciliation of contract balances

We appreciate the Boards' consideration to remove preparers' burden to track all activities of contract assets and contract liabilities separately, which would require tremendous system development without producing reliable information. However, due to the nature of the required information, we believe that the contract balance reconciliation in many cases would be very minimal and therefore of little use to users. For example, in situations where the value of an entity's contract assets and or liabilities net are extremely minor relative to revenue recognized and amounts transferred to receivables.

Additionally in simple business models it is highly likely that users will find the information provided in such reconciliations elsewhere in the financial statements. Both points represent cost exceeding benefits and support the argument that this requirement does nothing to help users understand the contract information as expected in paragraph 109. For these reasons in practice it may be common for many entities to take full advantage of the caveat in paragraph 110 and elect not to provide any kind of contract balance reconciliation.

2. Disclosure of remaining performance obligations

We appreciate the consideration of responses to ED2010 and the subsequent discussions that have resulted in a more principles based disclosure requirement in respect of remaining performance obligations, namely the move from prescriptive time-bands to generic quantitative/qualitative information.

However, we still believe that the level of judgment and subjectivity involved in valuing remaining performance obligations will result in providing information which could be of little use to users. In fact we would argue that it is highly likely the proposals would lead to users being more confused in trying to understand and reconcile actual annual movements in the value of remaining performance obligations from those predicted and disclosed in the previous years financial statements.

In addition, for entities with a mix of short-term and long-term performance obligations, it may be that only the long-term performance obligations are represented in the disclosure, which, in turn could be entirely disproportionate to the actual level of future revenues the entity may earn. For example where the entity has a higher percentage of revenues derived from short-term performance obligations. Keeping with this example it may be entirely inappropriate to attempt to aggregate future performance obligations of very different business segments into a single disclosure. Similarly from a practical perspective large and diverse corporates could find it incredibly difficult to apply global methods to measure and value remaining performance obligations across countries and businesses for the purposes of disclosure in group consolidated financial statements.

For the reasons given above we think that disclosure of remaining performance obligations should remain a requirement within management information, principally because the nature of remaining performance obligations is entirely different to that of the financial information (revenue, cash etc) it tries to predict or represent.

Furthermore, we consider that both requirements, contract asset/liability reconciliation and valuation/maturity analysis of remaining performance obligations, may only be appropriate for certain specific industries. Given our knowledge and views are limited to that of the IT Solutions/Product industry we are not able to comment on which industries such disclosures ought to be restricted to but we would suggest that the IASB consider making applicability factors such as type of industry more explicit in paragraph 110.

Our preference would be for the IASB to remove both of these disclosure requirements, for the reasons outlined above and whilst we understand that such significant changes to the standard are unlikely to be considered at this late stage of the project we re-iterate that we would deem both to be entirely useless within our own company and would therefore elect to utilize the caveat provided in paragraph 110.

We hope our comments will be helpful for the IASB to determine its future direction in this important standard and as a preparer we are happy to be involved in further deliberations.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kazuo Yuasa', written in a cursive style.

Kazuo Yuasa
General Manager, Corporate Finance Unit
Fujitsu Limited