



13 March 2012

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

Dear Mr. Hoogervorst:

re: Comments on Exposure Draft
“Revenue from Contracts with Customers”

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Exposure Draft “Revenue from Contracts with Customers” put out by the International Accounting Standards Board (IASB). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 25,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to global standard setters, including the IASB and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and Financial Services Agency.

Before drafting this comment letter, the SAAJ sponsored a study session on the discussion paper, inviting an ASBJ staff member as a lecturer. Some 83 of our certified members participated. A questionnaire was subsequently sent to each and 51 responded, making for a 61% response rate. This comment letter fully takes into account the views expressed in the questionnaire replies as well as discussion among CAC members. The survey results are attached as an Appendix.

General Comments (Survey Question 1)

The CAC highly regards the exposure draft as a practical improvement to the previous draft issued in June 2010. In our survey, 51% of the respondents answered ‘Yes’ to the question “Do you think the exposure draft as a whole will improve revenue recognition standards?”. The SAAJ conducted a similar survey in October 2010 regarding the previous

exposure draft. One of the questions then was “*The exposure draft presents the ‘control approach’ as the single principle of revenue recognition in contracts with customers. Do you think this approach offers more useful information compared to the current realization and earnings model?*”, to which 64% answered ‘Cannot judge at this moment’ while only 18% answered ‘Yes’. The significant increase in support for the new exposure draft is a result of the IASB’s efforts to listen to investors and improve the draft to reflect economic reality. However, the CAC has identified several points that could be improved and urges the IASB to further respond to stakeholders’ opinions and requests.

Percentage of completion method (IASB Question 1, Survey Question 2)

In the comment letter to the IASB dated October 2010, the CAC made the following comments, “*In its June 2009 comment letter regarding the revenue recognition discussion paper, the CAC pointed out that introduction of the percentage of completion method had contributed to improvement in the management of many Japanese corporations. From this viewpoint the CAC thinks the method should be made available more broadly, and, to this end, believes an additional indicator is necessary for paragraphs 30 (a) to (d)*”.

The CAC regards paragraphs 35 and 36 of the latest exposure draft as reflecting these requests from constituents. However, it thinks there is a room for further improvement. The survey asked “*Do you think this revision provides sufficient guidance regarding application of the percentage of completion method?*” to which only 24% answered ‘Yes’ while 50% said ‘Cannot judge at this moment’. The CAC is particularly concerned that stipulations in paragraph 35 (b) (i)~(iii) are too abstract to appropriately apply the percentage of completion method to some industries such as construction and software development. Further, “*Measuring progress towards satisfaction of a performance obligation*” as stipulated in paragraphs 38 to 46 would cause serious difficulty for practical application as the output method is not used in Japan.

The CAC puts forward the following three proposals to enhance practical applicability of paragraphs 35 and 36. First, reorganize the standards into goods and services with specific guidance. Second, secure systematic and quick response by the IFRS Interpretation Committee when problems are identified in various jurisdictions. Third, conduct an implementation review at an appropriate time and promptly revise the standards according to the findings. As revenue recognition is an important and widely applied standard, procedures for continuing improvement should be clearly established from the very start.

Revenue and a customer's credit risk (IASB Question 2, Survey Question 3)

In the comment letter dated October 2010, the CAC made the following comments: *“The CAC opposes the exposure draft’s proposal that transaction price should reflect customer credit risk if its effect on transaction price can be reasonably estimated. The sale of a good or service and associated customer credit risk are neither united nor inseparable. In other words, upon sale of a good or service, an entity makes an independent decision as to what extent it is willing to shoulder customer credit risk. The current practice of showing gross revenue and separately recognizing credit-related expenses depicts an entity’s decision-making process more faithfully. Two items of information, gross revenue and credit expense, better facilitate the financial analysis of an entity and inter-company comparison than just net revenue after deduction of expected credit loss”*.

The CAC praises paragraphs 68 and 69 of the exposure draft, which stipulate showing gross revenue rather than net, as a change that responds to our opinion. However, our survey showed mixed opinion with respect to: *“The new exposure draft proposes showing gross revenue followed by associated credit risks. The amount excludes financial cost but includes the adjustment of ordinary credit risks in past years. Do you agree with the proposal?”* Some 39% of the respondents answered ‘Yes’ while 30% replied ‘No. Credit risk should be included in SG&A expenses’. The majority of CAC members hold the latter view to include credit risk amount in SG&A with reconciliation in the note when necessary as this would depict decision making by corporations more faithfully. The CAC respectfully asks the IASB to reconsider paragraphs 68 and 69 with regard to where to present customer credit risks.

Variable consideration (IASB Question 3, Survey Question 6)

The survey also showed mixed results regarding the variable consideration as proposed in paragraphs 81 and 82. To the question *“The exposure draft proposes that the cumulative revenue an entity recognizes to date for a variable consideration should not exceed the amount to which the entity is reasonably assured to be entitled. Do you think the proposal will enable you to adequately understand the amount of consideration?”*, 45% answered ‘Yes’ and 35% said ‘Cannot judge at this moment’.

The CAC thinks the proposal would make more accurate recording of consideration possible, although sub paragraphs 87 (a) and (b) are abstract possibly causing confusion in application. Some opined that paragraphs 49 and 81 might prevent excess recognition of revenue but might not be effective in preventing inadequate revenue recognition.

Onerous contracts (IASB Question 4, Survey Question 7)

Most of the survey respondents (90%) supported the exposure draft's proposal on onerous contracts. Those who wrote comments in support of the proposal mentioned that stipulation in paragraph 87 is effectively the same as current provisioning and that by limiting contracts only to long-term ones, preparer costs will not be significant.

A few CAC members raised a concern, however, that this limit to long-term contracts might induce corporations to shorten contract terms, resulting in reduced comparability.

Annual disclosure (Survey Question 4)

The survey respondents showed continuing support for the annual disclosure proposal as helpful for corporate analysis. In the October 2010 survey, 77% indicated support, followed by 68% support in the current survey.

The CAC highly evaluates improved quantitative disclosure proposed in the exposure draft which will provide useful information for users. For example, 'disaggregation of revenue' (paragraphs 114-115) will provide detailed sources of revenue, 'reconciliation of contract balances' (117) will show the dynamics of outstanding orders, and 'performance obligations' (118-121) will give details of existing orders. Qualitative disclosure will help users understand different revenue recognition criteria used by corporations.

The CAC is aware that some preparers feel the proposed disclosure requirements are too burdensome. However, it thinks these disclosures are so important for corporations with significant outstanding long-term contract amounts that it is rather strange such information has not been provided so far.

A few members, however, opined that under current contract and trade conventions in Japan, it is costly to gather information on some items, and that disclosure of quantitative items should be limited to long-term contracts because of materiality. The CAC thinks that useful information is different according to industry and business model. It also thinks the risk of important information being buried in boilerplate numbers and the risk of imposing too much cost on preparers should be avoided. Hence, the CAC respectfully asks the IASB to prepare clear guidance of materiality in regard to revenue recognition disclosure requirements.

Interim disclosure (IASB Question 5, Survey Question 5)

In the survey, 35% mentioned that all five disclosures referred to in the exposure draft's question 5 should be required for interim reporting. Some 65%, however, said some items could be omitted in interim statements. The CAC agrees with the majority of respondents and thinks some items can be left out in interim reporting because some numbers will not

make big differences in the short run and that preparer costs should be taken into consideration.

Many survey respondents commented “Some information can be omitted in 1st and 3rd quarter reporting but should be included in the 2nd quarter”. Historical background to this opinion is that Japan switched from half-year interim reporting to quarterly reporting only a few years ago. Considering user benefits and preparer costs, it is reasonable to differentiate disclosure requirements by having more information be disclosed in the 2nd quarter compared to 1st and 3rd quarters.

For those who replied that some information could be omitted in interim reports, the survey further asked what information could be left out. Some 66% said ‘reconciliation of balance of contract assets and liabilities’ (paragraph 117) and ‘reconciliation of the assets recognized from the costs to obtain or fulfill a contract’ (128) can be omitted. And, 59% said ‘analysis of the remaining performance obligations’ (119-121) was not necessary. On the other hand, less than a majority replied ‘onerous contracts’ (122-123) and ‘the disaggregation of revenue’ (114-115) could be omitted, 45% and 38%, respectively. This shows financial statement users need information that is directly relevant to profit and loss analysis. The Board should fully take this into consideration in deciding which tables are to be omitted in interim reporting.

In summary, the CAC thinks only material information need be disclosed in interim reports. To secure this, it should be clearly stipulated that such a criterion (significant changes from annual reports) be applied to interim reporting. In other words, even if outstanding contract amount were huge, it would not be shown in an interim report if the change from the prior annual report was not significant. This clarification would mitigate the feeling of burden shared by many preparers.

Other (Survey Question 8)

Some survey respondents said that they could not agree that revenue from multi-year licensing be recognized when the customer obtained control of the rights as specified in paragraphs B33 to B38. These respondents thought licensing was similar to providing services and therefore should be treated similarly.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

A handwritten signature in black ink that reads "Keiko Kitamura". The script is cursive and fluid.

Keiko Kitamura

Chair

Corporate Accounting Committee

APPENDIX

**Results of SAAJ Survey on
 “Revenue from Contracts with Customers”**

Background and methodology

The Securities Analysts Association of Japan (SAAJ) sponsored a study session on IASB’s exposure draft “Revenue from contracts with customers”, inviting a lecturer from the Accounting Standards Board of Japan (ASBJ). Some 83 of our certified members participated in the session held on 20 January. A questionnaire was subsequently sent to each participant and 51 responded, making for a 61.4% response rate. The respondents were also invited to make comments. The survey, although small in size, focused on a cohort with the same background (certified members of the SAAJ) and same knowledge level (participation in the study session). This focus and very high response rate gives credibility to the reliability of the survey.

Survey questions and answers

Q1: General remarks

Do you think the exposure draft as a whole will improve revenue recognition standards?

A1

(a) Yes.	51.0%
(b) No.	15.7%
(c) Cannot judge at this moment.	33.3%
Total	100.0%

Q2: Transferring control of a good or service over time (Question 1)

The original exposure draft of the IASB and FASB was criticized from the viewpoint that guidance regarding practical application of the percent of completion method was inadequate. Paragraphs 35 to 37 of the new exposure draft are intended to clarify such application. Do you think this revision provides sufficient guidance regarding application of the percent of completion method?

A2

(a) Yes.	24.0%
(b) No.	26.0%
(c) Cannot judge at this moment.	50.0%
Total	100.0%

Q3: Revenue and credit risk (Question 2)

The original exposure draft proposed showing net revenue after deducting credit risks. We disagreed with the proposal on the ground that selling goods and services and assuming credit risks are two separate management decisions. The new exposure draft proposes showing gross revenue followed by associated credit risks. The amount excludes financial cost but includes the adjustment of ordinary credit risks in past years. Do you agree with the proposal?

A3

(a) Yes.	39.2%
(b) No. (Credit risk should be included in SG&A expenses.)	29.5%
(c) No. (Credit risks associated with current year sales should be presented below the revenue line, while past year adjustments should be included in SG&A expenses.)	19.6%
(d) No. (Other reasons.)	3.9%
(e) Cannot judge at this moment.	7.8%
Total	100.0%

Q4: Annual disclosure

The exposure draft requires disclosure of both quantitative and qualitative information for annual reports. Quantitative disclosure includes (1) the disaggregation of revenue, (2) a reconciliation of contract assets and liabilities, (3) an analysis of remaining performance obligations, (4) information regarding onerous performance obligations and liabilities, and (5) a reconciliation of assets recognized from the costs to obtain a contract. Qualitative information includes an entity's policy and procedures in recognizing performance obligations. Do you think the disclosure requirements are useful for corporate analysis?

A4

(a) Yes.	68.0%
(b) No.	14.0%
(c) Cannot judge at this moment.	18.0%
Total	100.0%

Q5: Interim disclosure (Question 5)

For interim reporting, the same quantitative information requirements are applied *when material*. From the perspective of costs and benefits, is there any information that could be omitted in interim reporting?

A5

(a) All information needed.		34.7%
(b) Some information that could possibly be omitted.		65.3%
Could possibly be omitted*	• The disaggregation of revenue.	37.5%
	• A tabular reconciliation of movements in the aggregate balance of contract assets and contract liabilities for the current reporting period.	65.6%
	• An analysis of the entity's remaining performance obligations.	59.4%
	• Information regarding onerous performance obligations and tabular reconciliation of movements in the corresponding onerous liabilities for the current reporting period.	46.9%
	• A tabular reconciliation of the movement of assets recognized from the costs to obtain or fulfill a contract with a customer.	65.6%
Total		100.0%

*Percentage figures indicate support from those answering (b).

Q6: Variable consideration (Question 3)

The exposure draft proposes that the cumulative revenue an entity recognizes to date for a variable consideration should not exceed the amount to which the entity is reasonably assured to be entitled. Do you think the proposal will enable you to adequately understand the amount of consideration?

A6

(a) Yes.	45.1%
(b) No.	19.6%
(c) Cannot judge at this moment.	35.3%
Total	100.0%

Q7: Onerous contracts (Question 4)

The exposure draft requires that an entity recognize liabilities and corresponding expenses at the inception of an onerous contract to be satisfied over a period of greater than one year. Do you agree with the proposal?

A7

(a) Yes.	90.2%
(b) No.	0.0%
(c) Cannot judge at this moment.	9.8%
Total	100.0%

Q8: Others

If you have any opinions on the issues that are not covered in Questions 1 to 7 above, please write down your comments below.

A8

Available upon request.