

March 13, 2012

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

RE: Comments on the Exposure Draft (ED) *Revenue from Contracts with Customers*

I refer to my comments on the ED as follows:

General

1. Originally, the IASB decided to eliminate inconsistencies and weaknesses on revenue recognition by developing a comprehensive revenue recognition model (see paragraph BC4 of the ED). However, the ED would apply only to revenue from contracts with customers, and further excluded the following three types of contracts with customers that the IASB is addressing in other standard-setting projects (see paragraphs B29 and BC40 of the ED):
 - (a) leases;
 - (b) insurance contracts; and
 - (c) financial instruments and other contracts within the scope of the financial instruments standards.
2. In the IASB's view, the ED would provide with a framework for considering revenue issues in other standard-setting projects. However, the ED also stated that if the IASB has decided that a different basis of accounting for those contracts in the other projects would provide users of financial statements with more useful information, any departure from the proposed revenue requirements would arise (see paragraph BC42 of the ED). This would indicate a lack of a fundamental concept, in particular the characteristics of profit. Consequently, a consistent and robust concept for not only revenue recognition but profit recognition should be developed¹.

¹ In this matter, the Discussion Paper "Conceptual Framework of Financial Accounting" prepared by the Accounting Standards Board of Japan (ASBJ) can be referred to https://www.asb.or.jp/asb/asb_e/asbj/begriff/ConceptualFramework200612.pdf.

Summary of the changes to existing standards

3. The IASB acknowledges that focusing on new approach would bring discipline to the earnings process approach that is currently applies (see paragraph BC18 of the ED). Also, it is acknowledged that it would be possible to improve many existing revenue recognition requirements without replacing them (see paragraph BC16 of the ED). In addition, the IASB includes the transfer of the significant risks and rewards of ownership of an asset to the customer as an indicator of the transfer of control (see paragraph 37 (d) of the ED).
4. Thus, proposed requirements may not significantly change existing standards on revenue recognition (i.e., IAS 11 and 18) even if a turn of phrase is different. It is recommended that a final document include a summary of the changes (e.g., what and how much) to existing standards that can be easy to understand.

Risk that an entity assumes

5. It is proposed that an entity should assess the transfer of a good or service by considering when the customer obtains control of that good or service, not by considering when the transfer of risks and rewards of ownership (see paragraph BC83 of the ED).
6. Although, as mentioned in paragraph 3 of this letter, the ED adds the transfer of the significant risks and rewards of ownership of an asset to the customer as an indicator that would provide additional guidance, it would not change the principle of determining the transfer of goods or services on the basis of the transfer of control (see paragraph BC107 of the ED).
7. The ED also proposes that an entity shall consider any risks that may give rise to a separate performance obligation, in addition to the performance obligation to transfer the asset, when evaluating those risks and rewards (see paragraph 37 (d) of the ED).
8. It is concerned about the application of separate performance obligation requirements when an entity transfers the asset with risks because it seems that identifying separate performance obligation is varied in the ED:
 - (a) principle - except as certain good or service in a bundle (see paragraph 29 of the ED), each promised good or service is accounted for as a separate performance obligation if either of the following criteria is met (see paragraph 28 of the ED):
 - a) the entity regularly sells the good or service separately; or
 - b) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

- (b) return right service – it is not accounted for as a separate performance obligation (see paragraphs B4 and BC278 of the ED);
 - (c) warranty – it is accounted for as a separate performance obligation in either case that (see paragraphs B11 and B12 of the ED):
 - a) a customer has the option to purchase a warranty separately; or
 - b) the promised warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.
 - (d) customer option to acquire additional goods or services - it is accounted for as a separate performance obligation if the option provides a material right to the customer that it would not receive without entering into that contract (see paragraph B21 of the ED);
 - (e) a put option (i.e., an entity is obliged to repurchase the promised asset at the customer's request) – it is not accounted for as a separate performance obligation while it is evaluated whether a customer obtains control of the promised asset (see paragraphs B43 to B46 of the ED).
9. Further, it is concerned that an entity could appropriately apply the proposed requirements to account for the transfer of non-financial assets that is not an output of an entity's ordinary activities (see Question 6). This is because these assets have generally long lives and gains or losses on sale of real estates may be significant. Therefore, the proposed control approach could not be simply applied. Rather, transfer of risks would be more emphasised for its gain recognition.

Indicators of the transfer of control

- 10. In paragraph 37 of the ED, indicators of the transfer of control are proposed. The ED emphasised that the proposed guidance is not a checklist and is provided to assist entities in applying the principle of control (see paragraph BC106 of the ED).
- 11. On the other hand, indicators are listed in paragraph B18 of the ED in connection with principal versus agent considerations. This is because it is not always be readily apparent whether an entity obtains control of the goods or services of another party before it transfers those to the customer, which the ED proposes an entity to assess. Although those proposed indicators relate to an agency relationship, they are same as the indicators specified in the illustrative examples of IAS 18 that is based on risks and rewards model, not on control model (See paragraphs 5 and 6 of this letter).
- 12. Accordingly, it is concerned about inconsistencies between these indicators related to the transfer of control that may fall into confusion, rather than help an entity's

assessment.

13. In addition, the ED proposes the criteria to determine whether a customer has obtained control of a product in a bill-and-hold arrangement (see paragraph B53 of the ED), which carries forward from the illustrative examples of IAS 18. This would be also inconsistent with a basis of the transfer of control. If this is consistent, proposed requirements in this matter do not significantly change existing standards on revenue recognition. As suggested in paragraph 4, it is necessary to explain what is changed in a final document.

I hope above comment will contribute to the forthcoming deliberations in this project.

Yours faithfully,

Kenichi Akiba
Professor, Waseda University