

March 13, 2012

Sir Hans Hoogervorst
Chairman of the
International Accounting Standards Board

Fund for Construction Industry Promotion (Japan)
President Shunichi Uchida

Dear Sir Hans

Re: Exposure Draft *Revenue from Contracts with Customers*

We appreciate the opportunity to comment on the IASB exposure draft “Revenue from Contracts with Customers”.

The Fund for Construction Industry Promotion is a public-interest corporation under the jurisdiction of Japan’s Ministry of Land, Infrastructure, Transport and Tourism (MLIT). We work with MLIT to promote the construction industry in Japan.

We anticipate that the exposure draft (hereinafter referred to as ED) will have a major impact on accounting in Japan’s construction industry; therefore, a careful examination of the ED was made by the Fund for Construction Industry Promotion, and we would like to submit our comments as follows:

I Re:Q.1

In paragraph 31 of the ED, revenue is recognized when an entity satisfies its performance obligation through the transfer of a promised good or service to a customer. Also, paragraphs 35 and 36 discuss criteria for performance obligations satisfied over time and stipulate the recognition of revenue by an entity over time in such cases.

In Japanese construction projects it is standard for the customer (the contractee) and the

construction company (the contractor) to conclude a general contract that encompasses the construction project in its entirety. The construction company provides goods and services to the customer over time in the form of buildings and civil engineering works which are based on the customer's instructions and on land owned by the customer. Also, construction work (1) cannot be transferred by the construction company to a third party apart from the customer, as the construction work is connected with the land owned by the customer, and (2) because the materials, etc., invested and installed in the construction work as goods and services are connected with the land owned by the customer, it is inappropriate to treat the buildings and civil engineering works as independent of the land upon which they are situated, even prior to delivery of the product or service to the customer. In light of this, construction work clearly meets the criteria of paragraphs 35 and 36; specifically, revenue should be recognized on the percentage of completion method. We therefore agree with the ED's proposals for paragraphs 35 and 36.

II Re:Q.4

According to paragraph 86 of the ED, for a performance obligation that an entity satisfies over time and that the entity expects at contract inception to satisfy over a period of time greater than one year, an entity shall recognize a liability and a corresponding expense if the performance obligation is onerous.

We assume that what is in mind with this stipulation is the troublesomeness of the obligation in practice; however, as is stated in paragraph 36 of the current IAS 11 with regard to onerous performance obligations, it is preferable to recognize the expected loss as an expense immediately. Thus, whether or not there is an expectation at contract inception of a performance obligation being satisfied over a period of time greater than one year would not need to be a criterion.

III Re:Q.5

Paragraphs 119 and 120 stipulate that, for contracts with an original expected duration of more than one year, the aggregate amount of the transaction price allocated to remaining performance obligations, and an explanation of when that amount is expected to be recognized as revenue, should be disclosed, and this disclosure may be done either on a quantitative basis or by using qualitative information.

What "using qualitative information" means in this context is not clear and needs to be specified in detail.