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13 March 2012

Exposure Draft 'Revenue from Contracts with Customers'
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Exposure Draft 'Revenue from Contracts with Customers'.

I would appreciate your including our comments in your summary of analysis.

The enclosed comments represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may direct your inquiries either to me(suklim@kasb.or.kr) or to Mr. Hyun Seon Hong (honghs@kasb.or.kr), Technical Manager of KASB.

Yours faithfully,



Mr. Suk-Sig (Steve) Lim
Chair, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Research Fellow of Research Department

We are pleased to comment on the Exposure Draft 'Revenue from Contracts with Customers'. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in the KASB.

Exposure Draft 'Revenue from Contracts with Customers'

Question 1

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

To improve understandability of the ED's point, it would be more appropriate to add detailed explanations and examples relating to 'goods' rather than 'services' with regard to paragraph 35(b)(ii). Furthermore, the meaning of 'right to payment' should be clarified in paragraph 35(b)(ii). Even though the explanation related to 'right to payment' is presented in BC101 of the ED, it would be more helpful if the new standard introduces a more in-depth clarification to enhance the applicability in practice (e.g., that 'right to payment' does not mean a present unconditional right to payment).

Paragraph 36 of the ED states that 'a promised asset would not have an alternative use to an entity if the entity is unable, either contractually or practically, to readily direct the asset to another customer'. However, we believe that the word 'contractually' gives rise to overly broad interpretation in deciding whether an asset has an alternative use to the entity. Therefore it is more appropriate to remove the word 'contractually' from the sentence.

Except for the above comments, we agree with the ED's proposal in general.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a

separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We don't agree with the ED's proposal.

We believe that it would be more appropriate a method to initially measure revenue at fair value reflecting the customer's credit risk and present subsequent impairment effects as a distinct expense item rather than a separate line item adjacent to the revenue line item (i.e., using the presentation method of current IAS 18 would be more appropriate). This approach would be consistent with the disclosures in other financial instrument standards.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

To improve the understandability for users of current IFRS, it would be more appropriate to explain what 'reasonably assured' means in the new standard in relation to other concepts already existing in IFRS (e.g., the concept of 'probable'). Furthermore, it will be helpful to understand the concept of 'reasonably assured' if the standard introduces some cases that the entity is not reasonably assured to an amount of consideration even though it is able to reasonably estimate the amount.

Except for the above comments, we agree with the ED in general.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We agree.

Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:*

- *The disaggregation of revenue (paragraphs 114 and 115)*
- *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- *An analysis of the entity's remaining performance obligations (paragraphs 119–121)*
- *Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)*
- *A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).*

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We don't agree.

The requirements of interim financial statement disclosures should be comprehensively addressed in the IAS 34 project 'Interim Financial Reporting' rather than at individual standard level. Even though the information related to revenue is important in the financial statements, we think that the requirements would excessively increase the burden on entities. If certain information is significant to an entity, it would be more appropriate for the entity to disclose the information in accordance with paragraphs 15-15C of IAS 34.

Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We agree.

We believe that the ED's proposal is appropriate because existing standards (e.g., paragraphs 68A and 69 of IAS 16, and 67 and 70 of IAS 40) apply the revenue standard to derecognition of the asset.

The revenue ED suggests that an entity should recognize revenue when controls of goods or services transfer to customer. However, with reference to sales and lease back (financial lease), the current IAS 17 'Lease' describes that an entity should recognize revenue albeit it retains still control of the asset in substance. Hence, we believe the perspective of B31 of 'Lease ED' is more appropriate than the current IAS 17.

Additional Comments

[Unit of account]

If a performance obligation of multi-unit construction is satisfied over time, the unit of account is likely to emerge as one of the important issues of revenue recognition. Thus, the ED should also address the issue.

According to the tentative decision of the IFRS Interpretation Committee, in the case of off-plan multiple apartments(condominium complex), the unit of account is an individual apartment unit rather than the entire apartment block. However, in Korea, it is general that the construction of apartments(condominium) proceeds in order from the first floor toward the top floor. The every process of constructing a whole apartment(condominium) block affects satisfaction of performance obligation to all of the customers, regardless of the level of floor each customer will finally own. For example, the satisfaction of some portion of the performance obligation owing to the first floor customer could be deemed as the satisfaction of a performance obligation to the tenth floor customer. Therefore, in this case, it is more appropriate that the unit of account is the entire apartment(condominium) block(building) rather than an individual apartment(condominium).

When it comes to the performance obligation satisfied overtime, it needs to be clarified with reference to the followings:

- (1)The types of cost that are used for calculating the stage of completion
- (2)The distribution methods for costs that are not used for calculating the stage of completion but are required to be recognized as expenses throughout periods (for example, costs to fulfill a contract, incremental costs of obtaining a contract, etc.).
- (3) Illustrative examples with regard to the above items.

[Licensing]

Paragraph 20 in the illustrative examples of current IAS 18 states that 'Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognised in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

Paragraph B34 of the ED states that ‘If an entity grants to a customer a licence or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights’. Also, example 26 in the ED introduces that the entity satisfies the performance obligation to grant those rights at the point in time when the customer obtains control of the rights (i.e., commencement of operations by the customer).

We believe that the ED is inconsistent with the above-mentioned paragraph 20 in the illustrative examples of current IAS 18. However, paragraph BC316 of the ED describes that the ED's view is consistent with the principles in existing standards and current practice for accounting for licences and rights to use intellectual property. Therefore, the ED should provide a clear explanation regarding this matter in the below cubic. Furthermore, the guidance on the treatment of license accounting difference between current IFRS and new IFRS is needed (e.g., the difference shall be reflected on beginning retained earnings).

<p>When a licensee has the right to use certain technology for a specified period of time, it may recognise revenue on a straight-line basis over the life of the agreement under previous IAS 18. However, this accounting should be changed under this new revenue IFRS.</p>

[Contract liability]

The accounting on January 31 of illustrative example 17 gives rise to an increase of both assets and liabilities only due to the payment arrangement of the contract. We understand that the case is subject to executory contract because there is no exchange of consideration or satisfaction of performance obligation. Therefore, it is more appropriate for the IASB to include such information in the foot notes other than to require to recognize on the face of the statement of financial position.