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19 June 2009

Discussion Paper 'Preliminary Views on Revenue Recognition in Contracts with Customer'  
International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom

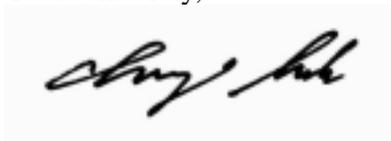
Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Discussion Paper 'Preliminary Views on Revenue Recognition in Contracts with Customer'. 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 (cwsuh@kasb.or.kr) or to Mr. Sung-ho Joo (sung-ho.joo@kasb.or.kr), researcher of KASB.

Yours sincerely,



Dr. Chungwoo Suh  
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Discussion Paper of Preliminary Views on Revenue Recognition in Contracts with Customer. 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 KASB.

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## **A. Answers to Questions**

### **Question 1**

**Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?**

We agree with the proposed principle of a contract-based revenue recognition model. We think that the recognition of revenue under this model is better able to satisfy the qualitative characteristics of financial information articulated in the Framework, than are the current revenue recognition models

### **Question 3**

**Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.**

We agree with the definition of a contract generally. However, the boards propose the following definition of a contract:

‘A contract is an agreement between two or more parties that creates enforceable obligations.’

We think that the definition of 'enforceable' is not clearly in present practice. So many users may have a difficulty to apply this revenue model's contract. We propose that the definition of 'enforceable' should be clarified by including indicators on assessment of control or illustrative examples referring to control.

#### Question 4

**Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.**

We agree with your proposal. However, we consider that more guidance and/or illustrative examples are necessary to make clear the distinction between the entity satisfying a performance obligation in the contract. Without further guidance and/or illustrative examples we are concerned that preparers would have difficulty to apply the contract based revenue recognition model to some industries.

#### Question 5

**Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?**

We agree with your proposal generally. However, we consider that it is not easy to apply in practice. The DP does not consider appropriately the concept of continuous transfer. Especially, this is an important issue particularly in the construction industry. Further guidance on this issue is required.

#### Question 6

**Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?**

We agree with the Boards' proposal. We think that the return right granted to customers is a performance obligation. However, it is expected that many entities cannot measure easily the amount of performance obligation in practices. Therefore, the illustrative examples for users should be provided.

### Question 7

**Do you think that sales incentives (e.g., discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?**

We agree that sales incentives can give rise to performance obligations, provided they meet the definition of a performance obligation. This logic is consistent with the method in IFRIC 13 Customer Loyalty Programmes.

### Question 8

**Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.**

We agree that an entity transfers an asset to the customer when the customer has the control of asset. However, we think the definition of control seems to be focused on 'physical possession'.

The definition of 'control' should be clarified by including indicators on assessment of control or illustrative examples referring to control.

### Question 9

**The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.**

We have no examples.

### Question 10

**In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.**

**(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?**

Yes we agree this your opinion. The transaction price is what the entity has determined to charge the customer for the settlement of the performance obligation(s).

**(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?**

Yes. we agree your opinion.

**(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.**

The DP proposes remeasurement of onerous contracts only, but does not allow for other items which may require remeasurement to reflect an entities best estimate. We think that the current measurement of warranties under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' provides more useful and reliable information than the DP proposals.

**(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.**

No. We think that another measurement approach is not necessary

### Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

Yes we agree your opinion

### Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We agree that the transaction price should be allocated to the performance obligations based on an entity's stand alone selling prices of the goods or services underlying the performance obligations. We also suggest that, the new revenue standard describe the difference between 'the existing fair value' and 'the stand-alone selling price' in the basis for conclusion.

## **B. Other comments**

### **1. Allocation of revenue over many reporting periods(Example 4).**

If a contract has that a warranty claim arises more than the estimate of the warranty, is this contract onerous? We think that the example 4 is very simple. We propose that the new revenue standard should include an onerous contract of warranty performance obligation in the example 4.

### **2. specifically negotiated for the construction:**

IFRIC 15 includes following this paragraph.

11 IAS 11 applies when the agreement meets the definition of a construction contract set out in paragraph 3 of IAS 11: ‘a contract specifically negotiated for the construction of an asset or a combination of assets ...’

We have a question about the relationship between IFRIC 15 and DP.

For example, a contract satisfies only this term(ie, specifically negotiated for the construction) but doesn't satisfy revenue recognition condition(ie, to transfer control of assets). We are not assure whether the entity shall recognise revenue by reference to the stage of completion of the contract activity. We propose that the new revenue standard should describe the relationship between IFRIC 15 and this standard.