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Accounting & Tax Committee  
Japan Foreign Trade Council, Inc.

To the International Accounting Standards Board

Comments on “Revenue from Contracts with Customers”

The following are the comments of the Accounting & Tax Committee of the Japan Foreign Trade Council, Inc. (JFTC) made in response to the solicitation of comments regarding the International Accounting Standards Board Exposure Draft “Revenue from Contracts with Customers” (hereinafter ED). The JFTC is a trade-industry association with trading companies and trading organizations as its core members, while the principal function of its Accounting & Tax Committee is to respond to developments in domestic and international accounting standards. (Member companies of the JFTC’s Accounting & Tax Committee are listed at the end of this document.)

I. General Comments

We believe it is highly significant that the IASB and the FASB are engaged in a joint project to clarify the principles for recognizing revenue and to formulate standards with the objective of improving comparability in revenue recognition practices across entities, industries, jurisdictions, and capital markets. We request that due consideration be given to formulating standards that will function properly in complex, real-life business situations.

II. Specific Issues (Comments on Questions)

[Question 1]
- Paragraph 13 proposes that an entity should combine two or more contracts and account for them as a single contract if their prices are interdependent. Although conceptually this approach is understandable, the determination of whether individual contracts are independent or interdependent is for the most part left to the entities themselves. Furthermore, from a practical perspective, it will be difficult to make decisions on the extent of combination. Therefore, we believe that specific standards or guidance should be provided concerning the combination of contracts.
In industries supplying very large numbers and varieties of goods and services, one-by-one determination of whether a contract should be combined or segmented would result in an extremely heavy administrative burden. Therefore, we believe that contracts with short-term performance obligations should be exempted from determination of combination or segmentation.

**[Question 2]**

- We oppose the inclusion of "a good or service has a distinct profit margin" (paragraph 23(b)(ii)) as a condition for segmentation.

For instance, a problem would occur with a multiple-element arrangement consisting of a "service to assist the customer in winning a project contract" ("Service A") and a "service to assist the customer's smooth execution of the contract after it has been won" ("Service B"). (The arrangement would be deemed to constitute a single contract under the provisions of paragraph 13.) This type of contract would entail no direct costs, such as materials cost or direct labor cost, and its principal costs would consist solely of indirect labor cost (period cost/selling, general, and administrative expenses). Because Services A and B would be provided as a single contract, it would be impossible to determine the allocation of labor costs to each individual service. Therefore, it would not be possible to arrive at a distinct profit margin for the two services. On the other hand, consider the following. The respective prices of Services A and B are clearly and distinctly defined in the contract. Service A precedes Service B, and the performance obligations pertaining to Service A are completed at a clearly recognizable point in time (i.e., at the time when the customer wins the project contract). Finally, assume that the contracted consideration for Service A is paid at the completion of Service A and is not refundable regardless of the results of Service B. In this case, although Services A and B provided to the customer can be clearly distinguished, it is not possible to accurately and distinctly determine their separate profit margins. Consequently, the two performance obligations cannot be segmented, and consideration for Services A and B can be recognized as revenue only after Service B has been satisfied and completed. This does not reflect the economic reality and is extremely unreasonable. (See our comments on Question 7 for allocation of transaction price to individual performance obligations.)

It is our understanding that in ASC Subtopic 605-25, "distinct profit margin" is not a condition for the segmentation of performance obligations. If the Exposure Draft is intended to be consistent with ASC Subtopic 605-25 (paragraphs BC24 and BC52), this is all the more reason for eliminating this condition.

In the foregoing example, we stated that a distinct profit margin could not be determined (see asterisk above). Regarding this matter, we request clarification on the following. In the foregoing example,
because it was assumed that the total cost consisted almost solely of indirect labor cost, the cost of sales can be said to be nil. In this situation, can the contracted amount of consideration of Services A and B be interpreted to be equivalent to the individual profit margins? We request clarification on this matter.

- Performance obligation is defined in Appendix A. However, because this Exposure Draft contains numerous references to performance obligation, we feel the definition should be included in the main text for greater ease of understanding.

[Question 3]

We find the guidance to be insufficient in certain areas.

- The guidance contained in paragraph 30(d) is insufficient.

Regarding construction contracts, etc., the guidance should indicate how much instructions or design are necessary for a good or service to be considered “customer-specific.”

Paragraph 30(d) states that, “it is likely that the entity would require the customer to obtain control of the asset (and pay for any work completed to date) as it is created.” This can be read to mean that the entity can recognize the asset being created as revenue only if it requires the customer to obtain control of the asset as it is created. However, the same paragraph also states that, “a customer's ability to specify major changes to the design or function of the good or service would indicate that a customer obtains control of the asset as it is created.” This passage seems to imply that it is immaterial whether or not the entity actually requires the customer to obtain control of the asset. It is unclear which of these two interpretations is correct. Regarding construction contracts, we believe the continued application of the current IAS 11 is desirable, and that the latter of the above two interpretations is appropriate.

- Paragraph B46 contains an example illustrating the free on board (FOB) term and indicates that legal title to the product passes to the customer at the point of shipment. However, in actual practice, the customer is unable to sell or dispose of the product until it comes into possession of the bill of lading. Hence, strictly speaking, it can be said that control of the product is not obtained prior to this point. If, as in the case of the example, risks are transferred to the customer at the point of shipment in accordance with FOB and other Incoterms, can a generalization be made that revenue may be recognized at the point of shipment? This question should be clarified.

- Measurement of the performance of obligation is difficult for contracts contingent upon success. In other words, in this type of contract, obligations corresponding to the definition of performance obligation (“an enforceable promise in a contract with a customer to transfer a
good or service to the customers”) do not arise until the consigned task is successfully completed. However, in actuality, the entity has the obligation to try until it succeeds. Therefore, this type of contract is difficult to interpret under the proposed guidance. In particular, assuming that the transaction price is not to be remeasured, it becomes almost impossible to interpret. Therefore, we believe guidelines should be formulated for contracts contingent upon success.

- The conditions listed in paragraph 30 can be understood to constitute a list of examples based on paragraph 31 and Example 13. If that is so, then in order to avoid misunderstanding, it should be clearly indicated that these are examples.

[Question 4]

- We basically support the proposal that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated.

- In paragraph 39(a), “the consideration amount is highly susceptible to external factors (for example, volatility in the market)” is listed among “factors that reduce the relevance of an entity’s experience.” We request that this be reconsidered as outlined below.

(1) For contracts whose transaction price is based on listed commodity prices, the final contract price frequently remains indeterminate at the time of delivery. In such cases, if the provision of paragraph 39(a) is applied, revenue cannot be recognized until transaction price is finalized. This may result in a major change from the current practice of recognizing revenue at market price at the time of delivery. Sufficient objectivity can be maintained by linking transaction price to listed commodity prices; and the reality of a transaction can be more accurately represented by recognizing revenue at market price at the time of delivery and adjusting the estimate at the end of the reporting period using the period-end market price. We believe this approach produces results that are more useful to users.

(2) Take, for example, transactions of mineral resources where considerable time is needed to finalize the formal price. A relatively common practice in such cases is to negotiate a tentative price that applies until the formal price is finalized. The transaction is undertaken at the tentative price and differences are later settled when the formal price has been finalized. In such instances, although the formal price is not linked to market prices as in the preceding example, such transactions may become subject to the provision of paragraph 39(a) because the formal price can be affected by market volatility and other external factors. To cope
with such transactions, some consideration must be given to the problem, such as the adoption of one of the following two options. As a first option, “cases in which a tentative price agreed upon with the customer is used (limited to cases in which transaction is actually undertaken using the tentative price)” can be added to conditions in which transaction price can be reasonably estimated. As a second option, when an agreement on tentative price has been reached with the customer, the provision of paragraph 39(a) can be removed from factors that reduce the relevance of an entity’s experience.

- Paragraph 38 stipulates that an entity is able to reasonably estimate the transaction price only if it has experience with similar types of contracts and if it does not expect significant changes in circumstances. The application of this provision should be restricted to cases where the contract concluded with the customer explicitly specifies payment obligations pertaining to variation factors that exist in the normal course of transaction, such as discounts and incentives. Paragraph 36 contains a list of factors that can cause variations in consideration, including penalties and contingencies. If the provision of paragraph 38 were to be applied to all of the factors mentioned in paragraph 36, this would greatly complicate matters and prevent the standard from functioning properly.

Even for new types of contracts for which the entity does not have experience with similar types of contracts (and does not have access to the experience of other entities), we believe that revenue should be recognized at the point in time where the entity has satisfied its performance obligation. That is, a conservative stance should not be taken to delay recognition of revenue by reason of absence of experience.

[Question 5]

For the following reasons, we are opposed to including credit risk in revenue measurement.

- In corporate administration, the sales department and credit department are frequently separated for reasons of internal control and governance. Moreover, credit management and receiving and shipping management employ separate systems. This means that an entity’s operating processes and systems would have to undergo major changes if the customer’s credit risk is to be reflected in the measurement of each individual revenue. This proposal fails to take into account the reality of corporate activities.

- Outstanding balances of accounts receivable as recorded in the entity’s ledgers must be regularly checked and confirmed with the customer,
meaning that ledger balances not reflecting credit risk must also be retained. This places excessive burdens on the systems.

- The subtraction of credit risk means that revenue values will not provide a pure picture of sales performance. This will cause major difficulties in managing revenue and other performance metrics and preparing disclosure based on operating segments.

- While the above would place additional burdens on preparers, the expected benefit is small. This is because, as claims on customers will very likely be collected in full (otherwise, the business would not be able to continue), the consideration given to credit risk would not have an important impact on financial statements at the stage of revenue measurement.

- The adoption of this proposal would seriously undermine the significance of bad debt expenses as an expenditure item because a provision of bad debt reserves would be replaced by a reduction of promised consideration while the reversal would be recognized as a negative bad debt expense. Normally, most accounts receivable are collected in full as contracted. However, the inclusion of default probability implies that all accounts receivable would be journalized at amounts below contracted value. Then, each time when an account receivable is collected at full contracted value, the difference from book value would have to be recognized as a negative bad debt expense. These accounting operations would be extremely troublesome and would not reflect the economic reality.

For the above reasons, we find it absolutely impossible to accept this proposal. As per current practice, revenue should be measured based on consideration contracted with the customer (invoice value). Credit risk should not be treated through an adjustment of transaction price but should be considered within the framework of financial instruments accounting as an issue pertaining to the valuation of claims. In other words, credit risk should be accounted for in bad debt reserves based on the present value of expected future cash flow, including expected credit loss, and the corresponding amount should be recognized as expense.

[Question 6]

- We are not opposed to reflecting the time value of money if the contract includes a material financing component. However, regarding the requirement under paragraph BC105 that management use its judgment in assessing whether the effects of the time value of money are material to short-term contracts not exceeding one year with high implicit interest rates, we believe this would place an excessive burden on preparers. Taking into account the administrative burden of preparers, we believe that the approach of assuming that transactions contracted under normal terms and in the normal course of business
operations and maturing in one year or less do not contain a material financing component should not be eliminated.

We believe that reference to discussions of short-term contracts with time periods of one year or less should be included in the main text and not limited to the Basis for Conclusions.

- Paragraph B84 refers to advance payments made by customers as a financial transaction. We request that clarification be given on whether advances received and paid constitute financial liabilities or assets. Supposing these do constitute financial liabilities or assets, if advances are received or paid in foreign currencies, should these then be subject to conversion accounting? Furthermore, if advances are received in foreign currencies, how should conversion to functional currency be treated at the time of revenue recognition? We request that clarification be given on these matters.

[Question 7]

In addition to the methods proposed in paragraphs 50 and 52, we request the inclusion of a method whereby the contracted consideration for each service can be used as the transaction price. In other words, returning to our response to Question 2, suppose that Services A and B do not have stand-alone selling prices, and that the methods proposed in paragraphs 52(a) and 52(b) cannot be implemented because cost is not known and no market exists for these services. In this situation, if the contracted consideration for the two services is distinct, and if payment for the first service is not subject to refund, it can be said that customers have accepted that individual transaction prices are reasonable. Therefore, it is sufficiently reasonable to use the contracted consideration for each performance obligation as the transaction price for revenue recognition.

[Question 8]

We support this proposal because recognizing the proposed costs as an asset will improve the correspondence between revenue and expenses.

[Question 9]

- Paragraph 58 lists costs that relate directly to a contract, including (a) "direct labor (for example, salaries and wages of employees who provide services direct to the customer)." Regarding this factor, we do not support the proposal that an entity must recognize an asset when a cost relates to future performance and when the cost is expected to be recovered. The proposed standard implies that the entity must compute the time expended by employees on directly providing services to customers and recognizing this as an asset. This treatment should not be demanded in all contracts with customers and the
recognition of direct labor costs as assets should be limited to certain cases only. An example of this would be a contract involving the sale of a piece of equipment and the dispatch of engineers for installing the equipment where labor cost per day is stipulated in the contract with the customer.

- We oppose the proposal of paragraph 59(a) stipulating that costs of obtaining a contract must be uniformly recognized as expenses when incurred.

Paragraph 21 of IAS 11 stipulates that when the following two conditions are met, costs that relate directly to a contract may be treated as part of the cost of the construction contract even if such costs are incurred in the process of obtaining a contract: costs incurred in obtaining a contract can be separated from other costs and reliably measured; and the probability of obtaining the contract is high. We believe that this approach should be continued, and that entities should not be obligated to recognize all costs of obtaining a contract as expenses when incurred.

- Regarding costs of obtaining a contract, paragraph 69(c) of IAS 38 includes advertising costs in costs to be recognized as expenses when incurred. However, as stipulated in FASB ASC 340-20 (formerly SOP 97-3), we request that consideration be given to permitting the capitalization of certain advertising costs. Having said that, we would like to add that the capitalization conditions stipulated in ASC 340-20 are too restrictive in that capitalization is limited to direct-response advertising costs (340-20-25-4.a). It is our position that this condition should be changed to cover all advertising costs that can be matched to specific revenue. For example, consider an entity that has constructed and is selling condominiums. The very large advertising costs associated with selling the condominiums, such as costs related to preparing and maintaining model units, can be matched to revenue. Furthermore, based on past experience, there is a high probability that such advertising costs will contribute to revenue. If all these costs are recognized as expenses when incurred, because of the long period of time between the start of sales and delivery of condominiums, large amounts will be expensed before revenue recognition. This will seriously distort the correspondence between expenses and revenue. Therefore, such advertising costs should be capitalized at time of incurrence and recognized as expenses in accordance with generation of revenue from sales.

[Question 10]
The disclosure requirements do not meet the stated objective. For instance, paragraph 78 stipulates disclosure of performance obligations. We believe that disclosure of obligations alone will actually obstruct accurate understanding. Furthermore, from the perspective of cost-
effectiveness, we are not in favor of mandating disclosure of both obligations and claims. Our detailed comments on other disclosure requirements are as below.

As a general comment, we find that the proposed disclosure requirements would place an unduly heavy burden on preparers. Judging from the manner in which questions are posed in this Exposure Draft (no questions are asked concerning the administrative burden to preparers), we cannot help but feel that the disclosure requirements are too strongly focused on benefits to users while paying inadequate attention to the cost to preparers. Another source of serious concern is that financial statements and their notes, which are essentially a communications tool between entities and users, may be transformed into a mere data book in which everything must be disclosed.

In the event that this proposal is adopted, we would request that additional guidance and examples concerning disclosure be provided (particularly for paragraphs 74–77) in order to reduce the burden on preparers. We also request that consideration be given to removing certain disclosures from the scope of audit in light of the degree of importance of disclosure.

<Comments on individual disclosure requirements (not included in scope of Questions 11 and 12)>

- Paragraphs 75–76: Reconciliation of contract balances

We believe disclosure of reconciliation from the opening to the closing aggregate balance of contracts is unnecessary.

Regarding details of changes in contract balances during the reporting period, there is no incentive for preparers to gather detailed information on relatively low-risk contracts. Moreover, even if this information were to be disclosed, it would be difficult for users to understand unless supplemented with qualitative information. It can be said that disclosure of contract balances as of the closing of each reporting period would more or less fully satisfy the needs of users.

From the perspective of preparers, mandating the disclosure of reconciliation of contract balances would necessitate significant changes in accounting systems, particularly in the case of trading companies (comprising the membership of the Japan Foreign Trade Council) that register very large amounts of revenue on a daily basis. We strongly oppose this proposal, as we believe the usefulness of this disclosure falls far short of justifying the cost of disclosure. If information on contract balances is to be disclosed, such disclosure should not go beyond disclosure of qualitative information outlining management’s current understanding and future outlook for the balances of contract assets and contract liabilities.
In the event that our position is not accepted and the disclosure of reconciliation of contract balances is mandated, we believe that inclusion of short-term contracts in the scope of disclosure is uncalled for. Firstly, aggregation of contracts for which revenue is recognized within a short period (for example, one week) after their conclusion will be extremely costly. Secondly, this information is of very little importance. Furthermore, if the performance obligation is satisfied before payment collection, the general practice is that the corresponding contract asset is directly transferred to accounts receivable and is not journalized as an asset (corresponding to Scenario 1 in Example 29). In this case, there is no advantage in disclosure, on a gross basis, of a contract asset and transfer of the same to accounts receivable in reconciliation of contract balances. Therefore, we believe this disclosure to be unnecessary.

- Paragraph 77: Disclosure of qualitative information on performance obligations
Paragraph 79: Onerous performance obligations

We oppose these disclosure requirements. Disclosure of the details of contracts would lead to disclosure of the entity’s sales strategies and may also infringe upon non-disclosure obligations to customers. Moreover, such disclosure would necessitate management of contract values at the same level of detail as for accounting purposes. This would place very large administrative burdens on entities.

[Question 11]

We oppose this proposal. The expected timing of satisfaction of performance obligations is very frequently uncertain. Hence, adoption of the proposal could commonly result in major gaps between expected and actual timing of satisfaction. Consequently, the reliability of disclosed information would be low. On the other hand, the cost of overhauling and developing accounting systems to meet the disclosure requirement would be high. For these reasons, we strongly oppose this proposal.

[Question 12]

We disagree with this proposal. Disaggregation by operating segment (IFRS 8) would provide users with fully useful information. Adding to this the proposed disclosure requirement would place unduly large burdens on preparers. In the event that disaggregation is adopted, we wish to point out that the examples and guidance provided in paragraph 74 are insufficient and more specific examples and guidance are needed to actually achieve the objective of depicting “how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors.”
[Question 13]

We strongly oppose retroactive application because of the very large cost to preparers and unfavorable cost-benefit performance. We believe the proposal should be applied only to contracts concluded after the adoption of the proposal. Because revenue-related data can normally be expected to reach large proportions, retroactive application would involve the reexamination of extremely large numbers of past contracts. Retroactive application would prove particularly costly for entities that in past years have used estimates of variable consideration in revenue recognition, and for entities holding large numbers of long-term contracts. In the case of a construction contract covering work in progress, if the adoption of this standard renders it impossible to account for it as a single contract (i.e., if segmentation of the contract is required), it is likely that this would have a very serious impact on revenue recognition in past years. Furthermore, it would prove extremely burdensome if outstanding orders were to be subject to retroactive disaggregation by category.

In the event that our position is not accepted and this standard is applied retroactively, admittedly IAS 8 contains provisions for exemption from retroactive application of accounting policies when retroactive application proves to be practically impossible. However, we would request that consideration be given to expanding the scope of exemption. In addition to exemption in cases of practical impossibility, partial exemptions to retroactive application should be considered in light of cost-benefit performance. For instance, the following possibility can be considered. For the reporting period in which the entity first makes the transition to the proposed standard, the entity would be given the option of not retroactively applying the standard to construction contracts that satisfy certain conditions under the current standard (IAS 11) but do not satisfy the condition for the continuous transfer of control under the provisions of the proposed standard. Even in this case, we believe users will be able to follow the trend in revenue if the contract amounts are disclosed.

Regarding the transition period, we request that sufficient preparatory time be allowed for entities to make necessary changes in their accounting systems and management. Regarding first-time adopters, as per the proposal (paragraph BC238), we request that early adoption of the standard be permitted in order to avoid having to undergo two changes during a short period of time.

[Question 14]

We find the application guidance to be insufficient and in need of modification.

- **Segmentation of a contract (paragraph B1)**
  The proposed standard in some instances requires an entity to segment a single contract and account for it as multiple performance obligations. Although the principle is described, only one illustrative
example is given (Example 1). We believe that additional illustrative examples on multiple types of contracts should be given (examples of both segmentation and non-segmentation) in order to clearly indicate that excessive segmentation is not the intent of the proposed standard. Furthermore, because construction contracts exist widely throughout businesses, we believe that, as in the case of IAS 11, special guidance should be provided on combination and segmentation of construction contracts.

- **Contract modifications (paragraph B3)**
  In Scenario 2 of Example 2, the original contract (three years) is extended in its final year, at which time an agreement is reached on a discount (CU40,000), which is interpreted to represent a modification of the original contract. However, if this discount is the result of changes that have occurred in the market since the conclusion of the original contract, this should not be treated as a modification of the original contract but as a discount given for the extension of the contract.

Suppose this were to be treated as a modification of the original contract, where payment beginning in the first year is reduced to CU80,000. Given that the stand-alone selling price for the first two years is CU100,000, the revenue allocated to the first two years should be CU184,615 (not CU160,000).

\[
184,615 = 480,000 / 520,000 \times 200,000, \text{ where}
\]

\[
520,000 = 100,000 \times 2 + 80,000 \times 4 \text{ (total amount of stand-alone selling price)}
\]

\[
200,000 = 100,000 \times 2 \text{ (stand-alone selling price for first two years)}
\]

In any case, the example is inappropriate and should be reconsidered.

- **Customer acceptance (paragraphs B69–B73)**
  Regarding judgment on whether goods or services are being continuously transferred under a construction contract, specific guidance should be provided on criteria for determining whether or not the customer has obtained control of the asset. The contents of paragraphs B69–B73 concerning customer acceptance are ambiguous and their provisions are not practical. In construction contracts, the normal flow is for the entity and customer to review the progress of the work at specific intervals and for the customer to make payments based on its acceptance of the progress. For cases such as this, we request that an illustrative example be provided indicating that the customer continues to control the asset at specific intervals.

- We request clarification of revenue recognition standards based on recoverable construction costs stipulated in paragraph 32 of IAS 11.

- Regarding the examples provided in Appendix B, we request that examples of journal entries be given for each.
[Question 15]

We oppose the proposal (paragraphs B13–B19) stipulating that an entity should distinguish between warranties with coverage for latent defects in products and warranties with coverage for faults that arise after the product is transferred to the customer.

Normally, product warranties given to customers do not distinguish between these two types of problems and provide coverage for both. We believe distinguishing between the two is impossible and not meaningful. For a great majority of Japanese companies, the transfer of products to customers on the premise that latent defects exist is unacceptable from the perspective of corporate business activities. If a customer claims compensation on the grounds of a latent defect in the product, the compensation provided in the form of repairs or exchange is exactly the same as the compensation that would be provided in the cause of a fault that occurs after the product has been transferred. For this reason also, we believe distinguishing between the two is not meaningful.

Application guidance paragraph B18 provides a list of factors to be considered in assessing the objective of product warranties. In Japanese manufacturing industries, even where product warranties are not mandated by law, the general practice is to provide product warranties covering a certain period of time for the company’s own products. That is, normally, it would be unthinkable to market a product without warranty. In this case, it would be concluded from paragraph B18(b) that the warranty is not a performance obligation. However, based on paragraph B18(c), it seems that if the warranty covers a long period of time, a performance obligation might be deemed to exist. This indicates that the categorization provided in the proposal would be practically difficult to follow.

Therefore, we believe latent defects and post-sale faults should not be differentiated. Rather, focus should be placed on product repair, exchange, and other post-sale compensatory services, and a unified method should be adopted wherein performance obligations related to these services are separately recognized. Beyond this, warranties covering the discovery of extraordinary product defects should be considered within the framework of provisions as set forth in IAS 37.

[Question 16]

We support this proposal. Exclusive license implies permission for use during a “determined period of time.” Hence, recognition should extend over the period. On the other hand, in the case of a non-exclusive license, the performance obligation is satisfied when the customer is rendered able to use the license. Therefore, in accordance with the principle, revenue should be recognized at that point in time.
[Question 17]
We agree with this proposal because it contributes to enhancing consistency in accounting practices that lie beyond the framework of the standards.

[Question 18]
Non-public entities should be subject to less stringent disclosure requirements. As outlined in our comments above, the proposed disclosure requirements are excessive even for public entities.

[Others]
<Onerous performance obligations>
We would like to comment on onerous performance obligations as described in paragraphs 54–56. We do not agree with the proposal that onerous performance obligations should be recognized on the basis of performance obligations and not on the basis of contracts. Our reasoning is as follows. The contract prices of goods or services deemed to come under a single contract when the contract is recognized are interdependent. Normally, entities judge whether a transaction is onerous or not on the basis of contracts, not on the basis of individual performance obligations. Hence, we believe the proposed approach will not accurately reflect the reality of corporate economic activities. For instance, consider a comprehensive delivery contract for one product comprised of many parts with different delivery periods. If the contract is segmented into multiple performance obligations, and if the entity is required to determine whether the transaction for each segmented group of parts is onerous or not, we believe this may make it more difficult to visualize the profitability of the overall contract. Therefore, it is our position that onerous performance obligations should be recognized on the basis of contracts, not on the basis of performance obligations.

<Abolition of IFRIC 18>
IFRIC 18 *Transfer of Assets from Customers* is scheduled to be abolished when this proposed standard comes into force. However, it is unclear how the contents of IFRIC 18 have been integrated into the proposed standard. The proposal can be read to imply that IFRIC 18 will effectively be abolished. If this assumption is correct, explanations need to be given on why IFRIC 18 is to be abolished. IFRIC 18 properly underwent due process before being adopted as an interpretive guideline. Therefore, its effective abolition must also be subject to a corresponding form of due process.
If effective abolition is not intended, illustrative examples should be provided to help in understanding the purpose and the basis for conclusions of IFRIC 18 concerning the transfer of assets from customers.

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