

NTT DOCOMO, INC.  
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Tokyo 100-6150, Japan

October 21, 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Re: Exposure Draft “Revenue from Contracts with Customers”**

Dear Sir David,

We appreciate the opportunity to respond to the Exposure Draft “Revenue from Contracts with Customers”.

NTT DOCOMO, INC. is a large mobile telecommunication services provider with operations principally in Japan. Our shares have been listed on the First Section of the Tokyo Stock Exchange. Our shares have been also quoted and traded through the New York Stock Exchange and the London Stock Exchange. Therefore, we are preparing our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In this regard, we fully support the International Accounting Standards Board and the Financial Accounting Standards Board’s intention to develop a single principle for revenue recognition. However, we do have concerns that this Exposure Draft may have a negative impact on the telecommunication industry. The nature of our business is such that a large number of customers conduct an enormous quantity of transactions of small amounts, each customer selects from a very wide range of frequently changing tariffs and additional services, and customers are able to choose from a diverse range of models of, often, discounted handsets. This condition would make the compliance costs very substantial. There is also a real risk that we would be unable to apply the proposed model.

The following is our responses to the individual questions which are especially related to our concerns for the negative impact on the telecommunication industry. We would be pleased to discuss our specific comments related to this Exposure Draft at your convenience. You can contact our IFRS project team at [docomo-ifrs-ml@nttdocomo.com](mailto:docomo-ifrs-ml@nttdocomo.com) regarding this matter.

Very truly yours,



Kazuto Tsubouchi

Chief Financial Officer  
NTT DOCOMO, INC.

*Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?*

Response:

We do not agree with the proposed guidance because we do not believe that financial statements under the proposed guidance would provide useful information for users of the financial statements, compared with financial statements prepared in accordance with the current U.S. GAAP.

We recommend retaining the requirement in the guidance on multiple-element arrangements in ASC 605-25-30 that limits the amount of consideration allocated to a satisfied performance obligation to the amount that is not contingent on the satisfaction of performance obligations in the future. This requirement limits management judgement and results in recognised revenue that correlates closely to the cash flows generated from customers. We believe that the requirement would make financial statements intuitive and easy to understand for the users.

Furthermore, we have considered problems arising from the adoption of the proposed guidance when we provide additional goods or services either free of charge or at discount as follows.

As is the case of telecommunication companies, some entities may grant a customer a variety of options to acquire additional goods or services either free of charge or at discount for the purpose of retention of a service contract with the customer on a long-term basis. The customer may obtain these options under conditions committing to a contractual period or simply by subscribing the service contract. According to the Exposure Draft, if the option provides a material right to the customer, the entity is required to recognise the option as a separate performance obligation to which some of the transaction price shall be allocated in proportion to the stand-alone selling price. However, if the revenue from the service contract is allocated to each option to acquire additional good or service free of charge or at discount in proportion to the stand-alone selling price, the amount allocated to an option is vulnerable to the changes in the other options such as additions, abolishment or remodeling of them.

<Example>

- An entity enters into a contract with a customer to provide its wireless telecommunication services for a fixed monthly fee of CU\*1,000.
- The entity has a customer loyalty program that rewards a customer with one customer loyalty point for every CU10 of the fees. Each point is redeemable for a CU1 discount for future purchases. The entity expects all of the points to be redeemed.
- The entity also provides a free handset if a customer commits to a two-year contract of the wireless services with the entity. The stand-alone selling price of the handset is CU5,000.

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\* In this comment letter monetary amounts are denominated in “currency units (CU)”.

The entity allocates the transaction price to the points for CU90.9 [ $\text{CU1,000} \times \text{CU100} \div (\text{CU1,000} + \text{CU100})$ ] per month during the period the customer only benefits from the customer loyalty program. However, if the customer opts the two-year contract to acquire a free handset at some point during this period, the entity is required to reallocate the two-year transaction price of CU24,000 ( $\text{CU1,000} \times 24$  months) on the respective stand-alone prices in the following proportion:

|                                     |   |
|-------------------------------------|---|
| Wireless telecommunication services | CU24,000 ( $\text{CU1,000} \times 24$ months)                 |
| Points                              | CU2,400 ( $\text{CU1,000} \times 1 \div 10 \times 24$ months) |
| Handset                             | CU5,000   |

As a result of this price reallocation, the amount allocated to the points per month decreases to CU76.4 [ $\text{CU24,000} \times \text{CU2,400} \div (\text{CU24,000} + \text{CU2,400} + \text{CU5,000}) \div 24$  months].

Thus, if an entity provides a variety of options to acquire additional goods or services free of charge or at discount as part of a sales promotion, the amount allocated to an option may be substantially affected by the changes in other options in the contract.

We do not believe that the volatility of the revenue recognition caused by sales promotion activities would be beneficial to investors. Furthermore, the revenue recognition method based on proportional allocation of stand-alone selling prices may bring the practical difficulties in the calculation because we would be required to have sufficient information such as the transaction price (including estimated future revenues), the stand-alone selling price of each performance obligation and the contractual period, all on each individual contract basis.

We consider that the residual technique described in BC4 (a) of IFRIC 13 *Customer Loyalty Programmes* and BC122-BC125 of the Exposure Draft to be an appropriate method for the resolution of the problems mentioned above. If we use the residual technique described in BC4 (a) of IFRIC 13, the amount allocated to the points per month in the example will be the fixed price of CU100 ( $\text{CU1,000} \times 1 \div 10$ ) without being affected by the other performance obligations.

Furthermore, the calculation of the effect on revenue, caused by the provision of the free handset will be easier. The entity will recognise the revenue from the provision of the handset for CU5,000 at the time of the provision and the revenues from the wireless telecommunication services per month will be simply decreased for the two-year period by CU208.3 ( $\text{CU5,000} \div 24$  months) from the cash received (CU1,000). As shown, using the residual technique for calculation of the amount to be allocated to the additional options makes the calculation much more straight forward and intuitive.

For these reasons, we believe that the use of the residual technique should be permitted as one of the revenue recognition methods to calculate amounts of allocated transaction price to additional options. We also believe that the use of this residual technique should be permitted at management's discretion, on the condition that the entity shall disclose its usage. When applying the residual method, its use should not be limited to the case in which there is no directly observable price for a performance obligation.

*Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.*

*Do you agree with the costs specified? If not, what costs would you include or exclude and why?*

Response:

Yes, we agree with the proposal regarding the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

However, because there is no question regarding an onerous test, we would like to express our opinion for the onerous test in the response of this question.

We do not agree with the proposal which requires an entity to apply an onerous test at the level of each separate performance obligation.

As the boards noted in BC137, a consequence of the approach prescribed in the Exposure Draft is that an entity might need to recognise a contract loss for a separate performance obligation even though the contract as a whole remains profitable. When multiple goods or services with substantially different profit margins are combined in a single contract, it is a common business transaction to discount a part of the total transaction price using profits of the goods or services with higher profit margins. However, under the current revenue recognition model which requires an entity to allocate the transaction price in proportion to the stand-alone selling prices of the promised goods or services, the allocated transaction prices are substantially affected not by the profit margin of the goods or services, but by the size of stand-alone selling prices. As a result, the entity may be required to recognise a liability for an onerous performance obligation despite the managements' intentions. This problem would not be resolved even if the residual technique is permitted.

The boards noted that it could delay the reporting of adverse changes in circumstances to apply the onerous test at the level of the whole contract. However for those investors with good understanding of the business model of said entity, recognition of a liability of an onerous performance obligation against the management's intentions could, rather than being a decision-useful information, constitute a misleading information. Therefore, we believe that the detriment of the possibility of causing misjudgment on the part of investor far outweighs the benefit of hastening the reporting of adverse changes in circumstances.

*Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?*

*Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.*

Response:

We are grateful that the boards intend to provide enough time to implement the proposed changes. However, we are afraid that there may be some difference in the understanding of the word “enough time” between ourselves and the boards.

In order to comply with the proposed guidance, we will need to execute changes both in our system and operation. It normally takes over one year to build a system. It would be difficult to obtain the data necessary for account processing in accordance with the proposed guidance, because the nature of our business is such that a large number of customers conduct an enormous quantity of transactions of small amounts. We have 57 million customers, and approximately 20 million mobile phone handsets are purchased annually. In addition, the customers are able to choose from a diverse range of models of handsets, and enjoy the benefits of various discount options, which are a part of marketing promotion, by attaching various conditions on their contracts. Unless we build a system that can capture the data for these diverse transactions conducted by the huge number of customers, it will not be possible to execute account processing in accordance with the proposed standard, nor would we be able to obtain an unqualified opinion from our auditor.

Since our business in many cases adopts a two-year agreement cycle, it is difficult to compile the financial statements for the first year unless we obtain transaction data covering a two-year period. Meanwhile, we are an SEC-registered corporation, so we are at the present required to submit comparative financial statements covering three years. Consequently, it may be 2016 before we are able to retrospectively apply the proposed standard and compile comparative financial statements covering three years. Unless we are allowed this much lead time, it would be difficult for us to implement the changes proposed by the boards.

We are aware the boards noted in BC232, that a part of our concern had been addressed by “IAS 8 and ASC Topic 250 limiting the retrospective application of an accounting policy if it is impracticable”. We are also aware that the boards are contemplating the provision of a long lead time between the issuing of the standard and its effective date. It is our sincere hope that the boards recognise the time it would take us to prepare for such compliance, so that the possibility of comparison between the current period and the comparative periods will not be lost as a result of frequent occurrence of inability to retrospectively apply accounting policy due to impracticability.