

## **The LIAJ's Comments on the IASB and the FASB Exposure Draft** *Revenue from Contracts with Customers*

1. We, The Life Insurance Association of Japan (LIAJ) would like to extend our gratitude to the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) for providing us with an opportunity to submit our comments on the exposure draft, *Revenue from Contracts with Customers*.
2. The LIAJ is a trade association comprised of all 47 life insurance companies currently operating in Japan. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan.

### **General Opinions**

3. We sincerely appreciate the efforts of the IASB and the FASB to develop a single set of high quality global accounting standards on revenue recognition.
4. With regard to revenue recognition, we agree with the notion that it is preferable to apply a common revenue standard for all contracts with customers. However, we are concerned that if an identical approach is applied to insurance contracts with 'long-duration' and/or 'high uncertainty' characteristics, it would not result in an entity providing useful information for the decision making of users of financial statements. Therefore, we agree with the boards' decision to exclude the insurance contract from the scope of this exposure draft.
5. Please be noted that our comments to the following questions are on the premise that the insurance contracts are not within the scope of this exposure draft.

### **Comments on Questions in the Exposure Draft**

#### **Recognition of revenue (paragraphs 8–33)**

##### **Question 1:**

**Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether:**

- (a) to combine two or more contracts and account for them as a single contract;**
- (b) to segment a single contract and account for it as two or more contracts; and**
- (c) to account for a contract modification as a separate contract or as part of the original contract.**

**Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?**

**【Comments】**

6. We agree with the principle proposed in paragraphs 12-19.

We believe that an entity should not be required to segment a single contract and account for it as two or more contracts if the price of some goods or services in the contract is interdependent of the price of other goods or services in the same contract. As an entity could not impartially determine the segmentation of the contract in such a case, the segmentation would be arbitrary one, and thus, it could reduce the comparability of financial reporting.

**Question 2:**

**The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?**

**【Comments】**

7. We agree with the principle for determining when a good or service is distinct, stated in the paragraph 23 of this exposure draft, on the premise that the boards retain the requirements in paragraph 24.

As stated in paragraph 24, we think it would be reasonable from the costs and benefits perspective that “For example, if an entity transfers two distinct services to a customer over the same time period, it could account for the promises to transfer those services as a single performance obligation if applying the same revenue recognition method to both services would faithfully depict the transfer of services to the customer.”

**Question 3:**

**Do you think that the proposed guidance in paragraphs 25– 31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?**

**【Comments】**

8. We agree with the methods proposed in paragraphs 32-33 that an entity shall apply when it depicts the continuous transfer of goods or services to the customer.

**Measurement of revenue (paragraphs 34–53)**

**Question 4:**

**The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.**

**Do you agree that an entity should recognise revenue on the basis of an estimated transaction price?**

**If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?**

**【Comments】**

9. We agree with the boards' proposal that an entity shall recognise revenue on the basis of the transaction price. However, when estimating the transaction price we would like the boards to reconsider adding the option to allow the entity to choose 'the most likely outcome' if it is practically difficult for the entity to determine the price at the probability-weighted amount stated in paragraph 35 or if 'the most likely outcome' is supported by the best evidence.

Please refer to our comments: "The most likely outcome, which provides users of financial statements with the resulting loss amount, would also be useful information", which was submitted to the IASB on the exposure draft, *Measurement of Liabilities in IAS 37(limited re-exposure of proposed amendments to IAS 37.)*

**Question 5:**

**Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognises when it satisfies a performance obligation rather than *whether* the entity recognizes revenue? If not, why?**

**【No comment】**

**Question 6:**

**Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?**

**【No comment】**

**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 stand-alone 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?**

**【Comments】**

10. Where selling a set of goods or services creates or adds value to themselves, or conversely, serves to reduce their costs, there may be a case that it is inappropriate to allocate the total difference in the transaction price in proportion to the stand-alone selling price. For example, by assuming an entity has the evidence that discounting is solely related to some goods or services in the contract, an allocation should also be allowed on the basis of any reasonable transaction price allocation rules or pricing standards used for management purposes.

In addition, when estimating the stand-alone selling price, although two methods are presented in

paragraph 52 of this exposure draft, we believe that more suitable estimation guidance should be in place because it is difficult for an entity to estimate the margin and the estimation may be subjective and easy to manipulate.

### **Contract costs (paragraphs 57–63)**

#### **Question 8:**

**Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 *Intangible Assets* or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria. Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?**

【No comment】

#### **Question 9:**

**Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising 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?**

【No comment】

### **Disclosure (paragraphs 69–83)**

#### **Question 10:**

**The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?**

【No comment】

#### **Question 11:**

**The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.**

**Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?**

【No comment】

**Question 12:**

**Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?**

**【Comments】**

11. We support the boards intention, “The boards will consider whether separate disaggregation requirements are necessary for revenue when they review feedback on the Financial Statement Presentation project (paragraph BC 175 in the Basis for Conclusions)”, in order to ensure the consistency.

**Effective date and transition (paragraphs 84 and 85)**

**Question 13:**

**Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements 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.**

**【Comments】**

12. We are concerned that the retrospective application of the proposed requirements could be burdensome for entities with many long-term contracts, and it might also cause the need for entities to estimate retrospectively the stand-alone selling price at contract inception related to each of the performance obligation and the variable consideration. Our understanding is that the boards are contemplating a long lead time between the release of the final standard on revenue from contracts with customers and its effective date in order to alleviate adverse effects of the retrospective application. However, we urge the boards to reconsider additional measures to significantly reduce the number of contracts that are required to be estimated by using hindsight, such as the retrospective application to all contracts except those contracts that have been completed by a specified date (i.e. on a limited retrospective basis.)

**Application guidance (paragraphs B1–B96)**

**Question 14:**

**The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?**

**【No comment】**

**Question 15:**

**The boards propose that an entity should distinguish between the following types of product**

**warranties:**

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**
- (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.**

**Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?**

**【No comment】**

**Question 16:**

**The boards propose the following if a licence is not considered to be a sale of intellectual property:**

- (a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and**
- (b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.**

**Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?**

**【No comment】**

**Consequential amendments**

**Question 17:**

**The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?**

**【No comment】**