

**October 22, 2010**

**Comments on the Proposed International Financial Reporting Standard,  
“Revenue from Contracts with Customers”**

*Comments and views expressed in this letter solely represents my personal views and do not intended to express views of International Public Sector Accounting Standards Board (IPSASB) or any other organizations, with which I am associated.*

Dear Sirs and Madams:

I am pleased to comment on the Proposed International Financial Reporting Standard, “Revenue from Contracts with Customers” (the “ED”), as follows;

**General Views**

I highly appreciate the tremendous effort by IASB and FASB to establish a comprehensive standard to revenue recognition. I agree with the proposals of both boards expressed in the ED in most cases. However, I raise some points for clarification or improvement of the proposed standard.

**On “Questions for respondents”**

*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?*

First of all, I do not agree with a proposed indicator described paragraph 30 (d) . In my view, customer-specification in the design or function of the good or service does not directly relate to “control” notion of the good or service. I agree that control of customer-specific goods or service is transferred continuously in many cases. However, such fact simply indicates that in the case of customer-specific goods or service, the

seller usually wish continuously increase of unconditional right to receive the payment and negotiate inclusion of such a clause in the contract with the customer.

As described above, I believe that the proposed indicator (d) of paragraph 30 is quite a different factor from other indicators described in the paragraph in nature. Inclusion of such factor would significant confusion among constituents. I particularly concerned that the proposed standard would be falsely interpreted and applied that satisfaction of only indicator (d) without any other indicators leads recognition of revenue falsely. In order to dispel such concern, I suggest reorganizing these paragraphs as follows;

- (a) Delete an indicator (d) from paragraph 30, and
- (b) Include an additional paragraph requiring the entity to deliberately reconsider remaining indicators in paragraph 30 if the design or function of the good or service is customer-specific.

Secondary, I think the indicator (a) need to be clarified. The sentence indicate that “an obligation to pay is unconditional when nothing other than the passage of time”. I believe the customer’s unconditional obligation to pay may also exist even if the entity need to perform some additional activities before it can invoice to the customer. For example, some construction contracts includes clauses (explicitly or implicitly) which require the customer to pay based on the percentage of accomplishment even if the entity fails to complete the construction. In such a case, the payment shall be deemed “unconditional” even if the entity is not entitled to invoice to the customer before some other activities are completed.

### **Other Comments**

I am seriously concerned on use of “performance obligation” as defined in the ED. I would like to indicate that a term “performance” is commonly used for outcome of an activity, not merely “performing a duty or an obligation”. If the IASB defines and use “performance obligation” as in the ED, it would cause a significant confusion among constituents, particularly those in non-profit sector (including public sector), since “performance” is quite commonly used as outcome of service provided by

not-for-profit entities, including governments. Therefore, “performance obligation” may give some impression to implies that such entity’s commitment of achieving certain level of outcome by its activities. (i.e., better education). For example, “performance obligation” (as defined in the ED) of a school (entity) to students (customers of the school) is providing lectures (education services) as promised in the contract. However, “performance” of such education service is measured by improvement in score of the students.

I also like to indicate that “Performance Reporting” or “Performance Audit” is quite commonly used to refer to achievement of service provided, not merely refer to providing services, in financial reporting and auditing community.

I also indicate that the IPSASB has initiated a project on “Reporting of Service Performance Information”, which establishes a consistent framework for reporting service performance information of governmental programs and services.” As one of Board Member of IPSASB, I am concerned that a term “performance” is defined and used by IASB with different meaning from that commonly used currently.

I do not think that the proposed standard needs to use any specific short-term to describe “an obligation to transfer a good or service”. My preferred alternative is that the proposed standard uses “an obligation to transfer a good or service” without any definition. If IASB believes that some defined short expression is definitely necessary, I would suggest “delivery obligation” or “performing obligation” for an alternative term.

Yours sincerely,

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