

February 28, 2012

IFRS Foundation/IASB
30 Cannon Street
London EC4M 6XH
Company No: FC023235

Dear members of the International Accounting Standards Board,

Regarding the request for Comment Letters on the second Exposure Draft (Revenue from Contracts with Customers) by March 13th 2012, the Study Group of Korean Accounting Association on Revenue Recognition has completed its review of the Exposure Draft with appropriate consultation and input from various interested parties.

Although we broadly agree with the outline of the Exposure Draft, we do have some recommendations to propose. Our comments on the specific questions in the ED are attached.

We hope that they will be duly noted in the revision of the ED. We would be happy to further clarify any of our comments described in this letter should you so wish.

Sincerely yours,

Hay-Young Chung
Chairperson
Study Group of Revenue Recognition
Korean Accounting Association

Comments on the Exposure Draft of ‘Revenue from Contracts with Customers’

By the Study Group of Korean Accounting Association on Revenue Recognition

Professor Hay-Young Chung, Kyunghee University
Professor Jong-Cheon Lee, Soongsil University
Professor Bong-Heui Han, Ajou University
Professor Jongsoo Han, Ewha Womans University

Question 1: Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

1. Paragraph 35(b)(iii) should not be an independent criterion because
 - A. “the entity’s performance does not create an asset with an alternative use to the entity” in paragraph 35(b) attempts to provide the case where the entity does not have control of the asset. However, this phrase itself is not sufficient to say that the entity does not have control. For proper implication that the entity does not have control,, paragraph 35(b)(iii)(“the entity has a right to payment for performance completed to date”) needs to be satisfied as well. This is because the remaining benefits from the asset do not transfer to a customer without the entity’s having the right to payment for the performance completed to date. In other words, both paragraphs 35(b) and 35(b)(iii) must be met simultaneously.
 - B. In addition, it cannot be concluded that the customer obtains control of the asset without paragraph 35(b)(iii) even if paragraph 35(b)(i) or paragraph 35(b)(ii) is met.

Therefore, we suggest paragraph 35(b) to be revised as follows.

- (b) All the following criteria should be met:
- (i) the entity’s performance does not create an asset with an alternative use to the entity (see paragraph 36).
 - (ii) the entity has a right to payment for performance completed to date and it expects to fulfill the contract as promised. The right to payment for performance completed to date does not need to be for a fixed amount. However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity’s failure to perform as promised.

Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date (for example, recovery of the entity's costs plus a reasonable profit margin) rather than compensation for only the entity's potential loss of profit if the contract is terminated.

(iii) at least one of the following criteria is met

(1) the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs.

(2) another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer. In evaluating this criterion, the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in progress) presently controlled by the entity. In addition, an entity shall disregard potential limitations (contractual or practical) that would prevent it from transferring a remaining performance obligation to another entity.

2. The last sentence in paragraph 36 gives "costs to rework the asset" as the only example of significant costs additionally incurred in relation to the contract in judging whether an asset has no alternative use. We propose that "costs to breach the contract" be added as another example of significant costs because as implied in the prior sentence, if the contract has a penalty clause, the entity cannot direct the asset to another customer albeit the costs to rework the asset are 0.
3. We propose that some phrases of Example 7 [IE6] be modified. We believe that it is unnecessary to constrain the customer by putting the conditions such as "a financial institution has to make the payments directly to the entity on behalf of the customer" and "To sell his or her interest would require approval of the lender but not the entity." It is uncertain how these conditions are related with the requirements of paragraph 35 and are relevant with the underlying principle of the ED (i.e., customer obtains control of the asset). Therefore, we suggest modifying the description in Example 7 as follows.

From: "To finance the payments, the customer borrows from a financial institution that makes the payments directly to the entity on behalf of the customer. The lender has full recourse against the customer. The customer can sell his or her interest in the partially completed unit, which would require approval of the lender but not the entity"

To: "The customer can use his or her interest in the partially completed unit as

collateral to finance the payments, or can even sell it.”

4. We have couple of comments on Paragraph 37, even though they are not required by Question 1.
 - A. The role of the 5 indicators of transfer of control is still unclear. Some may conclude that all indicators must be met in order to recognize revenue while others may believe that satisfying 1 of the 5 indicators would be sufficient. Further explanation is required to make this distinction indisputable. In addition, the word “example” seems better than the word “indicator” in conveying the purpose of each element.
 - B. Paragraph 32 of the ED defines the concept of ‘control’ as the ability to obtain substantially all of the remaining benefits from the asset. Note that those who are entitled to the benefits cannot avoid risks from owning the asset. That is, the benefits cannot be separated from the risks of the asset. Then, it can be construed that “the customer’s ability to obtain substantially all of the remaining benefits from the asset” implies or results from “the transfer of the significant risks and rewards of ownership of the asset” to a customer (paragraph 37(d)). Since the former phrase is presented as the overarching concept of control, providing the latter phrase as an indicator of control in paragraph 37(d) is redundant. Thus, we suggest that paragraph 37(d) be deleted or that conceptual clarifications be provided for the inclusion of paragraph 37(d) as an indicator.

Question 2: Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We agree with paragraphs 68 and 69 in general, but have concerns on presenting the separate line item adjacent to the revenue line item.

In some extreme situations, net revenue (= gross revenue – uncollectable amounts due to customer's credit risk) can have a negative (-) value because the uncollectable amounts due to customer's credit risk include uncollectables from the past period. This not only goes against the matching principle but also can mislead information users in their decision making process.

Therefore, we suggest that, under normal circumstances, the uncollectable amounts due to customer's credit risk should be placed adjacent to the revenue line item. However, under abnormal situations such as financial crisis, the uncollectable amounts should be included in other expenditures rather than being presented with the revenue item.

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree. We regard this new proposal as progressive and desirable. We welcome incorporating paragraph 81, which was applied on a case by case basis in the past, into the ED as a general principle.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We agree. However, there is an aspect of the ED that should be further clarified to avoid any confusion. That is that paragraph 86 could be improperly interpreted that an entity should recognise an onerous performance obligation and a corresponding expense only for a performance obligation that an entity satisfies over time. But we believe that the IASB's intention was that the same procedure should also be applied to a performance obligation which an entity satisfies at a point in time. Nonetheless, the IASB's intention is not evident anywhere in the ED.

This ambiguity stems from paragraphs 35 and 36 being mentioned in the parenthesis. We suggest deleting the parenthesis that mentions paragraphs 35 and 36, and adding a new phrase "the same procedure should also be applied for a performance obligation that an entity satisfies at a point in time" for clarification.

Question 5: The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We have no comments on this issue.

Question 6: For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We agree. For example, IAS 16 does not clearly include the concept of control in the disposal of tangible assets. In this regard, applying the concept of control to tangible and other non-financial assets provides consistency among different standards.