SAAJ **The Security Analysts Association of Japan**
5F, Tokyo Stock Exchange Bldg., 2-1, Nihonbashi-Kabutocho,
Chuo-ku, Tokyo 103-0026 Japan
Telephone: (03) 3666-1515
Facsimile: (03) 3666-5843
E-mail address:intl@saa.or.jp

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

Dear Sir David:

re: Comments on Exposure Draft
"Revenue from Contracts with Customers"

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, *Revenue from Contracts with Customers* put out by the International Accounting Standards Board (the Board). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number almost 24,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. Before drafting this comment letter, the SAAJ sponsored a study session on the discussion paper, inviting two ASBJ (the Accounting Standards Board of Japan) staff as lecturers. Some 98 of our certified members participated. A questionnaire was subsequently sent to each participant and 45 responded, making for a 46% response rate. This comment letter fully takes into account the views expressed in the questionnaire replies as well as discussion among CAC members. The survey results are attached as an Appendix.

General Remarks

The CAC welcomes the exposure draft as an improvement in the recognition of revenue for financial reporting purposes. Specifically, the CAC highly evaluates the fact that the exposure draft clearly provides classification standards for multiple-element contracts. The exposure draft includes more guidance compared to the discussion paper and clarifies indicators for application of the percentage of completion method. The CAC appreciates that all this is the result of the Board's efforts to seriously listen to the voices of its constituencies. However, as explained in detail below, the CAC thinks further elaboration is needed for broader application of the percentage of completion method.

The CAC is also opposed to the proposal regarding customer credit risk.

Identifying Separate Performance Obligations (Question 2)

Multiple-element contracts, such as sales of mobile handsets with communication fees, are becoming popular and more important. In this environment, the CAC thinks the exposure draft, as a whole, proposes rational standards.

Transfer of a Good or Service to a Customer (Question 3)

In its June 2009 comment letter regarding the revenue recognition discussion paper, the CAC pointed out that introduction of the percentage of completion method had contributed to improvement in the management of many Japanese corporations. From this viewpoint the CAC thinks the method should be made available more broadly, and, to this end, believes an additional indicator is necessary for paragraphs 30 (a) to (d). The CAC regards 30 (a) to (c) as indicators of the realization of transfer of control, while (d) is an indicator of continuous transfer. The CAC thinks a huge gap exists between (a) to (c) and (d), and a new indicator as proposed below is needed to fill the gap.

The Board might conceive that paragraph 30 (d) will cover most long-term service contracts. However, there exist many de facto tailor-made contracts in which standard designs are used with limited options. The CAC thinks that when these contracts incorporate (i) the forfeiture of deposits, (ii) payment of cancellation fees (in both cases the amount being not nominal but substantial), or (iii) installment payments, then these contract terms should be regarded as representing important evidence of transfer of control, and therefore the good or service should be treated as continuously transferred. The CAC proposes adding a new indicator of continuous transfer, i.e. when a contract satisfies two requirements, (a) time (long-term contract) and (b) payment (deposit, cancellation fee, or installment), then it could be regarded as a continuous control transfer contract, even when it does not fully satisfy 30 (d).

Customer Credit Risk (Question 5)

The CAC opposes the exposure draft's proposal that transaction price should reflect customer credit risk if its effect on transaction price can be reasonably estimated. The sale of a good or service and associated customer credit risk are neither united nor inseparable. In other words, upon sale of a good or service, an entity makes an independent decision as to what extent it is willing to shoulder customer credit risk. The current practice of showing gross revenue and separately recognizing credit-related expenses depicts an entity's decision-making process more faithfully. Two items of information, gross revenue and credit expense, better facilitate the financial analysis of an entity and inter-company comparison than just net revenue after deduction of expected credit loss.

Here is an example. Entity A and Entity B, which belong to the same industry, both posted sales of CU100. Entity A, which is aggressive in shouldering customer credit risk, expects a CU15 credit loss, while conservative Entity B foresees a CU2 credit loss. According to the exposure draft, the revenue of entities A and B will be respectively displayed as CU85 and CU98. The CAC thinks that the traditional display of CU100 for both companies' revenue and respective credit expenses of CU15 and CU2 offer more useful information for investment decision-making purposes.

In addition to this practical matter, the exposure draft's proposal involves some theoretical problems. In the proposal, the present value of total credit risk attaching to a long-term contract will be recognized at inception. This is inconsistent with the expected loss model for financial instruments. According to the proposal, if a realized loss turned out to be less than expected, the difference would not be added back to revenue but recognized as other income. Thus, the CAC thinks the proposal is not robust.

As explained above, the CAC does not support the proposal regarding customer credit risk, but accepts the proposal regarding the time value of money as a rational standard.

Disclosure (Questions 10-12)

As shown in the attached survey results, 77% of the respondents said the required disclosure would provide sufficient information for corporate analysis. During CAC deliberations, some members raised concerns that the requirements included information seldom needed in corporate analysis and that it might place an excessive burden on preparers, and also that some of the required information was difficult to audit. The CAC asks the Board to seriously review the comments by stakeholders and to make rational improvements.

Application Guidance

As mentioned above, the CAC highly evaluates the expanded guidance as a result of the Board's extensive out-reaching efforts. However, some members opined that the guidance includes rather unnatural examples, and that further expansion of guidance is necessary as there exist diversified trading customs around the world. The CAC asks the Board to expand and improve guidance both quantitatively and qualitatively.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

Keiko Kitamura

Keiko Kitamura
Chair
Corporate Accounting Committee

APPENDIX

Results of SAAJ Survey on "Revenue from Contracts with Customers"

Background and methodology

The Securities Analysts Association of Japan (SAAJ) sponsored a study session on IASB's exposure draft *Revenue from Contracts with Customers,* inviting two lecturers from the Accounting Standards Board of Japan (ASBJ). Some 98 of our certified members participated in the session held on 1 October. A questionnaire was subsequently sent to each participant and 45 responded, making for a 46% response rate. The respondents were also invited to make comments. The survey, although small in size, focused on a cohort with the same background (certified members of the SAAJ) and same knowledge level (participation in the study session). This focus and very high response rate gives credibility to the reliability of the survey.

Survey questions and answers

Q1: The exposure draft presents the 'control approach' as the single principle of revenue recognition in contracts with customers. Do you think this approach offers more useful information compared to the current realization and earnings model?

A1:

Yes.	17.8%
No.	17.8%
Cannot judge at this moment.	64.4%

Q2: The control approach starts from a 'contract' which is composed of an entity's right to customer consideration and its obligation to provide the customer with a good or service (performance obligation). Do you think using such concepts as 'contract' and 'customer obligation' will help understand actual corporate behavior?

A2:

Yes, they are better concepts to understand corporate behavior.	17.85%
Possibly better concepts once you get accustomed to them.	75.5%

No, they aren't suitable for understanding corporate behavior.	6.7%

Q3: Under the control model, according to certain indicators, a contract may be classified into multiple contracts and performance obligations. Do you think this would provide useful information for corporate analysis?

A3:

Yes.	35.5%
No.	17.8%
Cannot judge at this moment.	46.7%

Q4: Under the proposed model, revenue is recognized when control of a good or service is transferred to the customer. The concept of continuous transfer makes the application of the percentage of completion model possible. Do you think the proposed four indicators of transfer of control are effective?

A4:

Yes.	43.2%
No.	18.2%
Cannot judge at this moment.	38.6%

Q5: In determining transaction prices, the exposure draft proposes incorporating credit risk, the time value of money, non-cash consideration, and consideration payable to customers. It is also proposed to use a probability-weighted amount when consideration is variable. Do you think this would provide useful information for corporate analysis?

A5:

Yes.	29.6%
No.	38.6%
Cannot judge at this moment.	31.8%

Q6: Based on Q5 above, credit risks shown as provisions for sales receivables under the current Japanese standard would be deducted from revenue and net revenue displayed. Do you think this would provide useful information for corporate analysis?

A6:

Yes.	25.0%
No.	52.3%
Cannot judge at this moment.	22.7%

Q7: Will the proposed disclosure provide useful information to understand amount, timing, and uncertainties regarding revenue and cash flow arising from contracts with customers?

A7:

Yes, the proposed disclosure will provide sufficient information.	77.3%
No, disclosure of certain important information will not be available under the proposal.	13.6%
The proposed disclosure contains unnecessary information.	9.1%