March 27, 2013

Mr. Hans Hoogervorst
Chairman, International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Ms. Leslie F. Seidman
Chairman, Financial Accounting Standards Board
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United States

Dear Mr. Hoogervorst and Ms. Seidman:

Comments on IASB and FASB Tentative Decisions on
Disclosures and Transition of *Revenue from Contracts with Customers*

As regards the IASB and the FASB's MoU project *Revenue from Contracts with Customers,* Keidanren submitted a comment letter (attached hereto) on the revised exposure draft published in 2011. In addition, at the outreach meeting held in Japan, many members of the Japanese business community attended and expressed their views, with the cooperation of the Accounting Standards Board of Japan. As a result, the points Keidanren made regarding the revised exposure draft have been, to some extent, reflected in the boards' tentative decisions reached at their joint meetings following the exposure draft publication. We are thankful that the new revenue standard is being improved through these efforts.

We, however, believe that further consideration should be given to the boards' February 2013 tentative decisions on disclosures and transition. In our view, these decisions still contain some points that are unclear or difficult to accept to the business community from the perspectives of disclosure needs, preparation costs, and feasibility.

In Japan, a growing number of companies are expected to voluntarily adopt IFRS in the future. In the light of this trend, Keidanren has decided to submit this letter and state its opinion once again so that the new revenue standard would not hinder an increase in voluntary IFRS adopters in Japan. Our opinion is as follows.

Disaggregation of Revenue

- While some improvements have been made in requirements for the disclosure of disaggregated revenue information compared to the revised exposure draft, the following matters still need clarification:

  (1) We surmise that, in view of the deliberations leading to the tentative decisions, the scope of the disclosure of disaggregated revenue information the tentative decisions require is limited to the information the entity has for business management purposes. Similarly, we infer that the tentative decisions do not require an entity to disaggregate revenue into categories that are different from its reportable segments, nor do they demand more disaggregated revenue information than that used by management. We request these points be clearly stated.

  (2) Our understanding is that what is disclosed should be determined by the entity's management based on the information the entity has for business management purposes, and accordingly that there may be cases where segment information is sufficient. We request the clarification of these points as well.

  (3) The boards additionally require that, if an entity's disaggregated revenue information is not consistent with its segment information, the entity "should explain how the disaggregated revenue information correlates with its reportable segments." We think that, as an entity's disaggregated revenue information is based on the same categories used for the segment information, it should be sufficient for the entity to explain the correlation qualitatively, and request that this point be clearly stated.

Reconciliation of Contract Balances

- While the revised exposure draft had proposed to require the disclosure in tabular format of a reconciliation of contract balances, the boards tentatively decided not to demand the disclosure of tabular reconciliations. We welcome this decision that pays attention to the additional burden to be imposed on preparers

- On the other hand, the disclosure of the opening and closing balances of contract assets and liabilities—information that hardly seems important for corporate management—is still required. We have heard from financial statement users in Japan that these are not useful information for them either. We believe there is no need to disclose information that is unuseful for both preparers and users.

Analyses of Remaining Performance Obligations

- This disclosure has originally been proposed due to problems “backlog” entails. Although backlog is often disclosed by entities in management commentary and viewed as useful information to investors, it is not uniformly defined nor is it subject to audit. Therefore, in lieu of the disclosure of backlog, a maturity analysis of remaining performance obligations has been proposed.
- However, the information obtained from a maturity analysis of remaining performance obligations has totally different characteristics from backlog information. In addition, the disclosure would require entities to invest a large amount of money in a new system for collecting the data that is not used by management at present. It is also questionable whether auditors are able to properly audit such forward-looking information.
- Entities have been disclosing to investors backlog and other information used by management whenever necessary through IR communications and the management discussion and analysis section of the financial statements. It is thus not reasonable, from the perspective of both entities and investors, to define the information obtained from a maturity analysis of remaining performance obligations for the sole purpose of disclosure and to uniformly require entities to disclose the information that is not used by management. For these reasons, we oppose the disclosure of this information.

Interim Requirements

- The IASB’s tentative decision basically requires an entity to disclose disaggregated revenue alone in its interim financial reports. We appreciate that the IASB has eased interim requirements. Nonetheless, what is disclosed in interim financial reports, including disaggregated revenue information, should in the first place be determined by the entity in accordance with IAS 34. It is not appropriate to demand individual disclosures, deviating from the principles set in IAS 34. We thus believe consequential amendments to IAS 34 to be unnecessary.

- At the February 2013 meeting, the IASB and the FASB did not reach agreement on interim requirements. The FASB still requires an entity to include in its interim financial reports the same level of information as in its annual reports. This is regrettable in that preparers' opinions have not been considered sufficiently. We believe the FASB's interim disclosure requirements to be excessive, and request that the FASB significantly reduce them, fully taking into consideration the cost burden to be imposed on preparers.

Transition

- We are grateful that the IASB and the FASB tentatively decided to expand the use of practical expedients in the case of retrospective application and to enable entities to elect an alternative transition method. Yet, considering that the new revenue standard will, by its very nature, have a far-reaching impact on individual financial statement line items, these proposals are not sufficient to eliminate our concern about the additional burden caused by the necessity to manage revenue under the previous guidance and the new standard at the same time. To balance user benefits with preparer costs, we request the following revisions:

  (1) Even if using the practical expedient stipulated in paragraph 133/C3(a), an entity retrospectively applying the new revenue standard would still be required to restate all contracts that begin before the date of initial application and end after that date. We request that the contracts requiring restatement be limited to those having a material effect on the entity's financial statements.

  (2) When adopting an alternative transition method, the entity would be required in the year of initial application to disclose "the amount by which each financial statement line item is affected in the current year as a result of the entity applying the new revenue Standard." We request that, instead of demanding the amounts of all the financial statement line items affected, this be revised to require the disclosure of material effects on the financial statements.

First-Time Adoption

- First-time IFRS adopters should be permitted to apply the new revenue standard early. We request this point be clearly stated.

Thank you for your attention to this matter.

Sincerely yours,

Keidanren
Committee on Corporate Accounting
Sub-Committee on Corporate Accounting