

Clive Brodie

Subject: FW: AOSSG RR
Attachments: Revenue WG small meeting at Tokyo(Minutes)detailed_rev3.doc;
AOSSG_RR_Timeline_ver2.xls

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Sent: Fri 13/08/2010 23:45

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Cc: 都 正二; Atsu Kato; 中條恵美

Subject: AOSSG RR

Dear AOSSG Revenue Recognition WG member.

I am Takehiro Okamoto from ASBJ, revenue recognition team.

<Minutes of small meeting on 30th July>

Attached file is the minutes of the meeting in Tokyo.

We're sorry for taking time to send it.

We'd like attendees to confirm it.

Please let us know if a correction is needed.

<Member's views on ED>

Members were supposed to provide their views or comments on ED by **9th August**.

(Please see the attached timeline to AOSSG meeting)

However, we have not received the views from some of members.

So, please let us know your progress on it if you need some more time to send it to us.

I will be out of the office next week, so please **send the e-mail to Ms.Chujo, Senior Project Manager**.

Thank you for your cooperation and understanding.

Regards,

Takehiro Okamoto

ASBJ

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Revenue WG small meeting at Tokyo

Date: Friday, 30th July 2010
Time: 10:00 – 12:00 Small meeting
Venue: Accounting Standards Board of Japan (ASBJ)
Attendees:

Organization (Country)	Name
CRAC (Macau)	Mr. Pou Man Ng
IIA (Indonesia)	Ms. Ersa Tri Wahyuni
MASB (Malaysia)	Ms. Tan Bee Leng
ASC (Singapore)	Mr. Dexter Tan Ms. Reyis Gan Mr. Surya Subramanian (via telephone) Ms. Suat Cheng (via telephone)
HKICPA (Hong Kong)	Mr. Steve Ong (via telephone)
ASBJ (Japan)	Mr. Atsu Kato Mr. Masaji Miyako Ms. Emi Chujo Mr. Masafumi Nakane

Agenda:

- (1) Objective – determine the format of final document
- (2) Strategy – how to proceed with drafting our paper
- (3) Substance – align different views and set the tone

Minutes:

1. Timeline to AOSSG meeting

Ms. Chujo explained the revised timeline to AOSSG meeting regarding WG's activities. Some members proposed to postpone the deadline of collecting comments of members' views on the ED. However, in consideration of subsequent activities, we agreed to keep the timeline as previously scheduled with attention to the members' work progress.

2. Discussions regarding ED's questions (Q1 to Q7)

Q.3 Sufficiency of indicators and guidance for determining transfer of control

ASC: It's difficult to determine the transfer of control by the indicators proposed in current ED especially in the case where the control transfers continuously, such *as* construction contract or long term service contract. It's also difficult to determine the transfer of control in the case of individual unit sales of multi-unit real estate because there may be a situation where only a part of indicators are met.

Treatment for sales contracts regarding multi-unit real estate with co-owned land is common problem among Asian countries. We had asked IASB how to account for the transaction in such case, but they have not replied yet. In addition, we need broad interpretations for application guidance.

IIA: It's difficult to implement the ED into practice in considering the current accounting treatment for the audit fee or other transactions.

MASB: Generally, interpretation is OK but implementation is difficult in the case of transaction of real estate because of less guidance compared to IFRIC 15. There are no priorities between the indicators, so there are possibilities of different judgments on the same transaction. We concerns that comparability is not ensured in such situation. More sufficient guidance and additional examples should be provided regarding transaction of real estate.

Accounting treatment is not clear in such case where conflictions of indicators are recognized, so we prefer to clarify the key indicator for certain types of transactions.

We need to take the practice into account when we consider a regulated transaction such as real estate trade.

CRAC: We think clarification of the key indicator is close to rule-based standard. More guidance or samples should be given to auditors and preparers. It makes them capable to judge the variety of situations.

ASBJ: We don't have any problems for interpretation to apply the revenue recognition standards to construction contracts in Japan. We need some information of your concerns and difficulties in accounting judgment.

Q.4 Measurement of revenue

IIA: IFRS must be a principle-based standard but it seems to be a rule-based standard for the criteria mentioned in paragraph 38 and 39.

It's difficult for the entities to estimate the transaction prices of various contracts with customers.

MASB: We have a question whether "can be measured reliably (IAS11 paragraph 14(b))" and "can be reasonably estimated (ED paragraph 38)" has same meanings or not. IASB may focus rather economic activity than economic delivery according to the discussion at a lease session on IASB conference. We should take note of the wording that IASB choose regarding this matter. Therefore we are concerning such a detail.

HKICPA: It seems that IASB has applied probability-weighted approach as FASB does.

ASC: IASB considers they should apply the probability-weighted approach whether at the revenue recognition stage or at the revenue measurement stage, and they also consider whether there are probabilities of inflow or outflow of economical resources at the recognition of assets or liabilities. IASB may consider that they apply the probability-weighted approach at the revenue measurement stage. There are still concerns whether we can apply the approach in variety of situations or we can reflect cash flows appropriately. Therefore, we should consider these concerns.

Q.5 Measurement of revenue by reflect the customer's credit risk

IIA: We think IASB quit the "probability standards" at revenue recognition. They intend to recognize revenue in any probability and in any amounts. It's a big change from previous standard.

The benefit to estimate the transaction price for reflecting extensive customers' credit risks would not justify the costs and difficulties to do so.

MASB: We agree to the contents because it has a consistency with other EDs including financial instruments. But it is concerned that even if, for instance, a certain type of entity like conglomerate adjusts its customers' credit risks by its business components, it would not always represent the company's actual condition. Therefore we recommend enhancing the sufficient disclosure to raise the utility of financial

statements. In addition, we also address the taxation. We may have to prepare the other set of financial statements for tax purpose.

ASC: We don't agree to reflect the customers' credit risks to the transaction price at the beginning. We can recognize revenue of goods or services in referring cash flows from contracts. ED may be considered being consistent with other EDs, such as the amortized cost and impairment of financial instruments. Although financial instruments' trade may reflect credit risks of relevant parties, it doesn't match to the sales of goods or services. Credit risks aren't included in the sales margin of non-financial assets and therefore we think it doesn't represent the actual sales activities of goods or services by reflecting customers' credit risks.

CRAC: We confuse the IASB's stance because statement of Q5 and contents of ED seem to have a different story regarding revenue recognition estimation.

That is, Q.5 asks whether the credit risks affect the amount of revenue recognized, on the other hand in ED, entity shall not recognize the revenue unless the transaction price can be estimated reasonably.

ASBJ: There is a concern of difficulty in the estimation; however we need to estimate customers' credit risks at any point of revenue recognition or measurement

According to the ED, if customer credit risk cannot be reasonably estimated, revenue will not be recognized until either cash is collected or transaction price reasonably estimated. In the case the transaction price can be estimated reasonably, the customers' credit risks shall be reflected amount of revenue. As a result, total amount of revenue may be different in certain case. Thus, we agree to **CRAC** in this point of view.

Q.6 Measurement of revenue by reflecting the time value of money

IIA: We have a case that would be applicable to this issue in Indonesia so we need more clarification in this case. In Indonesia, we should recognize the revenue from the oil trading by contract price without reflecting of financial factor. Therefore we concern there would be difficulties for applying this ED's regulations regarding this issue in Indonesia and some other countries.

ASC: In industries which have common practice of making long term contracts, we might also consider interest expenses regarding the prepayment when we apply a rule of continuous transfer of control in those contracts.

Q.7 Allocation of transaction price to performance obligations

MASB: We have concern about the proposal of ED that indicates only one way to allocate the transaction price to separate performance obligations. We think only a principle should be prescribed in the standard and a detail should be provided in some guideline.

IIA: Allocation of transaction price should be flexible. Any allocation methods can be applicable if the methods have consistency with the sales activities and the entity has the continuity in applying those methods.

ASC: We agree to *MASB*. One way of allocation may not reflect economic natures of transactions.

Q.2 Identification of the separate performance obligations

MASB: We think contents of paragraph25 should be enhanced. We think the timing of recognition of revenue would not be delayed more than is necessary.

Q.1 Separation of contract

IIA: We imagine “contract” as the legal agreement in Indonesia but ED uses this term in different meanings. It may confuse the stakeholders of Indonesia.

CRAC: We have the same concern with *IIA*. We also have a question whether a contract should be separated. Examples 2 regarding the separation of contract indicate that subsequent change of condition effects transaction price. Does subsequent effect to transaction price mean that contracts are interdependent after all?

Discussion Summary

Mr. Kato, the vice chairman of *ASBJ*, summarized the tone of the comment for each question briefly as below.

- Q1: Generally, we agree with the ED proposal. However, there are some concerns that clarification is needed for the nature of interdependence and definition of the contract.
- Q2: Generally, we agree with the ED proposal. However, there are some concerns regarding this issue.
- Q3: We agree with the ED proposal with the comment to clarify and enhance the guidance, examples, indicators for determining the transfer of control.
- Q4: Generally, we agree with the ED proposal. However, we need more specific guidance to estimate the transaction price.
- Q5: There are mixed views in this question. 4 of members agree and 3 disagree.
- Q6: Generally, we agree with the ED proposal. However, there are some concerns that clarification is needed in considering the time value by providing detailed examples.
- Q7: Generally, we agree with the ED proposal. However, there are some concerns that more flexibility should be provided to the methods to allocate the transaction price to each performance obligation.

3. Comment letter contents and format

Mr. Kato explained the comment letter draft and asked for a comment on this matter. The comment by each member is as follows;

CRAC: Sir David Tweedie said that we should mention only majority view to influence the view of IASB.

MASB: Can we see minutes of AOSSG meeting that have already held? We may find the way to express an opinion. In addition, individual view of each country should be expressed by each country.

We think the comment letter would be signed by Chairman of the AOSSG, Leader and Co-Leader of the Revenue Recognition WG because this letter will be the precedent of other comment letters of AOSSG meeting in the future.

ASC: We can discuss about signers of the comment letter later. However, how should we do when we can't set the single tone?

IIA: If there are mixed views in the opinions, we should set the tone. It's no use expressing minority opinions.

HKICPA: We agree to mention the majority view only.

As a result of discussion, Mr. Kato made a comment that it was applicable to mention mainly the majority views in the comment letter like “amortised cost and impairment” comment letter. However, we will decide the contents of the comment letter after we analyze members’ comments regarding ED’s remaining questions of Q8 to Q17, and send the draft to all members before AOSSG meeting, hence ASBJ asked each member for sending back the comments.

AOSSG REVENUE WORKING GROUP – PROPOSED TIMELINE FOR 2 ND AOSSG MEETING										
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
ACTIVITIES / DELIVERABLES	ALL WG MEMBERS	While waiting for the issuance of ED, members will: - identify potential issues in the proposed model; - liaise with constituents in order to find any implementation issues; and - plan communication strategies.			Upon issuance of ED Exploring ED			20 th July Members provide their preliminary views on the ED 30 th July WG meeting at ASBJ, Tokyo	9 th Aug Members provide their views on the ED	6 th Sep Members provide comments on the draft paper
	WG SECRETARIAT (ASBJ and ASC)				Upon issuance of ED Prepare draft Paper to present in September				23 th Aug Circulate draft paper to all WG members	15 th Sep Circulate revised draft paper to WG members and other members of AOSSG
	ALL AOSSG MEMBERS									22 th Sep All members provide comments on the revised draft paper 29-30 th Sep Presentation of Paper at 2 nd AOSSG Meeting, Japan
	AOSSG SECRETARIAT									24 th Sep Submission of Paper to ASBJ for printing and distribution to AOSSG members