

3 July 2015

Technical Director

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Financial Accounting Standards Board

401 Merritt 7, PO Box 5116

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Re: Comment on *Identifying Performance Obligations and Licensing - Revenue from Contracts with Customers (Topic 606)*

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the Financial Accounting Standards Board’s (the “FASB”) Proposed Accounting Standards Update (the “ED”) *Identifying Performance Obligations and Licensing – Revenue from Contracts with Customers (Topic 606)*.
2. We understand that the ED proposes to clarify or amend some of the requirements in *Revenue from Contracts with Customers (Topic 606)* in an attempt to address the strong demands from the US constituents. We find some of the proposals useful as we believe they would help entities avoid significant practical challenges when implementing the requirements of Topic 606, while also maintaining the usefulness of the resulting financial information.
3. Nevertheless, given that Topic 606 and IFRS 15 *Revenue from Contracts with Customers* are now converged almost word for word, we believe it is highly desirable for the FASB and the International Accounting Standards Board (the “IASB”) to put substantial effort into maintaining this level of consistency between the two standards. In our view, this would contribute to increased comparability of revenue amounts between different entities, while precluding unnecessary practical burdens. Accordingly, we urge the FASB to finalize the proposed amendments after the FASB sufficiently consult with the IASB on the optimal scope and contents of possible changes to the two standards.
4. For our comments on specific questions in the ED, please refer to the Appendix of this letter.

5. The ASBJ hopes that our comments will be helpful for the FASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely

A handwritten signature in black ink, appearing to read "Atsushi Kogasaka". The signature is fluid and cursive, with the first name "Atsushi" written in a larger, more prominent style than the last name "Kogasaka".

Atsushi Kogasaka

Vice Chairman of the Accounting Standards Board of Japan

Chairman of the Technical Committee for Revenue Recognition in the ASBJ

Comments on Specific Questions in the ED

Question 1: Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

6. We believe that the FASB should change the accounting requirements regarding a series of distinct goods or services as a single performance obligation to an optional practical expedient with the requirement that the two conditions set out in paragraph 606-10-25-15 of Topic 606 are met.
7. Paragraphs 606-10-25-14(b) and 25-15 of Topic 606 require an entity to identify a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer as a single performance obligation if the two conditions are met. Paragraph BC113 of the Accounting Standards Update No. 2014-09 (the ASU) explained that this requirement was included as part of the definition of a performance obligation, so as to (a) simplify the application of the model and (b) to promote consistency in the identification of performance obligations in circumstances in which the entity provides the same good or service consecutively over a period of time. Paragraph BC114 of the ASU also explained that the allocation of the overall consideration to each increment of service to be provided in the contract would not be cost-effective.
8. We are not convinced that the explanations stated in the Basis for Conclusions (BC) of the ASU sufficiently justify the requirements set forth in paragraphs 606-10-25-14 (b) through 25-15 of Topic 606 for the following reasons:
 - (a) While the BC explained that the intention of the requirement is to simplify the application of the model, there are cases where the requirement does not significantly alleviate the operational complexity regarding the application of the accounting model.
 - (b) The BC explained that the requirement would promote consistency in the identification of performance obligations when the entity provides the same good or service consecutively over a period of time. Although we agree that the requirement would promote accounting consistency between different

entities, seeking consistency may sometimes fail to faithfully represent the economic substance (see more detail in paragraph 9 of this letter).

(c) Solely for the purpose of addressing the cost-effectiveness, it would seem be appropriate to grant an entity the choice of whether to identify each of distinct goods or services or a series of distinct goods or services as a performance obligation.

9. Furthermore, the discussion of the Transition Resource Group has revealed specific cases where a transfer of a good or service would be more faithfully represented if an entity identifies each distinct good or service as a performance obligation, even when the conditions set out in paragraph 606-10-25-15 are met. In our view, even when the two conditions are met, an entity should not be precluded from identifying a promise to transfer a distinct good or service to the customer as a performance obligation if the substance of the transaction would be more faithfully represented with this more granular approach.

Question 2: Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

10. We understand that the change in paragraph 606-10-25-16A of Topic 606 was proposed to address the concerns of the US constituents resulting from the deletion of the U.S. Securities and Exchange Commission's (SEC) guidance that existed previously, and we support the proposed change as a practical expedient.
11. We recognize that this proposed revision may result in different outcomes than following the general principles in Topic 606 of when revenue should be recognized, because an entity may identify different timing as to when a performance obligation is satisfied depending on whether goods or services promised to a customer are identified as separate performance obligations or not.
12. However, we believe that the proposed change could be justified because the incremental benefit of the change is expected to sufficiently outweigh the resulting costs. This is because, unless such a clarification were to be made, some entities may interpret that they would have to identify promised goods or services even

where they are immaterial in the context of a contract. Considering that revenue recognition relates to an enormous amount of transactions compared to other transactions, we believe that it would be excessively burdensome for entities if they were required to identify every possible promised good or service. At the same time, we infer that the quality of revenue amounts reported will not be negatively affected by the proposed change to a significant degree, because we anticipate that the aggregate amount of any resulting difference would generally not be material.

Question 3: Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

13. We do not comment on this question, as we understand that the proposal primarily aims to address practical challenges owing to previous accounting practice in the US.

Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

14. We find the proposal to revise paragraph 606-10-25-21 and related examples would improve operability of the requirements to determine whether an entity's promise to transfer goods or services to the customer are separately identifiable.
15. However, we worry that this proposal may result in different accounting outcomes between Topic 606 and IFRS 15, given that the proposal is to make rather significant changes to the requirements of Topic 606, while the IASB has tentatively decided not to make amendments in the same vein. In our view, the proposed changes relate to areas of a fundamental importance to the two standards. Thus, we strongly believe that creating considerable differences in this area should

be avoided so as to ensure the consistency of the financial information resulting from the application of the two standards.

16. Consequently, we encourage the FASB to closely work with the IASB so that the two Boards might reach the same conclusions. If the two Boards decide to make changes in line with the proposal in the ED, we encourage the two Boards to give further consideration to the need of additional changes and to confirm that these changes are also sufficiently operable and practical within IFRSs environments.

Question 5: Would the revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples, improve the operability of the implementation guidance about determining the nature of an entity's promise in granting a license? That is, would the revisions clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property or to provide a right to use the entity's intellectual property as it exists at the point in time the license is granted? If not, what alternatives do you suggest and why?

17. When classifying a license of intellectual property into an entity's promise to provide a right to access its intellectual property and the one to use its intellectual property, we think that the use of the proposed notions (i.e., functional intellectual property and symbolic intellectual property) is a worthy consideration, because it has a potential to improve the operability of the implementation guidance.
18. However, we are concerned that the proposed change might result in contradicting the principle in Topic 606 that the revenue relating to an entity's promise to grant a license should be recognized over time when the utility of intellectual property is affected by an entity's ongoing activities. This is because we think that there would be cases where the utility of symbolic intellectual property is derived from the entity's past activities, and thus, requires little or no ongoing activities of the entity.

For example, in the case of intellectual property relating to the use of images of deceased singers, the utility is derived from his/her past performance (including his/her past popular songs) and it would require an entity to carry out very little or no ongoing activities so as to support or maintain the intellectual property throughout the license period. The other example is intellectual property relating

to the use of images of cartoon characters known for past movies, and its utility is not expected to change throughout the license period regardless of a licensor's ongoing activities.

In these cases, the utility of symbolic intellectual property would not be affected by an entity's ongoing activities throughout the license period. Therefore, we think that recognizing the revenue over time contradicts the said principle in Topic 606 that requires an entity to recognize revenues relating to an entity's promise to grant a license over time when the utility of intellectual property is affected by an entity's ongoing activities.

19. Although paragraph BC52 of the ED states that the number of such cases is very small, considering the examples explained in the previous paragraph, we think that similar cases would be more prevalent especially for entities that heavily deal with the intellectual property relating to the use of these types of images, and thus the impact would be rather significant.
20. Therefore, we suggest that the FASB consider further improvements to the proposal so that it would not give rise to significant inconsistencies with the principles set out in Topic 606, while also appropriately responding to the needs of the US constituents. As an example, it may be appropriate to add a judgment criterion so that an entity could treat certain symbolic intellectual property as the one providing a right to use its intellectual property. This would allow the revenue to be recognized at a point in time when there is no or very little ongoing entity's activity that affects the utility of the intellectual property. Another idea could be to clarify that logos and trademarks are examples of intellectual property that are likely to be symbolic intellectual property (while noting that there may be exceptional situations where they are classified into functional property), instead of requiring an entity to classify them as symbolic intellectual property.
21. As stated previously, we believe it is highly desirable if the level of consistency between Topic 606 and IFRS 15 is maintained (see more detail in paragraph 3 of this letter.) Accordingly, we urge the FASB to finalize the proposed amendments after the FASB sufficiently consults with the IASB.

Question 6: The revisions to paragraph 606-10-55-57 state an entity should consider the nature of its promise in granting a license of intellectual property when accounting for a single performance obligation. Does this revision clarify the scope and applicability of the licensing implementation guidance? If not, why?

22. In line with the proposal in the ED, we think that an entity should consider the nature of its promise in granting a license of intellectual property when accounting for a single performance obligation. In our understanding, an entity is required to consider the nature of the performance obligation in its entirety when determining whether revenue should be recognized over time or at a point in time for a single performance obligation in accordance with relevant requirements of Topic 606. Accordingly, if a performance obligation encompasses an entity's promise to grant a license of intellectual property as well as its promise to transfer other goods or services, we agree that the nature of an entity's promise to grant a license of intellectual property should also be considered in the determination.

23. However, we believe that the revision in this proposal is unnecessary because we think it is already self-evident under the existing requirements of Topic 606.

Question 7: Would the revisions to paragraph 606-10-55-64 adequately communicate the Board's intent (a) that restrictions of time, geographical region, or use in a license of intellectual property are attributes of the license (and, therefore, do not affect the nature of an entity's promise in granting a license or its assessment of the goods or services promised in a contract with a customer) and (b) about determining when a contractual provision is a restriction of the customer's right to use or right to access the entity's intellectual property? If not, what alternatives do you suggest and why?

24. In our view, the proposed revisions to paragraph 606-10-55-64 clearly communicate the FASB's intent explained in the question, and we do not object to the intent.

25. However, we believe the proposed revisions are unnecessary because we think the FASB's intent is sufficiently clear even under the existing requirements of Topic 606.

Question 8: Would paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property? If not, what alternatives do you suggest and why?

26. We agree that paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property. In addition, we think that the proposed revisions would be helpful to ensure that similar transactions (i.e., a transaction in which an entity's promise to grant a license of intellectual property itself is a performance obligation and the other transaction in which an entity's promise to grant a license of intellectual property is a predominant component of a performance obligation) would be similarly accounted for while also reducing complexity in practice.
27. Furthermore, we highly appreciate that the proposal would maintain the status of convergence between Topic 606 and IFRS 15, given that the IASB has made a tentative decision to revise the requirement of IFRS 15 to be consistent with the FASB's proposal.