

Jurisdiction-specific IFRS 15 Implementation Issues

Accounting Standards Board of Japan

30 November 2017

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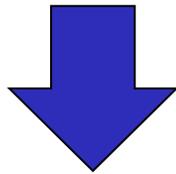
Development of the Revenue Recognition Standard under Japanese GAAP

Background

- **The ASBJ has maintained and improved Japanese GAAP to be of high-quality and consistent with international standards**
- **The ASBJ decided to develop a comprehensive revenue recognition standard based on IFRS 15 and Topic 606**
- **In July 2017, the ASBJ issued the “Exposure Draft of Accounting Standard for Revenue Recognition” (hereinafter referred to as “ED”)**
 - **The ED is expected to be finalized by the end of March and to become effective April 2021**

Policy for Developing the ED

- To achieve comparability of financial statements between domestic and overseas companies, the ED was developed based on IFRS 15
- The ASBJ analysed whether the requirements in IFRS 15 work properly with transactions specific to Japanese companies



During this deliberation process, we identified some **implementation issues**

Focus of today's discussion

- The ASBJ proposed some alternative treatments in the ED to address these implementation issues
 - These alternative treatments are not intended to international comparability

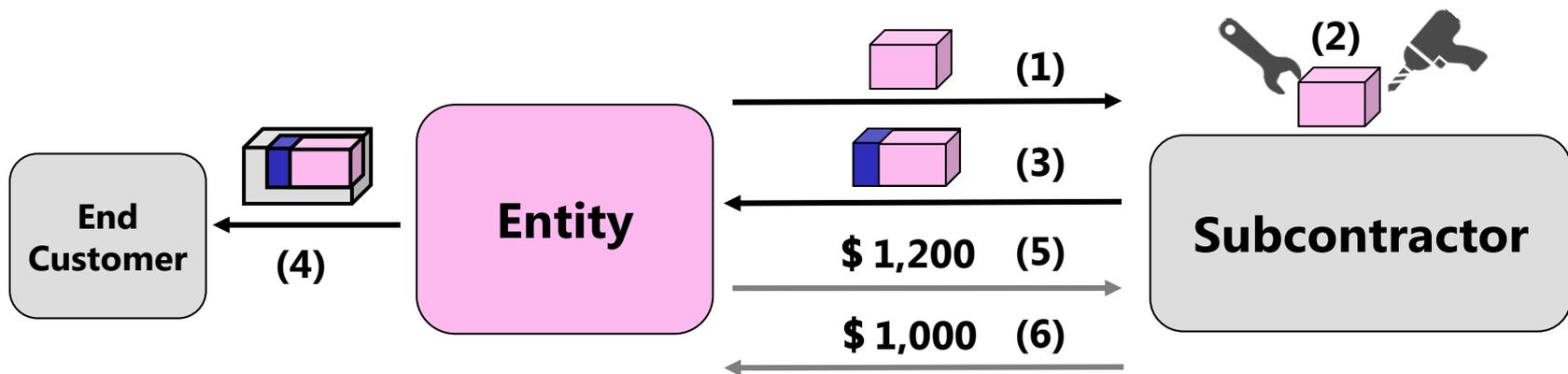
Implementation Issues Related to IFRS 15

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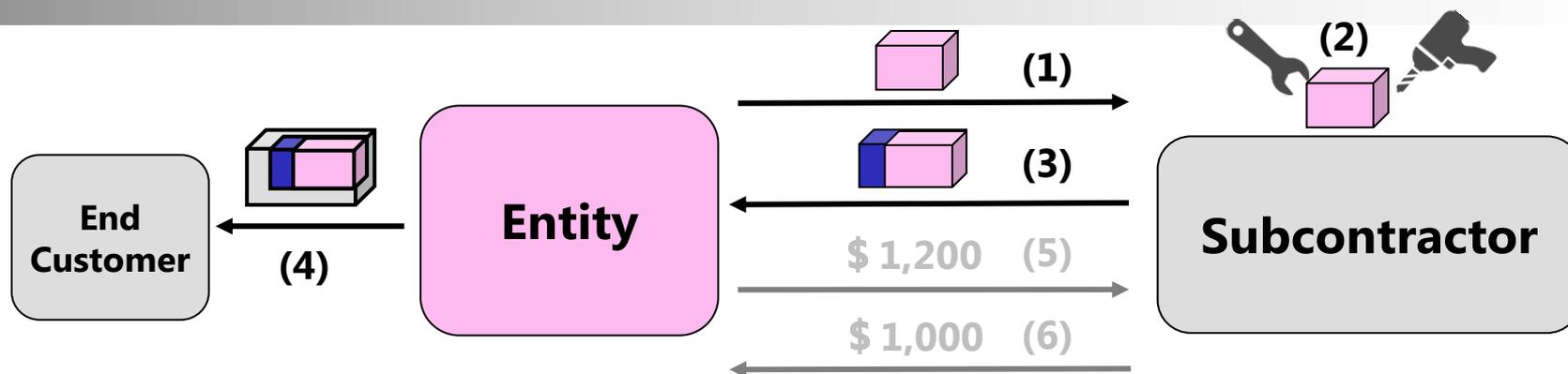
- **Through deliberations, the ASBJ identified some implementation issues related to IFRS 15, including the following:**
 - **Subcontracting transactions**
 - **Customer loyalty programs**

Subcontracting transactions

- When an entity outsources part of its manufacturing process to a subcontractor, the entity may:
 - pay the subcontractor a processing fee for the work the subcontractor performed; or
 - sell the original parts to the subcontractor, and purchase the processed parts from the subcontractor.
- The issue in question deals with the latter case.

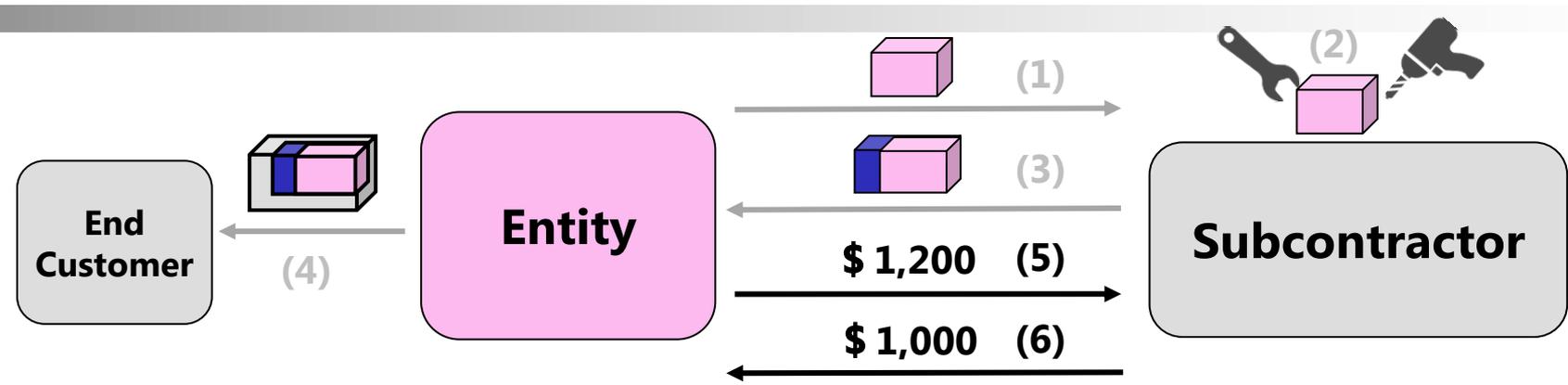


Subcontracting transactions



(1)	<p>Entity sells parts (worth \$900 on Entity's book) to Subcontractor for \$1,000. Entity has an unconditional right to receive \$1,000 from Subcontractor.</p>
(2)	<p>The amount charged for processing is \$200 and the value of the original parts remains \$1,000. Subcontractor is prohibited to sell the parts purchased from Entity to other parties. Entity is obliged to purchase the processed parts at the request of Subcontractor.</p>
(3)	<p>After Subcontractor processes the parts, Subcontractor sells the processed parts to Entity for \$1,200. Entity has an unconditional obligation to pay \$1,200 to Subcontractor.</p>
(4)	<p>Entity sells finished processed parts (which may be further processed) and sold to end customers.</p>

Subcontracting transactions



(5)	<p>Entity pays \$1,200 to Subcontractor in cash.</p> <p>If the Japanese Subcontracting Law applies to the transaction, Entity must pay Subcontractor first to protect Subcontractor from running short of funds.</p>
(6)	<p>Subcontractor pays \$1,000 to Entity in cash.</p>

Subcontracting transactions

Discussion Point

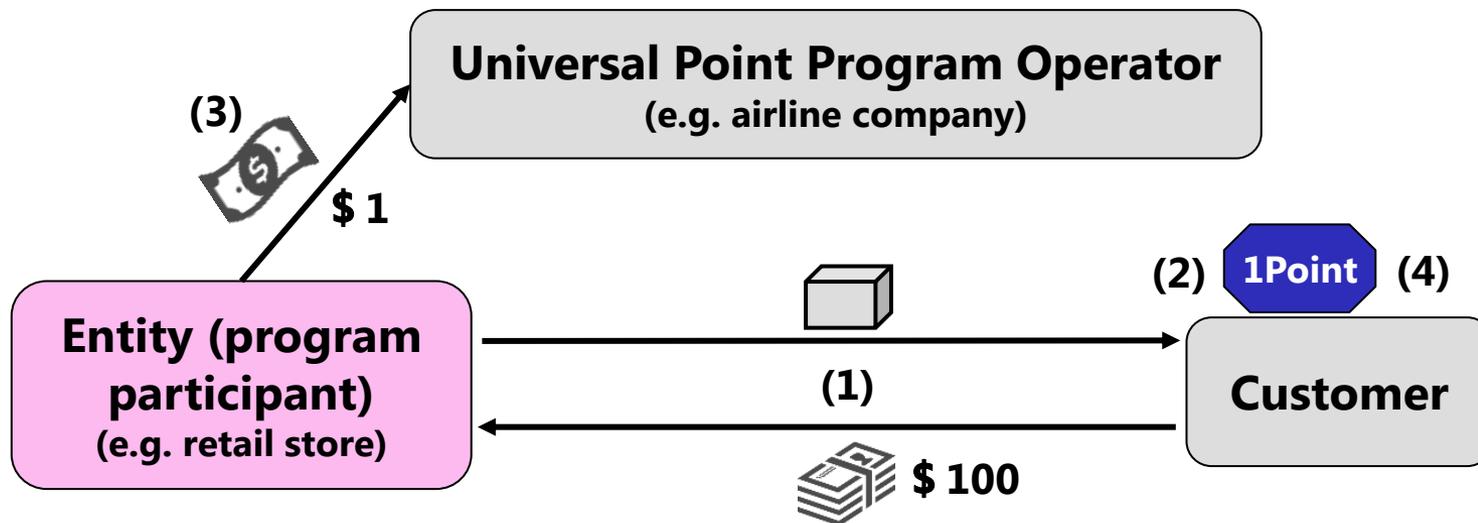
- **Does control of the parts transfer to the Subcontractor?**
- **If not, is the transaction a financing arrangement?**

Customer Loyalty Programs

- **Instead of operating a customer loyalty program by itself, an entity may use a universal point program whereby:**
 - **the customer earns points from the program when he/she makes a purchase from the Entity; and**
 - **the customer may redeem points from any entity participating in the program, including the Entity.**

- **According to IFRS 15.B40, points provided under customer loyalty programs give rise to performance obligations if the program is operated by the entity itself. However, the IASB gave up providing any additional guidance when the arrangement involves more than two parties (IFRS 15. BC388).**

Customer Loyalty Programs



(1)	Entity sells its product for \$100 and notifies the customer that universal points will be granted to the customer (1 point per purchase of \$100).
(2)	Entity notifies the program operator of the customer's purchase, and the customer earns points.
(3)	Entity pays \$1 for the points granted to the customer.
(4)	The customer may redeem its points for the goods or services from any entity participating in the program, including the Entity.

Customer Loyalty Programs

Discussion Point

- **Does the Entity assume a performance obligation relating to points provided under a universal program that is operated by another entity?**
- **If so, what is the nature of the performance obligation?**