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

Financial Accounting Standards
401 Merritt 7
Norwalk, Connecticut 06856
United States of America

November 23, 2010

Re: Exposure Draft - Revenue from Contracts with Customers (File Reference No. 1820)

Dear IASB/FASB Board Members,

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on the Exposure Draft (ED) on Revenue Recognition: Revenue from Contracts with Customers. As investment professionals, we place great importance on being able to compare and contrast the revenue figures reported by companies both over time and across industries.

CRUF participants support the goal of developing a common revenue standard that can be applied consistently across industries, jurisdictions and capital markets. But we have serious concerns that we would like to see addressed before the ED progresses to become a final standard. We believe it would be less costly to users of financial statements to address these issues during the redeliberation phase than fixing the problems through numerous amendments or implementation guidance after the fact (by either the Boards or local standard setters), even if this means delaying the timetable for convergence in the area of revenue recognition.

Our general concerns are as follows:

1) The ED, as it stands currently, may create a false impression of consistency and comparability, which would be a disservice to investors.

2) While there is a significant amount of judgment involved in revenue recognition today, the ED appears to allow or require more judgment and estimates. In practice, this approach may result in less comparability or even provide opportunities for significant abuses, for example, recognizing more revenues upfront than is appropriate.

3) Acknowledging that more detailed guidance may detract from the goal of a single revenue recognition standard, some CRUF participants in the U.S. feel elimination of the existing industry specific guidance may be problematic because those specific rules were put into place generally to curb premature revenue recognition and inconsistencies in application within those industries. CRUF Japan participants suggest the Boards allow each jurisdiction to develop its own implementation guidance to reflect local business customs and to document them after rigorous discussions with the IASB.

4) Some CRUF participants in Europe feel that current disclosures regarding revenue recognition are poor in many cases. This makes it impossible to assess the potential impact of the ED because it is not clear what companies are currently doing.

Given the potentially material and far reaching impact of the ED on the top line and therefore investment analysis (and potentially share prices), CRUF participants believe the Boards should conduct field tests before issuing a final standard in order to gain a better understanding of the implementation challenges, at least in industries where the impact is expected to be material or where application of the proposed principles is expected to be difficult, such as in services. In addition, results of the field tests may help users understand and assess the impact of the ED on the amount and timing of revenue recognition and better prepare for the eventual adoption of the new standard. For example, if the proposed framework materially changes the pattern of revenue recognition, e.g., more revenue upfront compared with existing practice, or higher volatility for certain contracts that may or may not reflect long term performance, existing analytical models would have to be adjusted to take this into account. CRUF participants generally believe that without “before and after” examples (including the proposed disclosures) based on real companies over a typical operating cycle, it is impossible to assess the impact of the ED from the users’ perspective.

CRUF participants feel strongly that the Boards should require entities to apply the new standard retrospectively. CRUF participants also support most of the disclosure requirements proposed in the ED and believe rigorous disclosure is essential for users to perform investment analysis under the proposed framework.

Below we provide further comments on specific issues within the ED.

CRUF Japan responded to certain issues that CRUF ex Japan (referred to as CRUF) did not address. CRUF may or may not agree with CRUF Japan on those issues. Please see the letter from CRUF Japan in the Appendix.

Question 4: Measurement of Variable Transaction Prices

CRUF participants believe that measuring the transaction price using the probability weighted method may produce revenue numbers that are not predictive of the actual outcome, and changes in such estimates may result in revenue volatility that may not be meaningful. In situations where there are limited outcomes, we believe management's best estimate of the most likely outcome provides more useful information, provided the assumptions as well as changes used in arriving at such estimates are clearly disclosed. In addition, in situations where there is a large number of similar transactions, it is unclear the probability-weighted method produces a more precise or insightful estimate than management's best estimate.

As the language related to variable consideration is written, it seems that companies may account for the same revenue stream differently in terms of both timing and amount recognized depending on whether management deems the amount can be reasonably estimated and on the specific assumptions used. We believe users may face significant comparability issues. Should the Boards adopt the proposed treatment in the final standard, it is essential that the accounting for revenue with variable consideration be well disclosed so that users can assess the impact of management's estimates and changes in those estimates. Specific items that would be helpful to users include the total amount of estimated variable consideration recognized in the current period, key assumptions used in measuring the variable consideration and changes in the assumptions from the comparable periods.

Question 5: Customer Credit Risk

CRUF participants have mixed views on whether customers' credit risk should be reflected in the amount of revenues recognized. Those who support the treatment in the ED believe revenue should represent the amount of cash that will ultimately be collected, and therefore revenue should be reported net of an estimated uncollectible amount. However, since subsequent revisions in credit risk would be recognized as income or expense below the revenue line under the ED, there could be an incentive to under-estimate credit risk on day one in order to achieve certain revenue targets. These CRUF members believe subsequent revisions should also be included in revenues just as returns and discounts are accounted for today under US GAAP.

Other CRUF participants including CRUF Japan believe credit losses are a cost of doing business rather than a reduction of revenue, and therefore should not be included in the revenue line.

Irrespective of how revenues are represented, CRUF members feel strongly that a roll forward in the reserve for uncollectible amounts should be disclosed for each reporting period (including interim periods). This disclosure should include 1) the beginning and ending balance in the reserve for uncollectible accounts, 2) estimated uncollectible amount associated with revenue recognized in the current period, 3) adjustments to prior period estimates, separate from the amount in 2), and 3) any other adjustments to this balance such as business combinations and currency impact.

Question 6: Time Value of Money

While there is general agreement among CRUF participants that the proposed treatment for the time value of money as it relates to customer advance payments is theoretically sound, most believe that this unnecessarily complicates reported numbers. Additionally, the resulting revenue and gross margin would include an interest component, which is not linked to cash inflows. If this provision is adopted as proposed, we would recommend the Boards mandate separate disclosure of the amount of imputed interest income included in revenue for every period (including interim periods). We believe the imputed interest should be separate from product sales and margins.

However, CRUF Japan supports the treatment in the ED.

Question 7: Transaction Price Allocation and Onerous Obligations

CRUF participants generally agree with the allocation of the transaction price to separate performance obligations as written. However, we believe onerous obligations should be evaluated at the contract level, rather than at the performance obligation level for the following reasons: 1) transactions are generally priced at the contract level, 2) recognizing a loss on a performance obligation which is part of a profitable contract results in fluctuations in earnings that do not reflect the long-term earnings trend, 3) given the determination of performance obligations and the transaction price allocated to each performance obligation are subjective, recognizing impairment losses at the performance obligation level may not be a meaningful requirement, as both the timing and the amount can be manipulated.

Question 9: Contract Costs

Some CRUF participants do not feel there is sufficient guidance in the ED on costs that should be capitalized vs. expensed. Analysts who cover companies in construction or other sectors where the percentage-of-completion method is common express concern that valuable guidance regarding the accounting for contract costs will be lost.

Question 10: Disclosure

We believe expanded disclosure is absolutely necessary under the proposed framework due to the significant amount of discretion involved in the amount and timing of revenue recognition. We find the reconciliation of contract balances (para. 75 and 76) very helpful. We suggest the Boards require such disclosure to be presented in a tabular format. It is unclear if the amount of contract price deferred relative to total contract price is required to be disclosed, but we would find that information useful. It would also be very helpful if amounts transferred to receivables were distinguished between those that are billed and unbilled. For entities where backlog is a meaningful revenue indicator, it would be very helpful to disclose the balance in backlog, new contracts signed in the period (orders), and the total amount of revenue recognized that was fulfilled in the period and therefore was never included in the backlog.

We caution that certain language in the ED appears very general and may result in lengthy boiler plate disclosure that is costly to prepare and to understand but does not add value to users. For example, the requirement to discuss judgments, and changes in judgments that affect the amount and timing of revenue recognized (para. 81) appears to suggest that a narrative explaining the policy or method would satisfy the requirement. While such disclosure can be informative, it would be more useful to users if the resulting numbers (such as estimated uncollectible amount, returns, contractual discounts, contingent revenue, etc.) and changes in these numbers (i.e., a roll forward of each of the important accounts that affect net revenues), where material, are also required to be disclosed in each reporting period preferably in tabular format. We suggest the boards provide specific examples of disclosure that would satisfy the disclosure objectives.

CRUF Japan feels that the reconciliation disclosure should be voluntary if management feels that such disclosure would assist investors.

Question 11: Disclosure of Remaining Obligations

Some CRUF participants believe the maturity disclosure required by paragraph 78 should not be limited to contracts that take longer than one year to complete. Revenue shifting among interim periods is a significant concern for investors, especially for companies that report quarterly results.

Question 13: Transition Method

CRUF participants feel strongly that the new standard should be applied retrospectively. Prospective application would severely impair analysts' ability to perform comparative analysis and would render the revenue numbers prepared under the new standard practically meaningless until there is at least one comparable period. We suggest the Boards set the effective date such that it gives entities enough time to apply the new standard internally for a minimum of one year (or an operating cycle if longer) including interim periods before they officially adopt the new standard.

Alternatively, the Boards can require entities to report revenues (and costs) under both the new standard and the old standard in the first year (or operating cycle if longer) of adoption (including interim periods) so that investors can separate out the underlying revenue and margin trends from the effect of a change in accounting principles.

Question 15: Warranties

The ED distinguishes between warranties that provide coverage for latent defects from those that provide coverage for defects that arise after transfer of control. While CRUF participants agree that warranties that cover latent defects are not separate performance obligations, most believe it is not operational to distinguish between latent defects and defects that arise after transfer of control. There may be industries where extensive historical data exist that may allow companies to statistically estimate the amount of latent defects, but it would be challenging to make the distinction for new products or products with a short history. Some CRUF participants feel the existing distinction between standard warranties (generally not separately priced or sold) and extended warranties under US GAAP appears to work well and question the benefit of redefining these concepts.

Question 16: License Revenue

The ED distinguishes between exclusive and non-exclusive licenses. Revenue from exclusive licenses would be recognized over the term of the license. In our view, this appears to be inconsistent with the transfer of control principle in the ED. If the licensee has obtained control of the intellectual property over the license period, and the entity's only remaining obligation is passage of time, then revenue recognition should not depend on whether the license is exclusive.

In addition, we believe applying the exclusive vs. nonexclusive distinction in specific situations involves significant judgment. Since the distinction determines whether revenues are recognized upfront or over time, it may provide opportunities to structure transactions to achieve the desired accounting treatment. Regardless of how the concept of control is operationalized in the case of licensing arrangements, we feel strongly that if an entity has different licensing arrangements that result in different revenue recognition patterns, the amount of each type of licensing revenue recognized (if material) should be disclosed in each reporting period, and the amount of total licensing revenue should be separately disclosed from product revenue.

Some CRUF participants in the U.S. believe that the current industry specific guidance for licenses works well and that replacing these rules with a general framework may reduce comparability even within an industry. These participants believe the Boards should provide examples that illustrate the application of the general principles for each broad type of industry licenses to minimize diversity in practice.

Question 17: Sale of Non-financial Assets

CRUF participants believe that gains and losses on sales of non-financial assets such as property, plant, and equipment (PP&E) and intellectual property that is not an output of an entity's routine activities should not be considered revenues. Both the amount and the line item on the income statement where such gains and losses are included should be disclosed. In situations where intellectual property is an output of an entity's routine activities and the entity routinely sells such property, gains and losses should be separately disclosed if the revenue pattern is different from other product sales.

Yours faithfully

Zhen Deng, PhD

Terri Campbell, CFA

Josephine Cizek

Peter Elwin

Roger Hirst

Elmer Huh, CFA, FRM
Director
Portfolio Valuation and Corporate Finance
Duff & Phelps, LLC

Toshinori Ito, CMA
Managing Director, Senior Analyst
Equity Research Department
UBS Securities Japan Ltd

Makoto Kaimasu
Senior Vice President
The Securities Analysts Association of Japan

Sei-Ichi Kaneko
Executive Vice President
The Securities Analysts Association

John Kattar, CFA
President and Chief Investment Officer
Eastern Investment Advisors

Masayuki Kubota, CFA
Senior Fund Manager
Daiwa SB Investments Ltd

Goro Kumagai
Senior Fellow, Strategic Research Department
Mizuho Securities Japan
Visiting Professor, Graduate School of Management, Kyoto University

Paul Lee
Director
Hermes Investment Management Ltd

Jeremy Perler, CFA, CPA

Nathan Powell, CFRA

Peter Reilly
Head of Industrial Research
European Equity Research
Deutsche Bank

Hiroki Sampei
Director of Research
Fidelity Investments (Japan)

Kim Shannon
President & CIO
Sionna Investment Managers Inc.

Crispin Southgate
Institutional Investment Advisors Limited

Pinto Suri

Jed Wrigley
Portfolio Manager
Director - Accounting and Valuations
Fidelity Investments

Kazuhiro Yoshii
General Manager
Legal and Tax Research Unit of Capital Market Research Dept
Daiwa Institute of Research Ltd.

Appendix: CRUF Japan Responses

CRUFJ's Views on Exposure Draft - "Revenue from Contracts with Customers"

The Corporate Reporting Users Forum Japan (hereinafter the CRUFJ) is pleased to present its views on the International Accounting Standards Board's and Financial Accounting Standards Board's (hereinafter the Boards) exposure draft "Revenue from Contracts with Customers". The CRUFJ was established in Tokyo in December 2009, and has been holding monthly meetings since then. Currently there are 18 members, which include buy-side and sell-side equity analysts, credit analysts and portfolio managers. This comment letter reflects the discussions from the August to September meetings. The CRUFJ hopes this letter will be read at the various CRUFs and be one of bases for the final CRUF comment letter.

Revenue recognition: satisfaction of the performance obligation (Question 3)

We welcome that the two Boards have made it sufficiently clear that although the percentage-of-completion method is technically not permitted, the continuous transfer model is a practically acceptable accounting method under the newly proposed accounting standard on revenue recognition. It was one of our most serious concerns that the continuous transfer model might be effectively prohibited under the new revenue recognition rules suggested by the DP, which seemed to overly emphasize "transfer of control" of goods and services without clear definitions and guidance.

We believe that the additional guidance in the ED has made it clear that the definition of control and its transfer, and that the new standard will not rule out revenue to be recognized even before the promised goods and services are physically or legally transferred.

However, we are still concerned that there is room for the arbitrary use of two different accounting methods for economically similar transactions. It seems that the ED allows one company to use the continuous transfer model for a certain contract while allowing another to use the completed-contract method for an economically similar contract. Furthermore, paragraph 31 is not clear as to whether the new standard would allow preparers to use the continuous transfer model, or require using it for certain specific transactions.

We are concerned that this ambiguity may adversely impact the comparability of the revenue of two competing companies in the same industry. In order to rule out such a possibility, we suggest the two Boards to develop further guidance on how to judge which method, the continuous transfer model or completed-contracts, should be applied to a certain transaction.

Meanwhile, we also appreciate the two Boards' efforts to develop a single revenue recognition framework applicable to various industries. We agree the existing different revenue recognition standards for particular industries hamper the comparison across different industries. It appears that the two Boards have successfully developed a new standard which is applicable to almost any industry, except financial services such as insurance or leasing, based on new concepts such as contracts with customers, performance obligations, transfer of control etc.

However, we recognize that different business customs are prevailing in different countries. We believe that a key success factor in the implementation of the new standard is that all stake holders accept it without any confusion, to ensure the comparability of financial statements prepared by entities in various industries across various jurisdictions. Therefore, we suggest that the Boards at the very least allow each jurisdiction's standard setter to develop its draft application examples to reflect local business customs and to document them, after rigorous discussions with the IASB for the use of IASB or IFRIC.

Measurement of revenue: estimation of variable consideration (Question 4)

We agree with the Boards' proposal and criteria regarding the estimation of variable consideration in paragraph 38, with one reservation. We emphasize that it is of crucial importance to users of financial statements that an entity discloses how it estimates the transaction price when the amount of consideration is variable according to the disclosure guidance in paragraph 83.

We strongly encourage the reporting entities to disclose their business customs which they would follow when they enter into contracts with customers. We acknowledge that there are some cases in which revenue can be best recognized to describe the economic reality of a contract, when an entity deduct such items from the transaction price as the amount of discounts, rebates, refunds, incentives, performance-based compensation and penalty etc related to the contract. We would welcome such adjustments as long as they improve the quality of information on revenue. However, we are concerned that it could be misleading to investors if the transaction price is adjusted without disclosing the method, inputs and assumptions used to estimate and to allocate the transaction price.

For example, “retrospective pricing” is one of the prevailing pricing methods in certain industries[1]. We suggest that the Boards consider retrospective pricing and a pro-forma transaction price to be included in the case of variable consideration. We also encourage an entity using retrospective pricing to disclose the criteria for their judgment in the footnotes when they judge a certain pro-forma transaction price to be the best estimate to recognize revenue from a contract with its customer. We will come back to this issue later.

Measurement of revenue: reflection of customers’ credit risk (Question 5)

First, we would like to point out what the Boards say in paragraph B78 of the ED regarding collectability;

“In many contracts, the effect of the customer’s credit risk on the transaction price is immaterial. In such cases, an entity measures the transaction price at the original invoice amount.”

Therefore, it seems rather unusual that the customer’s credit risk should be reflected in the transaction price.

Although we agree with the above, we do not agree with the Boards’ proposal in paragraph 43. We are afraid that the reflection of the customers’ credit risk on the transaction price could be misleading and does not provide the investors with better information on revenue and contracts with customers. We believe that revenue should be recognized based upon the transaction price without any adjustment to the credit risk and that the allowance should be recorded separately to reflect such a risk. We think this approach is more informative and useful to users’ investment decisions for the following reasons;

(1) We are not convinced regarding the Boards’ assumption that it is always possible for the management of a reporting entity to make a reasonable estimate of the customer’s credit risk. We believe that management quite often misestimates the credit risk of customers. The management which is ready to take credit risks to sell their products tends to aggressively underestimate them. On the other hand, a very conservative manager may overestimate credit risks.

(2) It is important for investors to know how much of the credit risk of the customers management expects could be realized over time in terms of the percentage to revenue.

---

[1] We will explain what we mean by “retrospective pricing” and a “pro-forma transaction price” later.

This information will be lost if the credit risk is deducted from a transaction price and, hence, revenue. It is easier for investors to obtain it if the allowance and actual credit losses are recognized separately from the contract assets and revenue respectively on the BS and the PL.

(3) If the credit risk estimated initially changes over time, these changes would be recognized as other comprehensive income. As a result, it would become quite difficult for users to find the original amount of expected cash flows from a contract.

Measurement of revenue: reflection of time value of money (Question 6)
We agree with the proposal to reflect the time value of money in a transaction price. We believe it is natural for a transaction price to be higher than that for one-time cash payment on delivery when it takes time from delivery to payment. We welcome the Boards' proposal in this regard, believing that revenue would better reflect the economic reality of a contract when the time value of money is properly reflected.

We, however, oppose the inclusion of credit risk in the discount rate. We suggest the Boards to consider recognizing the time value of money and credit risk separately for investors to distinguish these two components easily. We believe such a presentation would provide more useful information for users' investment decisions than the Boards' proposal.

Disclosure: usefulness to estimate future revenue and cash flows (Question 10)
We generally find the proposed requirements meet the objective of usefulness for users to estimate future revenue and cash flows arising from contracts with customers, but with some reservations.

First, we believe the detailed breakdown of outstanding amount of orders, or performance obligations, if disclosed appropriately, should be a useful leading indicator to estimate future revenue and cash flows. We understand that this additional disclosure requirement could be quite demanding and costly for preparers because it practically requires them to develop an internal control system for it to be auditable. However, it is not only of benefit to users of financial statements but also for the management to have such a system to manage the performance obligations effectively. A farther downside is the cost.

Second, we believe reporting entities should disclose all contracts that are significant but cancellable without penalty. Paragraph 11 of the ED says;

“A contract does not exist for the purpose of applying this [draft] IFRS if either party can terminate a wholly unperformed contract without penalty.”

According to this paragraph, we are afraid that orders newly added to outstanding would not be disclosed at all, however significant they are as long as they are contracts wholly unperformed and cancellable without penalty. However, we are aware that outstanding orders currently disclosed especially by manufacturing companies are cancellable without penalty in many cases, and they are significant for analysts ‘s estimation of future cash flows of the entity even though the contracts are wholly unperformed. We strongly encourage the Boards to consider requiring the entities to disclose outstanding amounts and a breakdown of these contracts in the footnotes.

One of our members suggested an alternative view that it may be possible to interpret paragraph 9 of the ED such that there is an implicit contract asset and a performance obligation even for a wholly unperformed contract cancellable without penalty.

Lastly, we would like to highlight that additional disclosure is not necessarily better, acknowledging that the Boards share this view. Excessive amounts of information on trivial matters are quite often just confusing and even misleading for investors. Most of us believe that disclosure regarding performance obligations and contract assets should be limited to those “significant enough” to users’ investment decisions.

For example, we do not believe that the investors find it very useful to their decision in most cases to analyze the reconciliation table of contract balances proposed in paragraph 75. We believe it is informative enough in general to users if an entity discloses outstanding amounts of contract assets and liabilities at the end of the reporting period.

However, we welcome an entity to disclose the detailed reconciliation table on a voluntary basis, when the management believes the information in the table is significant and useful enough for users to estimate its future revenue and cash flows. We believe the entity should do so when they have orders outstanding of more than one year.

Application guidance: suggestions for additional guidance (Question 14)

We recognize that it is a very challenging task to develop guidance to cover every case. We highly appreciate the Boards’ sincere efforts to develop useful guidance for preparers because it is of benefit to users that they can be sure that the financial statements of various entities are the products of the consistent application of IFRSs.

The following are our suggestions of additional guidance to increase clarity in application of the new revenue recognition standard;

- **Materials provided at cost by a customer**

We believe additional guidance and examples are needed for revenue recognition regarding the business custom of materials provided at cost by a customer, which we find quite common in such industries as apparel, auto, electric machinery, and electronics and so forth[2]. In these industries, such engagements are often made between manufacturers of goods and their component suppliers as a customer provides its supplier with materials at cost and promises to buy them back paying a certain margin after some processing. In this case, it is not clear if the supplier recognizes only net revenue, i.e. margin, as an agent of its customer, or the full amount of this transaction as a seller of finished goods. We recognize that the industries also request some additional guidance on this issue and we fully support them as we are concerned that comparability might be hampered because of confusion among the preparers.

Retrospective pricing and pro-forma transaction prices

As we have already mentioned, we believe retrospective pricing and a pro-forma transaction should be included in the case of variable consideration[3].

---

[2] *This type of transaction outlined above might be the same as one called a round-trip transaction in the United States. However, we are not sure that this expression is common elsewhere in the world, and want to be descriptive instead of using a convenient term just to avoid confusion*

[3] *We use the term "retrospective pricing" to mean business customs as follows; prices are normally fixed, but there are periods during the year when prices for the finished parts are not fixed. This is because sale of the finished parts continue even though a contractually agreed price has expired. During this period new prices are negotiated and once agreed the new price is applied retrospectively back to the point when the previous prices expired. However, if the price changes can be well estimated in advance then such price changes would typically not be deemed to be indicative of price change risk as they would generally not have a significant impact on either party. We also use the term "pro-forma price" as a price which includes price changes estimated in advance in the context outlined above.*

In addition, specific guidance and examples seem to be needed for revenue recognition on retrospective pricing, which we find remains as one of the prevailing business customs in such industries as energies, resources and basic materials and so forth.

If an entity strictly applies the proposed requirements which prohibit revenue recognition when a transaction price cannot be estimated on a reasonable basis, we are afraid that revenue cannot be recognized at all until the prices of materials or those of products are formally determined. We believe revenue recognition based upon a pro-forma transaction price should be accepted in case of the above mentioned industries.

We encourage the two Boards to develop specific guidance and examples to deal with retrospective pricing and pro-forma transaction prices. While accepting revenue recognition on retrospective pricing, we suggest the Boards to require a reporting entity to disclose the criteria for its judgment according to (a) in paragraph 83 when it finds a pro-forma transaction price reasonable.

Meanwhile, we note as a minority opinion that one of our members insisted that strict prohibition of revenue recognition without a reasonable estimate of a transaction price should provide industries with a favorable incentive to abandon opaque business customs such as retrospective pricing. However, the majority of us found some grounds for revenue recognition on retrospective pricing for the industries as listed above.

- **Additional examples for applications of percentage-of-completion method**

We now understand the concept of “transfer of control” of goods and services better than we did when we read about them first in the DP. However, we are still not very sure that the preparers can always judge if the continuous transfer model can be applied to some industry-specific business customs. We believe more specific examples based upon actual transactions are needed for such industries as construction, plant engineering, and software development and so forth.

Application guidance: product warranties (Question 15)

We disagree with the Boards’ proposal. We do not believe that an entity can easily distinguish a latent defect from a defect after transfer. Arbitrary distinction of defects which cannot be distinguished will not provide investors with useful information.

Most Japanese manufacturing companies aim for zero-defect shipment or no latent defects. Accordingly, most of them believe it is almost impossible or meaningless to find if a defect occurred before or after shipment. Disclosure of information that an entity feels meaningless will be meaningless as well to investors.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.