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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**Board Meeting: 19 June 2008, London**

**Project: IFRIC: Approval of Interpretations**

**Subject: Re-exposure of IFRIC X - *Agreements for the Construction of Real Estate* (Agenda paper 7F)**

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1. Subsequent to the posting of the agenda papers recommending that the Board approve the Interpretation, we have received letters from two construction industry associations. They are included as appendices to this paper [appendices omitted from observer note]. If more letters are received they will be added as additional appendices.
  2. One letter is the comment letter this association originally submitted on D21 *Real Estate Sales*. The IFRIC considered the points made in the letter in its redeliberations. The second letter asks the IASB to reconsider the IFRIC's conclusions and to require the new draft of the Interpretation to be re-exposed.

### **Re-exposure**

3. In accordance with its Due Process Handbook, the IFRIC specifically considered whether the Interpretation required re-exposure before directing the staff to present it to the Board for approval. The staff analysis presented to the IFRIC was as follows:

Assuming that the scope remains unchanged (agreements for the construction of real estate), the most significant changes made from D21 relate to the articulation between IAS 11 and IAS 18. The IFRIC carried forward the criterion of ‘continuous transfer’ set out in paragraph 9(b) of D21 but for different reasons.

Overall, the staff’s view is that the Interpretation and D21 would provide similar revenue recognition conclusions. Finally, the Interpretation would clarify issues that arose with D21 and would not introduce a new model as IAS 11 and IAS 18 are interpreted separately, that is, taking into account their own requirements.

The staff believe that re-exposure would not result in the identification of new issues as the comment letters explicitly discussed the implications of D21’s conclusion in other circumstances. Therefore, the staff think that any benefits from re-exposing the Interpretation would be too small to justify the delay in issuing it. The staff therefore recommend that the Interpretation is not re-exposed.

4. The IFRIC agreed with the staff recommendation.
5. The second letter asserts that major changes have been made to the content of the Interpretation so that re-exposure is required. The staff does not agree with this conclusion. As noted in our original analysis above, the major change between D21 and the proposed final Interpretation is to place the criteria for the use of the percentage of completion method into the context of the appropriate standards.
6. As we have previously discussed with the Board, D21 included the concept of ‘continuous transfer’, that is, it has not been introduced as part of the

- redeliberations as the letter states. However, in D21 this feature was included as one of two ways a contract could be characterised as a construction contract.
7. In its redeliberations, the IFRIC agreed with commentators who pointed out that IAS 11 does not require a construction contract to result in continuous transfer of control and risks and rewards. In fact, this condition is one of those required to be met for revenue from the sale of goods to be recognised in accordance with IAS 18. Accordingly, the IFRIC has repositioned this criterion for the use of the percentage of completion method in its discussion of IAS 18.
  8. We have previously confirmed with the Board that the IFRIC's analysis is a clarification of how IAS 18 should be applied in practice. The Board agreed with the IFRIC that is not the introduction of a new model for recognising revenue.
  9. We have also previously discussed with the Board our conclusion that many of the commentators' concerns about the proposals and analysis in D21 arose from their potential application by analogy to transactions other than real estate sales and construction. Consequently, we believe that the clarifications of IAS 18 provided by the Interpretation are responsive to comments already received and considered by the IFRIC. We do not expect new issues would be identified by re-exposure.
  10. In addition, we specifically asked the IFRIC whether the application of the Interpretation by analogy to other types of agreements should be prohibited. The IFRIC's view was that such application would be appropriate so the Interpretation is unrestricted.

## **Other issues**

### **Main expected change in practice and transition**

11. The main expected change in practice is a shift from recognition of revenue using the percentage of completion method to recognition of revenue at a single time

(eg at completion, upon or after delivery). Affected agreements would be mainly those currently accounted for in accordance with IAS 11 that do not meet the definition of a construction contract as interpreted by the IFRIC and do not result in a ‘continuous transfer’.

12. The IFRIC concluded that consistent recognition of revenue for comparative periods was very important to the users of financial statements. It therefore required retrospective application of the requirements of the Interpretation. The IFRIC concluded that this restatement would generally be practicable because entities would know both when they had recognised revenue using the percentage of completion method that needed to be reversed and when they had actually delivered the real estate. If the estimates of completion had not been made at the time it would obviously not be possible to require retrospective application if the expected change in practice was in the opposite direction.

#### **Board reconsideration of the IFRIC’s conclusions**

13. The staff notes that paragraph 42 of the IFRIC Due Process Handbook includes the following discussion of the Board’s role in an Interpretation:

The IASB votes on an Interpretation as submitted by the IFRIC. If an Interpretation is not approved by the IASB, the IASB provides the IFRIC with an analysis of the objections and concerns of those voting against the Interpretation. On the basis of this analysis, the IASB will decide whether the matter should be referred back to the IFRIC, added to its own agenda or not be the subject of any further action.

14. Consequently, unless the IASB decides to add the matter to its own agenda, it cannot amend the IFRIC’s conclusions, only accept or reject them.

#### **Questions for the Board**

15. Do you agree with the IFRIC’s conclusion that re-exposure is not required?

16. Do you agree with the IFRIC's conclusion that the Interpretation should be applied retrospectively?