



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **May 2008, London**

Project: **D21 Real Estate Sales – Cover Note (Agenda Paper 2A)**

A Introduction

- 1 At its January and March 2008 meetings, the IFRIC considered comments received on draft Interpretation D21 *Real Estate Sales*. When redeliberating the issue, the IFRIC asked the staff to clarify the interaction between IAS 11 and IAS 18 through a flowchart. The IFRIC generally supported the flowchart and the articulation proposed by the staff (View 2). However, the IFRIC asked the staff to address some remaining outstanding issues such as clarifying ‘real estate sale’ and ‘continuous transfer’.
- 2 Agenda paper 2B addresses these remaining outstanding issues and refers to a revised version of the Flowchart, the draft Interpretation and Basis for Conclusions set out respectively in agenda papers 2C, 2D and 2E. Agenda papers

2C and 2D also reflect the changes made to the version sent to IFRIC members for comments just after the March meeting. Although available on demand, a version of the revised draft Interpretation reflecting the changes made to D21 was not provided because of the extent of the changes. Instead, the staff have provided a summary of changes in paragraph BC33 of agenda paper 2E—Draft Basis for Conclusions.

3 Agenda paper 2F is an amended version of the illustrative examples in the light of the comments received from IFRIC members at the March meeting and after.

4 The aim of this meeting is to:

- resolve the remaining outstanding issues (see agenda paper 2B);
- consider the revised draft Interpretation (see agenda papers 2D and 2E) ;
- consider whether the flowchart and the illustrative examples should accompany the Interpretation (see agenda papers 2C and 2F);
- consider whether the scope should be expanded to agreements for the construction of assets other than real estate (see Section B of this paper);
- consider the need for re-exposure (Section C of this paper);
- if not re-exposing, confirm the effective date and transition (Section D of this paper); and
- approve the Interpretation (Section E of this paper).

B Should the scope be expanded to agreements for the construction of assets other than real estate?

5 The revised draft Interpretation (see agenda papers 2D and 2E) clarifies the definition of a construction contract, the articulation between IAS 11 and IAS 18 and provides principle-based guidance on how to account for revenue when the

agreement for the construction of real estate falls within the scope of IAS 18. If the IFRIC agrees with the revised draft Interpretation prepared by the staff, the IFRIC would issue the Interpretation and application by analogy to industries other than real estate would be permitted in accordance with IAS 8 (see section 2.3 in agenda paper 2B). In doing so, the IFRIC would specifically address the issues submitted and would expect diversity to be reduced in the real estate industry.

- 6 Another view is that the issues addressed in the revised draft Interpretation are not real estate specific and the conclusion reached by the IFRIC is applicable to any type of assets. Supporters of this view believe that an Interpretation on real estate would be applied by analogy to various types of agreements in any event and therefore the Interpretation should explicitly have a wider scope.

7 Questions for the IFRIC: do you think the scope should be expanded to agreements for the construction of assets other than real estate?

C Re-exposure

- 8 Paragraph 40 of the *Due Process Handbook for the IFRIC* states that:

‘If the proposed Interpretation is changed significantly, the IFRIC will consider whether it should be re-exposed. Re-exposure is not required automatically and will depend on the significance of the changes contemplated, whether they were raised in the Basis for Conclusions on the draft Interpretation or in questions posed by the IFRIC, their significance for practice and what might be learned by the IFRIC from re-exposure.’

- 9 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 (see agenda paper 2B, section 2.1).

10 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.

11 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.

12 Questions for the IFRIC: do you think the revised draft Interpretation should be re-exposed?

E Effective date and transition

13 If the Interpretation is approved by the IFRIC at this meeting, it is likely that it will be issued in late June or early July. The staff’s view is that a six month lead time would be sufficient. The staff therefore recommend that the Interpretation should be effective for accounting periods beginning on or after 1 January 2009.

14 The staff also think that this change should be accounted for retrospectively in accordance with IAS 8. Entities will have the information available to apply the requirements retrospectively and a failure to restate would result in the recognition of the same revenue in two periods.

F Vote to confirm consensus

If no substantial issues arise from the matters discussed above, the IFRIC will be asked to vote to confirm the consensus at this meeting. If no more than four members vote against the proposal, the Interpretation will be put the IASB for ratification at its June meeting.