

STAFF PAPER

May 2012

IFRS Interpretations Committee Meeting

Previous meetings: Nov, May, Mar 2011

Project	IFRIC 15 <i>Agreements for the Construction of Real estate</i>
Paper topic	Update on request for direction from the Board

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Purpose

1. In July 2008 the IASB issued *IFRIC 15 Agreements for the Construction of Real Estate*. This interpretation included the notion of the ‘continuous transfer of control of a good’. The Interpretations Committee has received two submissions requesting clarification of the notion of continuous transfer of a good.
2. The Committee discussed this topic three times in 2011. At their most recent discussions, in November 2011, the Committee discussed Agenda Paper 5A ‘*IFRIC 15 Agreements for the Construction of Real Estate—Continuous transfer to the customer*’. Because that discussion proved to be inconclusive, the Committee decided to refer the topic to the Board for direction as to the appropriate course of action to take to address this matter. This matter was discussed at the February Board meeting.
3. The purpose of this paper is to update the Committee on the Board’s discussion of this topic. The staff will not ask the Committee to make any decisions in this meeting.

Agenda paper discussed by the Board

4. The Board discussed Agenda Paper 9 ‘IFRIC 15 *Agreements for the Construction of Real Estate*—Continuous transfer to the customer’ at the February Board meeting.
5. In that paper the staff identified four possible courses of action that the Board could recommend that the Committee should take on this topic:
 - (a) Option A—retain IFRIC 15 as issued;
 - (b) Option B—revise IFRIC 15 to include the Board’s tentative decisions about continuous transfer, which were included in the revenue exposure draft;
 - (c) Option C—revise IFRIC 15 to include indicators of the transfer of control and risks and rewards for use in interpreting IAS 18 *Revenue*; and
 - (d) Option D—withdraw IFRIC 15.
6. In the paper the staff recommended that the Board should direct the Committee to retain IFRIC 15 as issued until the new revenue recognition standard is issued. That recommendation was based on the staff’s conclusion drawn from Agenda Paper 5A, which was presented at the November meeting of the Committee. However, in the Board paper the staff also noted that after discussing Agenda Paper 5A in November, the Committee did not think that they could adequately identify the key factors that were required to make a determination of continuous transfer.

Board discussions on IFRIC 15

7. When discussing this topic at the February meeting, a range of differing views was expressed. However, all Board members agreed that IFRIC 15 should be retained in its current form.
8. Some thought that Agenda Paper 5A, discussed at the Committee’s November meeting, should be included in a revised IFRIC 15 as an example to illustrate how IFRIC 15 might be applied to a given fact pattern. The majority did not want to

include that example. They did not think that it would be helpful to include an example because fact patterns vary greatly between jurisdictions.

Advice from the Board

9. The Board agreed with the staff recommendation to retain IFRIC 15 in its current form. They did not recommend adding an example or any further guidance to the interpretation.
10. For completeness an extract of the February IASB *Update* is included below:

The Interpretations Committee received a request asking for clarification of the meaning of 'continuous transfer of a good' referred to in IFRIC 15 Agreements for the Construction of Real Estate. The submission described the sale of multi-unit residential apartments off plan. This request has been discussed three times by the Committee. At the most recent discussions in November 2011 the Committee requested that the Board provide them with direction in this matter.

The Board discussed this request. Continuous transfer is specifically addressed in the Board's Exposure Draft Revenue from Contracts with Customers, currently out for public comment, so direction is only required for the period until a new standard would be effective.

The Board's advice to the Committee is to retain IFRIC 15 as drafted. The Board noted, however, that a careful assessment needs to be made of the facts and circumstances of individual transactions when applying IFRIC 15 and that those facts and circumstance may vary considerably between jurisdictions. This difference in facts and circumstances could result in different outcomes when assessing real estate transactions in different jurisdictions.

Question

Do you have any questions or comments on this update?