



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



A F E P

Association Française des Entreprises Privées

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Re : D 21 Real estate sales

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the IFRIC exposure draft "D21 : Real estate sales".

We support the issuance by IFRIC of an interpretation on real estate sales, and more generally on how to best identify construction contracts and therefore apply IAS 11 and IAS 18 in as great a consistency as possible, while providing to the users of financial statements as relevant financial reporting as possible.

Based on paragraph 9 and the basis for conclusions, we believe we agree with the consensus reached by the IFRIC. However the last sentence of paragraph 8 which is central to that consensus is not consistent with our understanding of the consensus.

More particularly, we agree with how IFRIC has decided to extend the existing scope of IAS 11 in order to include contracts for construction of an asset in which risks and rewards of ownership are passed to the buyer as the construction progresses. In doing so, we believe the IFRIC adequately replaces the existing guidance provided in Example 9 of the implementation guidance to IAS 18, while keeping the benefit of the clarifications that IFRIC 13 has just brought on how and when to apply IAS 18 paragraphs 13 and 19.

1. Interpreting the definition of construction contracts and hence circumscribing the scope of IAS 11

1.1 We agree with the IFRIC that, within IAS 11 existing scope, construction contracts are specifically negotiated for the construction of an asset. As a result we believe the definition is met if the contract is for the delivery of an asset of which construction would not have been undertaken independently from the contract being signed (as stated by the IFRIC in BC5 a)). Assets that meet this criterion must be at all times from the signature of the contract able of being clearly distinguishable from other assets under manufacturing or construction by the seller. We therefore agree that a criterion 9 a) is included in order to designate such contracts. However the present wording of criterion 9.a) sounds at present too restrictive, as it puts too much emphasis on the asset being specified by the buyer and may hence lead to misinterpretations. Instead criterion (a) should refer to contracts for the delivery of an asset or combination of assets which can be identified at all times as the future asset of the buyer and of which construction would not have been undertaken, had the contract not been signed.

- 1.2 We agree with criterion 9 (b) as we believe it provides an adequate extension to the existing scope of IAS 11 that adequately replaces the existing guidance in IAS 18 (Example 9).
- 1.3 We however disagree with the drafting of the last sentence of paragraph 8. This sentence “A sale agreement meets this definition [of a construction contract] if it is an agreement for the seller to provide construction services to the buyers’ specifications”. This sentence is very restrictive :
 - 1.3.1 It unduly limits contracts within the scope of IAS 11 to contracts signed for the provision of services. Many construction contracts are signed for the delivery of an asset that is specifically put under construction for the benefit of the buyer. The provision of services, independent from the provision of an asset, is within the scope of IAS 18. We urge the IFRIC to remove the limitation to construction services from D21, as it may in the future lead to undesirable and unwanted restrictions to the scope of IAS 11.
 - 1.3.2 It unduly limits contracts within the scope of IAS 11 to contracts signed for the construction of assets to the buyers’s specifications. Contracts that today fall under IAS 11 scope may or may not meet that criterion. The precision which is brought into the drafting of criterion 9 (a) (“whether it [the buyer] exercises that ability or not”) is necessary. Furthermore, contracts that are meant to fall within IAS 11 scope because criterion 9 (b) is met will in the vast majority of cases not be for the construction of assets that the buyer would have had the ability to specify.
- 1.4 As a result we believe that paragraph 8 should be removed. Paragraph 9 could refer directly to the existing definition in IAS 11 (“a contract specifically negotiated fro the construction of an asset or a combination of assets...”). The attempt to rephrase that definition runs a high risk of leading to misinterpretations, whereas, in practice, consistent application of IAS 11 and IAS 18 should rely on the relevance of criteria (a) and (b). Paragraph 9 would move from setting indicative features to specifying criteria.
- 1.5 If the IFRIC believes that such a rephrase is necessary, the redrafting should be such that it encompasses all situations which are described in paragraph 9, ie where either criterion (a) or criterion (b) is met. Conversely the present drafting of last sentence of paragraph 8 is such that it induces that both criteria need to be met and that criterion (a) is even narrower than described in paragraph 9 (a).
- 1.6 In our view, it is essential that the scope of IAS 11 includes contracts that meet either criterion 9 (a) or criterion 9 (b). For the reasons we have already explained above, the phrase “individually or in combination” in paragraph 9 is key for the relevance and the efficiency of the future interpretation.
- 1.7 The same phrase should however be removed from paragraph 10. To be consistent with paragraph 9, it is essential that both criteria 10 (a) and 10 (b) are met if IAS 18 is to be applied. It follows logically from the fact that both criteria need not be met for the contract to fall into the scope of IAS 11.
- 1.8 Applied to real estate sales, our analysis would conclude that :
 - 1.8.1 a contract undertaken for the construction of a whole building for the benefit of an identified investor, (or a multi-unit development in which the seller would not be committed to undertake and complete construction before all units would have been sold), would fall into IAS 11 scope, because criterion 9 (a) would be met ;

1.8.2 A contract for the sale of a specific unit in a multi unit real estate program would generally not meet criterion 9 (a). It would hence fall :

1.8.2.1 into IAS 11 scope if criterion 9 (b) is met,

1.8.2.2 Into IAS 18 scope if criterion 9 (b) is not met.

2. Guidance for the application of IAS 18

We agree with the additional guidance given on how to apply IAS 18 requirements to real estate sales which fall into its scope. However we do not understand the implications of last sentence in paragraph 12 and believe they should be clarified.

3. Transition

Although we in general support retrospective application as the necessary basis to enhance comparability, we believe the future interpretation should be applied prospectively to all contracts signed after the effective date. We indeed believe that revenue ought to be recognised once and only once. Retrospective application could lead to recognise revenue on the same contract either twice or never, depending on how IFRS have been applied to real estate sales or other construction contracts in the past.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

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