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29 October 2007

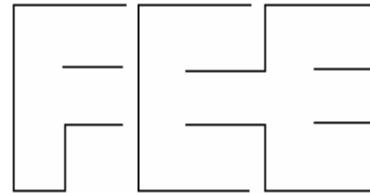
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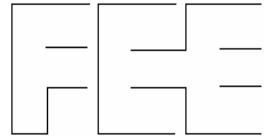
commentletter@efrag.org



Dear Mr. Enevoldsen,

Re: EFRAG Draft Comment Letter on IFRIC D21 Real Estate Sales

1. The FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the EFRAG draft comment letter on the IFRIC Draft interpretation D21 "Real Estate Sales".
2. We agree with EFRAG that there is a need for an interpretation on the application of IFRSs, in particular to clarify when IAS 11 or IAS 18 should apply in the accounting for revenue from the sale of real estate if an agreement for sale is reached before the construction of the real estate is completed.
3. However, we consider the EFRAG letter would have a greater impact if it were more concise in setting out the concerns of the EFRAG regarding IFRIC D21 and its proposals. While the covering letter (subject to some editorial modifications) is clear and concise, the body of the letter, as currently written, does not sufficiently focus the attention of the reader on the main concerns that EFRAG has regarding the proposals of IFRIC D21 and whether the resulting accounting treatment is appropriate.
4. Accordingly, may we suggest that the body of the letter be reworked in order to focus attention on the four key areas of concern, i.e.:
 - Clarity on the underlying principles that should distinguish the boundary between the application of IAS 11 from that of IAS 18 in the area of real estate sales;
 - How the features provided in the proposed interpretation are linked to such principles;
 - The apparent introduction of a notion that did not previously exist in IAS 11, i.e. the continuous transfer of risks and rewards;
 - The utilisation of "buyer's specifications" as a key principle.

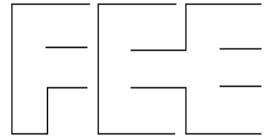


5. It is necessary to establish clear underlying principles for the purposes of applying this interpretation. As it currently stands, the interpretation appears to use the “features” provided in paragraphs 9 and 10 as a substitute for actual principles. If the principles were clear, little explanation or clarification would be necessary.
6. In our opinion, the IFRIC does not clearly demonstrate the reason/s that buyers having only limited ability to influence the design or specify variations to the basic design (paragraph 9(a)) should be an indicator of whether or not there is a construction contract under IAS 11. In practice, buyers may be restricted in their ability by the mere fact that they do not have the required knowledge to do so, in particular if the contract involves the construction of specific assets requiring a significant degree of technical expertise. We feel that this constraint is outside the substance of a construction contract and should not dictate the form of accounting.

We agree with EFRAG that there could also be unintended consequences if this interpretation were to be applied to other areas where IAS 11 is currently applied. Furthermore, because of the lack of clear principles, the suggested guidance could be misinterpreted based on the variety of legal forms of these contracts in various jurisdictions.

7. As a possible solution to address the difficulties identified within the proposed features, we suggest that paragraph 9(a) constitute the main feature and that the guidance clarifies whether the asset, or combination of assets, specifically agreed to be constructed under a construction contract according to IAS 11 are deemed to be unique by virtue of the fact that there is a contract in place which identifies the specificities of the construction, and the asset(s) cannot be delivered to somebody else. This means that the term “construction contract”, implies that the asset(s) constructed are in accordance with the buyer’s specifications, on the basis that the buyer agrees with the specifications as detailed in the contract. Paragraph 9(b) should be omitted. If paragraph 9(b) were retained, the interpretation should specify that paragraph 9(a) overrides the feature in paragraph 9(b).
8. Under IAS 11, there is no reference to the “risks and rewards” element and its introduction in the draft interpretation (paragraph 9(b)) does not appear to offer clarification of existing IFRS, but rather introduces new accounting principles. We feel that a draft interpretation of an existing statement of IFRS should not introduce “new principles” into the existing standard for which the interpretation is intended.

We agree with EFRAG that the features in paragraph 9(b) and 10(b) implying continuous delivery and continuous transfer of control and of the risks and rewards of ownership have little to do with whether the work is carried out to the buyer’s specifications. The explanations provided in BC5(b), where it is stated that the application of the stage of completion method “also recognises the economic benefits that the entity has delivered (via continuous transfer of control and risks and rewards of ownership) to the buyer as construction progresses”, are, in our opinion, not substantive and fail to convince us of the appropriateness of the existence or inclusion of this notion in IAS 11.



9. In summary:

- We agree with EFRAG that there is a need for an interpretation on the application of IFRSs;
- We believe that the implementation of the proposed guidance provided in the draft interpretation will prove difficult and may cause problems in the circumstances specific to the Real Estate and other industries;
- The proposed interpretation does not sufficiently clarify the boundaries between IAS 11 and IAS 18;
- The original interpretation specifically intended to address multi-unit real estate sales. The interpretation has been widened to real estate sales in general, but there is a need for a more general interpretation that is sufficiently robust to apply to all industries;
- The relation with the revenue recognition project needs to be clarified.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

Ref: ACC/LF-EF