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EFRAG Draft Comment Letter on IFRIC D21 *Sale of Real Estate*

Dear Stig,

I appreciate the opportunity to comment on EFRAG's Draft Comment Letter to IFRIC D21. Since the Accounting Interpretations Committee (AIC) has prepared a comprehensive comment letter on IFRIC D21 I would just like to send our remarks with regard to the EFRAG comment letter and refer to the attached AIC comment letter for details.

Overall, we agree with EFRAG's significant concerns regarding the proposals included in D21. The AIC, too, would first of all have preferred the IFRIC to develop some generic principle in connection with difficulties that arise with construction contracts, instead of just covering the very narrow area of real estate sales. Secondly, we consider the indicators introduced by D21 as going beyond interpreting IAS 11. The attached AIC comment letter on IFRIC D21 (which was sent to IFRIC earlier this month) gives further details on our position.

If you would like any clarification of these comments or the attached AIC comment letter please do not hesitate to contact me.

Yours sincerely,

Manfred Bolin



Appendix 1 – AIC’s comments on IFRIC D21 as sent to IFRIC

Dear Bob

We appreciate the opportunity to comment on the draft Interpretation IFRIC D21. We fully endorse the IFRIC’s aim to support the IASB in establishing and improving International Financial Reporting Standards.

While we agree that the issue of revenue recognition referring to real estate sales and the accounting for these transactions either under IAS 11 or IAS 18 might be of importance, we have serious concerns with the focus of the draft Interpretation and especially with the indicators as set out in paragraphs 9 and 10 of IFRIC D21.

In our opinion, the indicators proposed by IFRIC D 21 go beyond interpreting IAS 11. This is especially the case for paragraph 9 (b) of IFRIC D21 since the necessity of a transfer of control and significant risks and rewards in order to account for a real estate sale as a construction contract can not be derived from IAS 11.

IAS 11 does not use a risk and rewards approach and in this context we strongly recommend not to consider an amendment of IAS 11 (especially IFRIC should not refer the issue to the Board and ask for an amendment of IAS 11 in this respect).

Instead of using a risk and rewards approach, IAS 11.3 defines a construction contract as a contract specifically negotiated for the construction of an asset. IAS 11.7 continues that IAS 11 has to be applied to separately identifiable components of a single contract. In order to clarify the application of either IAS 11 or IAS 18 for Real-Estate Sales it would have been useful to give more additional guidance regarding the specific meaning of terms like “specifically negotiated” and “separately identifiable“ in the context of such sales.

As the assessment based on a risk and rewards approach is heavily dependent on the national legal environment the adoption of the indicators in IFRIC D21.9 and .10 could result in many countries in significant changes in the accounting for construction contracts. Although the scope of D21 is limited to the accounting for revenue from the sale of real estate we see the risk that such interpretation is used by analogy for other contracts which would increase the divergence in practice.

In our view a major problem has not been satisfactorily addressed, i.e. it needs to be clarified how the units of account addressed by IFRIC D21.2 shall be identified. The identification of those units is independent from the question which standard (IAS 11 or IAS 18) has to be applied. For example, we wonder what the appropriate unit of account would be in the following situation: a skyscraper with many apartments is still under construction but some apartments in the lower floors are ready for occupation except that the air-condition is not yet working because there is a central air-condition to be built in on the roof of the skyscraper. Irrespective of the question whether there can be major structural changes to the individual apartments, what is the relevant unit of account? The skyscraper based on the feature “the building under construction and to be completed” or the individual apartment based on the features “sales contract” and “ready for occupation with some exceptions”?



We strongly suggest including additional guidance on the unit of account issue in the Interpretation.

Finally, we would recommend to the IFRIC to give a little more background on the variety of types of real estate sales that are covered by IFRIC D21 and include several illustrative examples for further guidance.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Prof. Dr. Manfred Bolin
AIC, Chairman