



To the persons concerned
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

18 October 2007

Dear Sirs,

BUSINESSEUROPE COMMENTS ON IFRIC D21 *REAL ESTATE SALES*

BUSINESSEUROPE welcomes the opportunity to comment on Draft Interpretation D21, *Real Estate Sales*. The case that D21 depicts is one of many where current practice may vary due to different perceptions of the dividing line between IAS 11 and IAS 18 and within IAS 18 between goods and services. However, for reasons given below, Business Europe does not support D21. It should be withdrawn and the issue should be resolved within the wider frame of a common coherent revenue recognition principle as set out by the ongoing joint IASB-FASB project on revenue recognition.

Basically D21 defines specific limits for the definition of "construction contract" by IAS 11. It introduces the term "construction *services*" as well as a restriction to contracts where those services are to be provided in accordance with buyer specifications. Neither restriction seems to us to be justified by IAS 11, and it is to be feared that both would raise more questions than they answer. Similarly, the indicative feature of continual delivery and continual transfer of control and of risks and rewards of ownership (paragraphs 9(b) and 10(b)) go in our view beyond IAS 11 and give rise to substantial problems such as two indications pointing in opposite directions. By "specifically negotiated" according to IAS 11, D21 makes the interpretation that a contract is "buyer specific". In doing so D21 wrongly introduces other qualifications, based on risk and reward, rather than what is originally contained in the objectives of IAS 11. We believe that, focussing on such legalistic factors rather than attempting to identify a general principle, D21 will confuse rather than convince.

D21 by this constraint would limit the application of IAS 11 in other activities than those that formally are within the scope of D21. This certainly goes for other activities within the building and construction industry but also for other industries, e.g. technical and computer engineering, airplane construction, shipbuilding.

The interpretation by D21 on IAS 11 also results in a more restrictive treatment of construction contracts relative to service contracts of IAS 18.

Moreover, since management reporting of the operations of the contracts affected by D21 is nonetheless based on the stage of completion method, an altogether different revenue recognition basis would apply in the segment reporting under IFRS 8. A new reconciliation item, and a very extensive one, will appear to the detriment of clarity and transparency.

D21 interpretation adds to, instead of eliminates, differences from US GAAP. More remarkably so in view of the ongoing joint IASB-FASB project anticipating a new common revenue recognition standard, within reach within a couple of years. BUSINESSEUROPE is of the opinion that the wide timing difference in outcome between the two systems, the PoC-approach by US GAAP and the IAS 18 Goods approach by IFRIC, should be considered. The difference affects the very relevance of the entity's financial reporting and must not be overlooked. The stage of completion revenue measurement makes sense to the industries involved. It is a practice conformant to US GAAP and it might also be the outcome of the joint IASB-FASB project. These industries should not be subject to short term changes from one revenue recognition principle to its opposite and back again.

All in all, the D21 appears to go substantially beyond what is contained in IAS 11 and IAS 18 and results in a financial presentation whose relevance can be strongly questioned and is therefore not appropriate to users' needs. As demonstrated above the interpretation brings about more difficulties than it resolves. BUSINESSEUROPE does not support D21 and thinks it should be withdrawn.

We remain at your disposal in case you have any questions on our comments.

Yours sincerely,



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