



15 October 2007

Our ref: ICAEW Rep 96/07

Your ref:

Mr Stig Enevoldsen  
Chairman  
EFRAG  
Avenue des Arts 13-14  
1210 Brussels  
Belgium

By email: [commentletter@efrag.org](mailto:commentletter@efrag.org)

Dear Stig

### **IFRIC D 21 REAL ESTATE SALES**

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the draft comment letter on IFRIC D 21 *Real Estate Sales*, published by EFRAG in September 2007.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

The Institute supports the proposals in IFRIC D 21, which address a real problem of inconsistency. In our view, IFRIC has provided an acceptable solution based on principles rather than rules.

EFRAG's response as drafted is unhelpful, as it does not reach an overall conclusion about the acceptability of the proposals. We suggest that EFRAG should develop a more focused letter in support of the proposals, while noting any detailed reservations it may have.

We agree with EFRAG that it is important that the scope of D 21 should not be extended by analogy into areas that are not intended.

The Institute's comments on D 21 are attached as ICAEW Rep 85/07.

Please contact me if you would like to discuss any issues arising from this response.

Yours sincerely

A handwritten signature in black ink that reads "Desmond Wright". The signature is written in a cursive style with a clear, legible font.

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THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

5 October 2007

Our ref: ICAEW Rep 85/07

Your ref:

D21 Comment Letters  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

By email: [CommentLetters@iasb.org](mailto:CommentLetters@iasb.org)

Dear Sir

**IFRIC D 21 REAL ESTATE SALES**

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on International Financial Reporting Interpretations Committee (IFRIC) exposure draft D 21 *Real Estate Sales*, published in July 2007.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours faithfully

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## ICAEW Representation

ICAEW REP 85/07

IFRIC D 21 - REAL ESTATE SALES

Memorandum of comment submitted in October 2007 by The Institute of Chartered Accountants in England and Wales, in response to the International Financial Reporting Interpretations Committee exposure draft D 21 *Real Estate Sales*, published in July 2007.

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## **INTRODUCTION**

1. The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the International Financial Reporting Interpretations Committee (IFRIC) exposure draft D 21 *Real Estate Sales*, published in July 2007.

## **WHO WE ARE**

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures that these skills are constantly developed, recognised and valued.

## **MAJOR POINTS**

### **Support for the interpretation**

4. We welcome the exposure draft, which will clarify the existing guidance on accounting for real estate developments, and serve to reduce divergent practice in this area. We have no major points of principle to raise.
5. We note that the IFRIC has not sought to converge with US GAAP on this issue, and concur with this approach.

## **OTHER POINTS**

6. Paragraph 7 would be improved if it were to include the explanatory material in paragraph BC 5(b) which distinguishes between circumstances in which there is a continuous transfer and those in which 'control of the [real estate] unit tends to pass from seller to buyer at a single point in time.'
7. Paragraph 8 states that 'A sale agreement meets [the definition of a construction contract] if it is an agreement for the seller to provide construction services to the buyer's specifications.' However, paragraph BC6 says that a sale agreement meets the definition 'only if it requires' the seller to provide construction services. The language in BC5 is more rigorous and should be imported into paragraph 8.
8. It might be helpful if additional guidance were provided on when to combine two contracts and account for them as one, and when to deal with them separately. For example, the sale of property might include the sale both of land and of a yet-to-be-constructed building: what indicators should be

considered to determine whether they should be combined, such that the land sale is not recognised at the outset, or dealt with separately, such that the land is sold at the outset under IAS 18 and the building then constructed under IAS 11? Guidance would be helpful also on when IAS 11 paragraphs 7 to 10 should be applied, and when IAS 18 paragraph 13. Unless the entire contract obviously falls under IAS 11, we presume that IAS 18's criteria should be applied in the first instance.

9. Paragraphs 12 and 13 use the term 'effective control', which appears in paragraph 14(b) of IAS 18. Although the Basis for Conclusions also uses the term, there is no explanation of how 'effective control' differs from 'control'. We accept that this is an existing issue with IAS 18, but we suggest that it could usefully be clarified in this interpretation, to help minimise divergence in practice.
10. There may be a benefit in defining 'real estate', in order to ensure that the interpretation does not inadvertently scope in transactions to which it is not intended to apply, such as those covered in IFRIC 12 *Service concession Arrangements*.

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