



17 July 2007

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON INTERNATIONAL FINANCIAL REPORTING
INTERPRETATIONS COMMITTEE (IFRIC) DRAFT INTERPRETATION
D21 REAL ESTATE SALES**

Comments to be received by 11 September 2007

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IFRIC Draft Interpretation which has been posted on the Institute's website at: www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php.

The Draft Interpretation aims to standardise accounting practice among real estate developers for sales of units, such as apartments or houses, "off plan", i.e. before construction is complete.

It proposes that revenue should be recorded as construction progresses only if the developer is providing construction *services*, rather than selling *goods* (completed real estate units). It proposes features that indicate that the seller is providing construction services. In many countries, these features tend currently not to be present in typical off plan sale agreements. It also proposes ways to recognise an entity's remaining obligations in respect of situations in which the conditions for recognising revenue from the sale of real estate are satisfied before the entity has performed all of its contractual obligations to the buyer.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party and the FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the Draft Interpretation.

The Institute proposes to withdraw Hong Kong Interpretation 3 (HK-Int 3) *Revenue – Pre-completion Contracts for the Sale of Development Properties* upon finalisation of the Draft Interpretation. HK-Int 3 provides a transitional provision which allows an entity not to apply HK-Int 3 retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005, i.e. the effective date of HK-Int 3 (or date of initial application of HK-Int 3, if earlier). This transitional provision is not available in the Draft Interpretation which proposes to require retrospective application. Views on whether a similar transitional provision should be requested from IFRIC are most welcome.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IFRIC Draft Interpretation to be considered, they are requested to be received by the Institute on or before **11 September 2007**.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Comments may be sent by mail, fax or e-mail to

Patricia McBride
Executive Director
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Fax number (+852) 2865 6776

E-mail: commentletters@hki CPA.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.