



International Accounting Standards Board®

Press Release

5 July 2007

IFRIC publishes proposed guidance on real estate sales

The International Financial Reporting Interpretations Committee (IFRIC)* has today released for public comment a draft Interpretation, IFRIC D21 *Real Estate Sales*. The proposal is open for public comment until 5 October 2007.

The proposed Interpretation aims to standardise accounting practice among real estate developers for sales of units, such as apartments or houses, ‘off plan’, ie before construction is complete.

At present, real estate developers interpret International Financial Reporting Standards (IFRSs) differently and record revenue for the sale of the units at different times. Some record revenue only when they have handed over the completed unit to the buyer, while others record revenue earlier, as construction progresses, by reference to the stage of completion of the development.

IFRIC D21 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.

IFRIC D21 *Real Estate Sales* is available for eIFRS subscribers from today and will be freely available on the IASB Website from tomorrow.

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* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

Press enquiries:

Mark Byatt, Director of Corporate Communications, IASB,
telephone: +44 (0)20 7246 6472, email: mbyatt@iasb.org

Sonja Horn, Communications Adviser, IASB,
telephone: +44 (0)20 7246 6463, email: shorn@iasb.org

Technical enquiries:

Robert Garnett, Chairman, IFRIC
telephone: +44 (0)20 7246 6410, email: rgarnett@iasb.org

Joan Brown, Project Manager, IASB,
telephone: +44 (0)20 7246 6926, email: jbrown@iasb.org

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IASC Foundation Publications Department,
30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax +44 (0)20 7332 2749
Email: publications@iasb.org Web: www.iasb.org

NOTES TO EDITORS***About IFRIC D21***

1. The present differences in practice have arisen because agreements to sell real estate units off plan have been viewed in two different ways.
2. In some countries, the prevailing practice has been to view them as contracts for the sale of goods (ie completed real estate units), for which IAS 18 *Revenue* is the applicable accounting Standard. Applying this Standard, revenue is recorded only when control and the risks and rewards of ownership of a unit are transferred to the buyer, typically when the unit is ready for occupation and handed over to the buyer.
3. In other countries, the prevailing practice has been to view the sale agreements as construction contracts, for which IAS 11 *Construction Contracts* is the applicable Standard. Applying this Standard, revenue for constructing an asset for a customer is recorded as construction progresses, ie by reference to the stage of completion of the construction.
4. IFRIC D21 proposes that IAS 11 is the applicable Standard only if the sale agreement is a contract to provide construction *services* to the buyers' specifications, as opposed to selling *goods* (completed real estate units). D21 lists features of a contract that, in the IFRIC's view, indicate that the seller is providing construction services to the buyers' specifications. In many countries, the features tend not to be present in typical agreements for off plan sales of real estate units. The proposed Interpretation

would in many cases require developers that are currently applying IAS 11 to apply IAS 18 instead.

5. The draft Interpretation also proposes guidance on how IAS 18 should be applied to real estate sales. This guidance would supersede existing guidance contained in the appendix to IAS 18. The existing guidance, which accompanies but is not formally part of IAS 18, is now regarded as unclear and capable of being interpreted in ways that are inconsistent with the requirements of the Standard itself.

About the IFRIC

The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.